



**REPUBLIC OF KENYA  
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**Ref No.: ES/03 'R' (7)**

**Date: 28<sup>th</sup> June, 2021**

**TREASURY CIRCULAR NO.7/2021**

**TO: ALL CABINET SECRETARIES  
ALL ACCOUNTING OFFICERS/ PRINCIPAL SECRETARIES**

**RE: GUIDELINES FOR IMPLEMENTATION OF THE FINANCIAL  
YEAR 2021/22 AND THE MEDIUM-TERM BUDGET**

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**I. PURPOSE**

1. This Circular is issued in accordance to Section 12 of the Public Finance Management Act (PFMA), 2012. The purpose of the Circular is to provide guidance on the implementation of the FY2021/22 and the Medium-Term Budget and shall apply to all Ministries, Departments and Agencies (MDAs), the Judiciary, Parliamentary Service Commission, Constitutional Commissions and Independent Offices.

2. County Executive Members for Finance in the County Governments are required to customize and issue implementation guidelines for their respective Counties in line with Section 104 (1) (n) of the Public Finance Management Act (PFMA), 2012.



## II. BACKGROUND

3. The FY 2021/22 Budget is framed against a background of projected global economic recovery from the slowdown experienced in 2020. The projected recovery is supported by the ongoing vaccinations, additional fiscal support and monetary easing.

4. The global economy is projected to grow by 6.0 percent in 2021, from a contraction of 3.3 percent in 2020 whereas economic growth in the sub-Saharan Africa region is projected to expand by 3.4 percent in 2021 from a contraction of 1.9 percent in 2020. Kenya's economic growth is expected to rebound to 6.6 percent in 2021. The outlook in 2021 will be reinforced by the prevailing stable macroeconomic environment and the ongoing implementation of the strategic priorities of the Government under the "Big Four" Agenda and the Economic Recovery Strategy.

5. Implementation of the FY 2021/22 Budget will therefore focus on the "Big Four" Agenda and the Economic Recovery Strategy which remains a high priority and critical to economic recovery. The Government will fast track implementation of programs and projects under the "Big Four" Agenda to enhance food and nutrition security; achieve universal healthcare; provide affordable housing; and support growth of manufacturing sector for job creation. This will aim at repositioning the economy on an inclusive and sustainable growth trajectory.

6. To effectively implement the FY2021/22, Accounting Officers should ensure the following:

- (i) Officers responsible for budget implementation have a clear understanding of the existing laws, regulations and guidelines that



govern budget implementation, monitoring, evaluation, auditing, and reporting;

- (ii) Obtaining necessary approvals before the commencement of the procurement process to avoid delays;
- (iii) Processing payments to contractors and suppliers in time upon submission of completion certificates and supply of good and services;
- (iv) Timely remittance of funds to Semi-Autonomous Government Agencies (SAGAs) in accordance with the approved cash flow plans;
- (v) Observing timeliness/deadlines in submitting periodic reports as agreed with the development partners in cases of externally funded projects;
- (vi) Ensuring that ineligible expenditures on areas outside the project approval are not incurred;
- (vii) Providing adequate disclosures of material matters during reporting to avoid audit qualifications;
- (viii) Ensuring that challenges in documentation and performance reporting are addressed;
- (ix) Prioritizing and reorganizing budget to implement Economic stimulus Programme (ESP) Projects; and
- (x) Priority is given to settlement of pending bills.

### **III. SPECIFIC GUIDELINES**

7. The implementation of the FY2021/22 and the Medium-Term Budget will commence on 1<sup>st</sup> July 2021. To facilitate smooth implementation of the Budget, all Accounting Officers, including the Heads of Semi-Autonomous Government Agencies (SAGAs) are required to undertake the following:

**(i) Constitute Budget Implementation Committees (BICs)**

8. Accounting Officers are required to reconstitute Budget Implementation Committees (BICs) by 7<sup>th</sup> July 2021 in their respective MDAs. The Committees' key responsibility will be to oversee the budget implementation. The Committees will also be required to regularly advise Accounting Officers on the performance of their respective budgets. The terms of reference of the BICs are indicated in **Annex 1** of this Circular.

**(ii) Annual Work Plans**

9. Accounting Officers are required to prepare annual work plans for their respective entities to guide the implementation and achievement of the planned programme activities and outputs. The Annual Work Plans should be aligned to the approved budget. The format for preparing the Annual Work Plans is provided in **Annex 2** of this Circular.

