



REPUBLIC OF KENYA
THE NATIONAL TREASURY

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Date: 19th August, 2016

The National Treasury

P.O. Box 30007

NAIROBI.

NATIONAL TREASURY CIRCULAR NO. 15/2016

**To: All Principal Secretaries/Accounting Officers
All Chief Executive Officers of State Corporations**

**GUIDELINES FOR THE PREPARATION OF THE MEDIUM TERM
BUDGET FOR STATE CORPORATIONS FOR THE FINANCIAL
YEARS 2017/2018 – 2019/2020**

1.0 INTRODUCTION:

1.1 Purpose:

The purpose of this Circular is to provide guidelines for the preparation and submission of the **FY2017/2018 – 2019/2020** Medium Term Budget for State Corporations. These guidelines have been prepared in line with Treasury Circular No. 14/2016 dated July 13, 2016.

1.2 Background:

In accordance with Sections 11 and 12 of the State Corporations Act, Cap 446, and Section 68 of the Public Finance Management Act, 2012, (PFMA), state corporations are required to prepare and submit their respective Annual Estimates of Revenue and Expenditure (budget proposals) to the line ministry and The National Treasury for approval.

In view of the fact that the 2017 General Elections will be held in August 2017 as provided for in the Constitution, the calendar for the preparation of the FY2017/2018 - 2019/2020 Medium Term Budget has been aligned to the accelerated timelines for the National Budget. Consequently, state corporations are required to submit their respective annual budgets and medium term proposals for the projected revenues and expenditure to their line ministry and the National Treasury for approval by **31st October, 2016**.

1.3 Exchequer Funding

State corporations whose proposed recurrent expenditure and investment programmes are to be financed from the Exchequer should consult their line ministries and ensure that the proposals are within the line ministry ceilings as provided in the FY2016/17 - 2019/2020 Medium Term Expenditure Framework.

1.4 Dividends

All commercial state corporations are expected to generate reasonable returns and should declare and pay dividends to the National Treasury (and to other shareholders, where the state corporation is not wholly owned by Government). In this regard, all commercial state corporations are required to submit their dividend policies together with their Annual Estimates for the FY2017/2018.

1.5 Pension Schemes

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. In this regard, state corporations are required to include, in their submissions, an implementation status of the circular requirements.

1.6 Loans and Statutory Obligations

All state corporations must prioritize debt service and statutory obligations as a first charge on their revenues. The National Treasury will not give concurrence for borrowings or, where applicable, make recommendations to Parliament for National Government guarantees for state corporations in default of loan repayments and other statutory obligations. State corporations with GoK loan arrears should provide clear proposals on how they intend to clear the arrears.

1.7 Cash Management

In accordance with section 28 of the PFMA, **NO** state corporation should open and operate bank accounts without prior approval of the National Treasury. Similarly no state corporation should invest surplus funds in any financial institutions/bank without prior approval of the National Treasury, other than where the investment is in Treasury Bills and Bonds.

1.8 Remuneration and Benefits

Members of staff of the respective state corporations are remunerated in accordance with categorization as per Circular *No. OP/CAB.9/21/2A/LII/43* dated 23rd November, 2004. In this regard, state corporations **SHOULD NOT** implement cost of living adjustments (COLA), sign new collective bargaining agreement (CBA) or generally review and upgrade the salaries of their staff without seeking, through their line ministry, prior approval of the State Corporations Advisory Committee (SCAC), in consultation with the National Treasury.

2.0 GENERAL GUIDELINES:

Basis for Preparation of FY2017/2018 – 2019/2020 Medium Term Budget:

Estimates of Revenue

2.1 The proposed Annual Estimates of Revenue and Expenditure for respective state corporations should be prepared in line with their respective strategic plans and should be geared towards:-

- (i) Realization of **Key Result Areas (KRAs)** identified in the respective sectors as articulated in the Second Medium Term Plan (MTP II) 2013 – 2017, and Sector Performance Standards;
- (ii) Delivery of Vision 2030 Flagship Projects and;
- (iii) Any other national policy direction.

2.2 State corporations are reminded to reflect in their Estimates all revenues generated from public assets and services. 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 and submission to the National Treasury.

Financial Management:

- 2.3** State Corporations **should**, as a matter of priority, enhance cost control measures with the aim of delivering services in the most cost effective manner. This entails utilizing allocated resources efficiently and effectively to avoid wastage. The accounting officers of state corporations are reminded that incurring expenditure that is **NOT** in the approved budget is irregular and they will be held personally liable for such expenditures in accordance with provisions of the Public Finance Management Act.
- 2.4** State corporations are required to entrench prudent cash management practices. In this regard, the National Treasury will not recommend for approval any budget proposals with negative cash balances unless they have in place bank overdraft facilities which have previously been approved by the line ministry and the National Treasury.