**(iii) Annual Procurement Plans**

10. Accounting Officers, including Heads of SAGAs are reminded that all procurement processes will be guided by Public Procurement & Asset Disposal Act (PPADA), 2015 and the attendant regulations. The roles and responsibilities of the Accounting Officers of procuring entities are clearly spelt out in Section 44 of the PPADA. Specifically, attention is drawn to the Accounting Officers on the requirements of Section 53 (2) of the PPADA, 2015 which requires preparation of a procurement plan before the commencement of each financial year. The format for preparing Procurement Plans is provided in **Annex 3** of this Circular.

**(iv) Cash Flow Projections**

11. Cash flow planning is aimed at developing a framework for improved cash management decision making and liquidity planning in Government. In view of this, Accounting Officers are required to prepare Cash Flow Plans



according to the expected timelines for implementation of the planned activities. This must be consistent with the FY 2021/22 and the Medium Term Approved Budget, Annual Work Plan and Procurement Plans. The format for preparing Cash Flow Plans is provided in **Annex 4A** of this Circular.

**(v) Submission of the Annual Work, Procurement, and Cash Plans**

12. Accounting Officers except for security organs are required to submit hard and soft copies of the Annual, Procurement and Cash Plans to the National Treasury by **7<sup>th</sup> July, 2021**.

**(vi) Categorization of Expenditures in Cash Plans and Exchequer Releases**

13. Cash planning and setting of cash limits is intended to ensure more predictable execution of the budget, and consequently delivery of services and public investments. In view of this, the following expenditure categories have been identified:

- (i) **Category 1;** expenditures represent statutory obligations, including debt outflows, salaries, pensions and the county equitable share;
- (ii) **Category 2;** comprises major social, economic, accountability, governance and security programmes, including core services and investments;
- (iii) **Category 3;** comprises all other Government of Kenya financed expenditures which are not in category 1 or 2; and
- (iv) **Category 4;** comprises externally funded projects categorized as revenue in the budget and for which funds are transferred from the exchequer.

14. To enable the structured disbursement of cash, the National Treasury will provide monthly cash limits for each quarter based on projected available cash for category 1, 2 and 3 expenditures; and consequently, meet requests related to category 1 and 2 expenditures promptly and to category 3 when cash is available in line with withdrawal requests. Accounting Officers are in this regard required to:

- Prepare cash flow projections for Category 1, 2, 3 and 4 (using the format in **Annex 4B**) and reflect the aggregate cash plan into the cash management system before the 31<sup>st</sup> July 2021;
- Review cash flow projections regularly based on actual exchequer releases and future cash flow needs within cash limits provided. The National Treasury should be informed at least one month in advance of any changes which may be required in each quarter; and
- Prepare separate exchequer requests for Category 1, 2, 3 and 4. Category 1, 2 and 3 requests must be within the limits provided, whilst Category 4 must have equivalent funding in the project's designated account (using the format in **Annex 4C**).

**(vii) Issuance of Authority to Incur Expenditure (A.I.E)**

15. Issuance of A.I.Es should be entered as a commitment in master vote book so as to ascertain at all times the availability of uncommitted funds. Accounting Officers whose Votes cover field programmes and projects, and SAGAs should issue A.I.Es to the respective officers not later than 15th day of each quarter through the IFMIS System. The actual expenditures should not exceed the limits authorized in the AIE's.



**(viii) Payment Instruction to Central Bank of Kenya**

16. Accounting Officers should note that payment instructions to Central Bank of Kenya (CBK) should only be issued against net exchequer and approved actual collected Appropriations– In–Aid. Payments should only be made for goods and services received/rendered.

17. Further, Accounting Officers should ensure that Internet Banking (IB) Schedule instructions are issued to the CBK on a daily basis and in the order posted in the IFMIS and cashbooks. This is to ease demand on the exchequer.

**(ix) Procurement of Goods and Services**

18. All public procurement should be conducted in accordance to the Public Procurement and Assets Disposal Act, 2015. Accounting Officers shall only be required to make expenditure commitment against the approved procurement plan based on the approved budget.

19. Accounting Officers should take measures to ensure maximum absorption of budgeted resources, including early initiation of procurement process to avoid last minute purchases and award of contracts towards the end of the financial year. The provisions of the procurement law and regulations must be followed in all procurement transactions.