Capital Budget

- 2.5** The Government is committed to prioritizing the execution of capital projects that meet national objectives outlined in Vision 2030 and its Medium Term Development Plan (MTP II 2013-2017). The capital projects to be prioritized for execution should be those for which the state corporation concerned can generate 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.
- 2.6** In preparing the capital budget, priority should be given to funding of the on-going projects. In this regard, state corporations are required to take into account funding requirements of **all on-going, multi-year funding requirements of capital projects up to their completion** before initiating any new projects. Further, state corporations are reminded that they **should NOT initiate new projects** before the feasibility studies and the capital budgets are approved by the line ministry and the National Treasury.

3.0 FORMATS AND PRESENTATION OF FY2017/2018 – 2019/2020 MEDIUM TERM BUDGET:

3.1 The proposed 2017/2018 – 2019/2020 Medium Term Budget should include:-

- (i) Statement on the state corporation's short-term objectives, performance review, and outlook as approved by the Board;
- (ii) Main assumptions including key economic parameters;
- (iii) Staffing levels by category/cadres; and
- (iv) Concise explanatory notes to the Annual Estimates of Revenue and Expenditure (budgets).

NB: It is noted that some state corporations do not provide concise explanatory notes to the Annual Estimates of Revenue and Expenditure, as required. Budget proposals submitted without explanatory notes will be rejected.

Statement of Total Funds:

3.2 State corporations should give comprehensive (total) income that will accrue during the financial year to the corporation from all sources as illustrated in *Appendix I*.

Statement of Financial Performance

3.3 The Statement of Financial Performance should contain three years' financial performance, being for **FY2013/2014 – 2015/2016**, and the latest forecast (management accounts) for FY 016/2017, the proposed and projected annual estimates of revenue and expenditure (budget) for FY2017/2018 and the two outer FY2018/2019 and FY2019/2020, respectively.

NB: Every state corporation should customize its statement of financial performance into: -

- (i) **Statement of Financial Performance (for Not-for-Profit state corporations), as illustrated in Appendix II; or**
- (ii) **Statement of Income and Expenditure/Statement of Comprehensive Income (for Commercial state corporations), as illustrated in Appendix III.**

3.4 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) 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 II (2013 – 2017).
- (iii) The statement of financial performance for the period must clearly indicate all sources of revenue (earmarked to fund recurrent expenditure).
- (iv) In the event that a state corporation has budgeted to use any net surplus brought forward from previous years to meet its expenditure, this should clearly be indicated in the **explanatory notes**.

3.5 Annual Capital/Development Budget

State corporations should provide, for every capital project, a summary of the respective feasibility study reports. There should be clear indications of how each project links to the corporation's core mandate and strategic plan in line with sector/ministry strategic objectives, delivery of Vision 2030 Flagship Projects and MTP II (2013 - 2017) priorities.

The proposed capital budget should clearly indicate the total project cost, expected return from such investments, and any other justifications.

NB: Only a summary of the feasibility study for any capital project whose cost exceeds KShs.10 million should be submitted. For projects with a total cost of less than KShs.10 million, a brief justification for the project will suffice.

The submission should include:-

- (i) A project implementation schedule for every project, 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 as illustrated in **Appendix IV**.
- (ii) The line ministry shall appraise the **feasibility studies and capital**

budget to ensure consistency with corporation's core mandate and strategic plan, the sector/ministry strategic objectives, MTP II (2013 – 2017) priorities, and delivery of Vision 2030 Flagship Projects and submit its recommendations to the National Treasury for incorporation in the review and analysis of the proposed capital budget.

- (iii) State corporations are required to ensure that all capital projects are captured in the Plan-to-Budget module in **IFMIS** and **e-PromIS**, as appropriate.

3.6 Statement of Financial Position:

The Statement of Financial Position should contain three years' financial position, being for **FY2013/2014 – 2015/2016**, and the latest forecast (management accounts) for FY 016/2017, the proposed and projected annual estimates of revenue and expenditure (budget) for FY2017/2018 and the two outer FY2018/2019 and FY2019/2020, respectively, as illustrated in **Appendix V**. Where the audit process for FY2015/16 may not be completed by the budget submission deadline, state corporations should submit draft/unaudited financial positions.

3.7 Cash Flow Statement and Projections:

The proposed budget for every state corporation should include a cash flow statement and projections, as per the format in **Appendix VI**. The cash flow statement and projections 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 and the National Treasury.

3.8 Investments of Surplus Funds:

The proposed budget for state corporations should include a schedule of investments of surplus funds, as per the format in **Appendix VII**.

3.9 Bank Accounts:

State corporations should provide details of **all** bank accounts, including the balances in each bank account as at **30th September 2016**, summarized in the format in **Appendix VIII**.

4.0 REVISION OF BUDGETS:

4.1 As state corporations submit their respective annual budget for revenue and expenditure within set time limits, it is possible that unforeseen and unavoidable events may impact their operations. 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.

4.2 The revised budget for FY 2016/17 **must** be submitted separately from the annual budget for FY2017/2018 and should be done at the earliest time possible when the unforeseen or unavoidable events emerge. The line ministry and the National Treasury **will not**, unless in very exceptional circumstances, approve any expenditure which has already been incurred,.

5.0 DEADLINES FOR SUBMISSION OF FY2017/2018 - 2019/2020 MEDIUM TERM BUDGET:

5.1 Annual Estimates of Revenue and Expenditure for the FY2017/2018 - 2019/2020 Medium Term Budget for state corporations should be submitted to the respective line ministries, **with a copy** to the Director General/Public Investment and Portfolio Management, The National Treasury, not later than 31st October, 2016. A soft copy of the submission should be mailed to **dgipescbudgets2017@treasury.go.ke**. Details (telephone number and e-mail address) of the person(s) to be contacted for any clarification should also be included, and the contact persons should be available to respond to any queries or clarifications from the line ministry and the National Treasury, as may be required from time to time.

5.2 The respective line ministries should review the submitted Annual Estimates of Revenue and Expenditure for state corporations and forward, **within the timelines indicated in Annex 2**, their comments and recommendations to The National Treasury for consideration in the review of the respective annual budgets.

NB: A check list of requirements for the FY2017/2018 - 2019/2020 medium term budget proposal is given in Annex 1 and a detailed deadline for submission is given in Annex 2.

6.0 RESPONSIBILITY FOR SUBMISSIONS:

- 6.1** Responsibility for ensuring that the state corporations comply with the provisions of this circular lies with the Chief Executive Officer and the Board of Directors. The accounting officers of the respective line ministries should, as part of their oversight role, ensure that state corporations falling within their dockets comply with this circular.
- 6.2** Extracts of minutes of the relevant meeting of the Board of Directors/governing organs at which the annual estimates of revenue and expenditure were approved should be attached in the submission.

7.0 CONCLUSION:

The National Treasury will **NOT** recommend to the line Ministries approval for budget proposals 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.



HENRY K. ROTICH, EGH
CABINET SECRETARY/THE NATIONAL TREASURY

Copied to: All Cabinet Secretaries

The Hon. Attorney General
Sheria House
NAIROBI

The Chief of Staff and Head of Public Service,
Executive Office of the President
Harambee House
NAIROBI

The Auditor-General

Kenya National Audit Office
NAIROBI

The Controller of Budget
Office of the Controller of Budget
NAIROBI

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

APPENDIX I: Statement of Total Funds (Figures in Kenya Shillings ‘000’):

State Corporations	Actual 2013/2014	Actual 2014/2015	Actual 2015/2016	Forecast 2016/2017	Budget 2017/2018	Projection	
						2018/2019	2019/2020
Recurrent Revenue:							
1	Internally Generated Revenue						
2	Governments Grants for Recurrent						
3	Grants, Dev’t Partner for Recurrent						
4	Other Incomes for Recurrent (Specify)						
5	Total Recurrent Revenue						
Development Revenue:							
6	Governments Grants for Development						
7	Grants, Development Partner for Dev’t						
8	Other Incomes for Dev’t (Specify)						
9	Total Development Revenue						
10	Total Revenue						

NB: State Corporations should clearly indicate:

- (i) All sources of internally generated revenue including but not limited to income from sales, fees, charges, levies, cost sharing, etc;
- (ii) Grants or income from development partners or other sources earmarked to defray or finance recurrent / operating expenses; and
- (iii) Grants or income from development partners or other sources earmarked to finance capital projects.

APPENDIX II: Statement of Financial Performance (Figures in Kenya Shillings ‘000’):

Not For Profit State Corporations	Actual	Actual	Actual	Forecast	Budget	Projection	
	2013/2014	2014/2015	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Recurrent Revenue:							
1	Internally Generated revenue from fees, charges, levies, cost sharing etc.						
2	Governments Grants for Recurrent						
3	Grants, Dev't Partner for Recurrent						
4	Other Incomes for Recurrent (Specify)						
5	Total Recurrent Revenue						
Operating Expenses:							
6	Personnel Emoluments						
7	Boards Expenses						
8	Operating/Administrative Expenses						
9	Repairs and Maintenance						
10	Depreciation						
11	Total Operating Expenses						
12	Operating Surplus/(Deficit)						
13	Finance Charges (Interest on Loans)						
14	Retained Operating Surplus						
15	Ratios:						
	i. Operating Surplus Margin						
	ii. Personnel Costs to Recurrent Costs						
	iii. Personnel Costs to Recurrent Revenue						
Number of Employees:							
	i) Management						
	ii) Technical						
	iii) Others						

NB:

- (i) Provide explanatory notes for any movement in each of the budget line.
- (ii) State Corporations using operating surpluses (retained earnings) from previous years to finance recurrent/operating expenses should clearly indicate the amounts to be expensed in the *explanatory notes*.

APPENDIX III: Statement of Income and Expenditure (Figures in Kenya Shillings '000')

Commercial Entities		Actual 2013/2014	Actual 2014/2015	Actual 2015/2016	Forecast 2016/2017	Budget 2017/2018	Projection	
							2018/2019	2019/2020
Recurrent Revenue:								
1	Gross Sales Income							
2	Cost of Sales							
3	Gross Profit							
4	Other Income & Grants - Recurrent							
5	Total Recurrent Revenue							
Operating Expenses:								
6	Personnel Emoluments							
7	Boards Expenses							
8	Operating/Administrative Expenses							
9	Repairs and Maintenance							
10	Depreciation							
11	Total Operating Expenses							
12	Operating Surplus / (Deficit)							
13	Finance Charges (Interest on Loans)							
14	Corporation Tax							
15	Net Earnings							
16	Distribution	Dividends						
		Retained Earnings						
Ratios:								
17	i. Gross Profit Margin							
	ii. Net Profit Margin							
	iii. Personnel Costs to Recurrent Costs							
	iv. Personnel Costs to Recurrent Revenue							
Number of Employees:								
	i) Management							
	ii) Technical							
	iii) Others							

NB.

- (i) Provide explanatory notes for any movement in each of the budget line

APPENDIX IV: Capital Budget/Project Feasibility Study Data (Figures in KShs '000)								
Project in Order of Category, Priority and Justification	Total Project Costs	Expenditure to June 30 th , 2017		Proposed Budget 2017/2018	% age of completion of ongoing project as at June 30 th , 2017	Projection		Sources of Funds: GoK, A.I.A, Dev. Partners, Borrowings
		Actual June 30 th , 2016	Projection to June 30 th , 2017			2018/2019	2019/2020	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10	Total Capital Cost/Budget							

Source of Funds for the Capital Budget:								
11	A.I.A - Retained Earnings	Current Year						
		Previous Years						
12	Governments Grants – Development							
13	Grants from Development Partner – Dev't							
14	Borrowings, Both Current Year and Previous Years (Including Infrastructure Bond)							
15	Other Incomes – Dev't (Specify)							
16	Total Funds							

NB: State corporations should clearly indicate the source of funds for the capital budgets whether from Appropriation in Aid (A.I.A) including retained earnings, borrowings both current year and previous years including infrastructure bonds or other incomes from development partners earmarked to finance capital projects.

APPENDIX V: Financial Position (Figures in KShs '000).

Details	Actual 30.06.2014	Actual 30.06.2015	Actual 30.06.2016	Forecast 30.06.2017	Budget 30.06.2018	Projections	
						30.06.2019	30.06.2020
Assets							
Non – Current Assets:							
1	Land, Buildings & Plant						
2	Property & Equipment						
3	Motor Vehicles						
4	Computers						
5	Other (Specify)						
6	Total Non - Current Assets:						
Current Assets							
7	Inventories						
8	Accounts Receivables						
9	Prepayments						
10	Cash & Bank Balances						
11	Others (Specify)						
12	Total Current Assets						
13	Total Assets						
Financed by:							
14	Share Capital (Paid Up)						
15	Gov' Grants/Irredeemable Loans						
16	Capital Reserves						
17	Revenue Reserves (Profit & Loss Account)						
18	Shareholders' Funds (Total Equity)						
Non - Current Liabilities:							
19	Long Term Borrowing						
20	Non-Current Creditor (Specify)						
21	Total Non - Current Liabilities						
Current Liabilities:							
22	Accounts Payable						
23	Short Term Borrowings						
24	Statutory Obligations (Specify)						
25	Others						
26	Total Current Liabilities						
27	Total Equity & Liabilities						
Ratios:							
28	i) Current Ratio						
	ii) Debt to Assets Ratio*						
	iv) Total Assets Turnover*						
	v) Return on Assets*						

NB. (i). Provide explanatory notes for any movement in each of the budget line

(ii.) * Commercial entities only

APPENDIX VI: Cash Flow Statement (Figures in KShs. '000').

Details		Actual 2015/2016	Forecast 2016/2017	Budget 2017/2018	Projections	
					2018/2019	2019/2020
Cash flows from Operating Activities:						
1	Operating Surplus / Net Income					
2	Add back depreciation					
3	Decrease (Increase) in receivables					
4	Decrease (increase) in inventories					
5	Increase (Decrease) in payables					
6	Interest paid					
7	Corporation tax paid					
8	Net cash from operating activities					
Cash flows from Investing Activities:						
9	Purchase of Non - Current Assets					
10	Interest Received					
11	Proceeds from Sale of Non - Current Assets					
12	Net Cash generated from (Used in) Investing Activities					
Cash Flows from Financing Activities:						
13	Repayment of Long Term Borrowings					
14	Proceeds from Long Term Borrowings					
15	Dividends Paid					
16	Net Cash generated from (Used in) Financing Activities					
17	Increase (Decrease) in Cash & Cash Equivalents					
18	Cash & Cash Equivalents at Beginning of Year					
19	Cash & Cash Equivalents at End of Year					
20	Overdraft Limit (As Approved by Government)					

APPENDIX VII: Schedule of Investments of Surplus Funds (Figures in KShs. '000').

Details		Actual 30.06.2016	Forecast 30.06.2017	Budget 30.06.2018
1	Investment in Treasury Bills or Bonds			
	i.			
	ii.			
	iii.			
2	Sub Total			
3	Investment with Financial Institutions (name each institution)			
4	i.			
	ii.			
	iii.			
	Sub Total			
5	Other Forms of Investment (Specify)			
	i.			
	ii.			
	iii.			
6	Sub-Total			
7	Grand Total			

APPENDIX VIII: Details of All Bank Accounts:

No.	Financial Institutions/Banks	Facility	Bank Balance as at Sept. 30 th , 2016
1		Current Account	
		On – Call Deposits Account	
		Fixed Deposits Account	
		Staff Car Loan/Mortgage Account	
		Others (<i>Specify</i>)	
2		Current Account	
		On – Call Deposits Account	
		Fixed Deposits Account	
		Staff Car Loan/Mortgage Account	
		Others (<i>Specify</i>)	
3	Others (<i>Specify</i>)		

NB: State corporations should provide details of all Financial Institutions/Banks where the corporation has opened and operates bank accounts clearly indicating whether it is a Current Account; On–Call Deposits Account; Fixed Deposits Account; Staff Car Loan/Mortgage Account; etc.

Annex I – Check List

1. Statement of Total Funds - **Appendix I.**
2. Statement of Financial Performance for Not for Profit state corporations - **Appendix II.**
3. Statement of Financial Performance for commercial entities - **Appendix III.**
4. Capital Budget (Project Feasibility Study Data) if any - **Appendix IV.**
5. Statement of Financial Position - **Appendix V.**
6. Cash flow Statement - **Appendix VI.**
7. Schedule of Investments, if any - **Appendix VII.**
8. Details of bank accounts and balances therein - **Appendix VIII.**
9. Concise explanatory notes to the Annual Budgets (*should be placed at the relevant statement*).
10. An extract of the Board minutes approving the annual budget (*should include a copy of the list of members present for the meeting*).
11. Line ministry's support for the annual budget proposals and confirmation of the budgetary provision for the respective state corporation as per the line ministry's ceiling.
12. Dividends policy approved by the Board.
13. Implementation status of the Defined Contributory Pension Scheme
14. Proposal on GOK loan repayments

ANNEX 2: Deadlines for Submissions of FY 2017/2018 – 2019/2020 Medium Term Budget and Feasibility Study Data

Submission of Annual Estimates of Revenue and Expenditure (Budget Proposals) by State Corporations to the line Ministry with a copy to The National Treasury	October 31, 2016

Submission of proposals by line ministries to The National Treasury, with specific comments and recommendations, for each state corporation (<i>Chief Executive Officers of state corporations should follow up with their line ministries to ensure that this timeline is met</i>)	November 8, 2016

Review and Analysis of Annual Budget Proposals by The National Treasury.	November 9, to December 31, 2016

Dispatch of Approved Annual Budgets to Ministries by The National Treasury.	February 15, 2017

Submission of Annex of Annual & Medium Term Budget for FY 2016/2017 - 2018/2019 for state corporations to The National Assembly by The National Treasury.	February, 28, 2016