**(x) Commitment Control**

20. All Commitments for supply of goods and services shall be done by **31<sup>st</sup> May, 2022**. No commitments should be entered into without adequate budgetary provision. Accounting Officers should ensure that no unauthorized, irregular and wasteful expenditures are incurred. Immediate corrective measures and disciplinary action should be taken against any public officer who commits an act of financial delinquency.



**(xi) Pending Bills and FY 2020/21 Carryover IB Commitments**

21. **Historical Pending Bills;** Cases of historical pending bills must be disposed of within the guidelines spelt out in **Gazette Notice 297 of 14<sup>th</sup> January, 2005**. These bills will continue to be dealt with by the National Treasury strictly on the basis of the recommendations made by the Multi Agency Pending Bills Committee.
22. In order to ensure that there is no accrual in payment arrears (pending bills), Accounting Officers should ensure that carryover payments emanating from the FY 2020/21 are treated as a first charge against the FY 2021/22 budgetary allocation before entering into any new commitments. The pending bills should be accommodated strictly within the budgetary provision for respective MDAs without seeking additional funding from the National Treasury.
23. In addition, Accounting Officers are requested to update records of all outstanding pending bills incurred after the year 2005 and report the same to the National Treasury, by **12<sup>th</sup> July 2021**. The format for capturing the pending bills is shown in **Annexes 5A** and **5B** of this Circular.

**(xii) Personnel Expenditures**

24. Accounting Officers should note that **new recruitments** remain frozen except for security agencies, health workers and education sector. **Recruitment of new staff should only take place after the MDA has obtained approval from the National Treasury.** Recruitment and placement of interns will only be undertaken by the Public Service Commission as per PSC Circular Ref. PSC/GEN/1/III dated 5<sup>th</sup> December, 2019 on the Management of Public Service Internship Programme after confirmation of availability of funds from the National Treasury.



25. Replacement of staff as a result of natural attrition, retirement or any other cause is however not frozen. This should only be undertaken after confirmation of availability of funds by the National Treasury and approval by the relevant Government Entities.

26. Revisions of Schemes of Service, upgrading of positions/creation of new positions, often lead to additional financial requirement. MDAs are reminded to seek the approval of the National Treasury on funding of the resultant cost before asking for approval from the relevant Government Departments/Commissions/Boards.

27. All proposed Collective Bargaining Negotiations with Trade Unions representing public officers with cost implications must be referred to the National Treasury to confirm the availability of funds before seeking the necessary advisory from the Salaries and Remuneration Commission. *Such confirmation shall be communicated through duly signed letters by the Principal Secretary/National Treasury.*

28. **Payroll;** Accounting Officers are also reminded to carry out routine staff and payroll audits to ensure payroll accuracy and integrity. In addition, Accounting Officers should ensure that spending by SAGAs on personnel emolument is reported (see **Annex 6**) to the National Treasury by 15<sup>th</sup> day of every month.

**(xiii) Capital Projects**

29. The FY 2021/22 Development Budget reflects the specific projects to be implemented and the desired outputs, performance indicators and targets. To enhance project implementation, *Accounting Officers are required to appoint suitable Officers as project managers and AIE holders for their respective projects.* The project manager should be responsible for the



achievement of the set targets and regular reporting on the implementation status of the project.

30. Improved absorption of all budgeted funds both for domestically and foreign financed projects remains Government's top priority. In this regard, MDAs are required to implement development projects in the most efficient and effective manner with a view to improving the absorption levels and realization of the intended benefits.

**(xiv) Monitoring, Evaluation and Performance Reporting of Programmes and Projects**

**• Financial and Non-Financial Reporting**

31. To ensure effective implementation of Programmes and Projects, and achievement of the intended results, MDAs should ensure regular monitoring of the programmes and projects. Attention should be paid to both financial and non-financial performance for all programmes and projects in the Budget. MDAs should submit quarterly performance reports in accordance to Section 83 of the PFMA, 2012.

32. Accounting Officers should ensure that returns submitted are accurate and timely as they will form the basis of determining credit limits for release of funds to MDAs. Each Accounting officer will be held responsible for the accuracy of the performance reports.

33. Accounting Officers are further required to submit monthly payroll returns and quarterly performance reports to the National Treasury. MDAs should submit copies of the Quarterly Performance to the National Treasury and the Presidential Delivery Unit where appropriate by the 10<sup>th</sup> day after the end of each month and quarter under the signature of the Accounting Officers



in person or a delegated senior officer not below the level of a Chief Finance Officer or a Senior Deputy Secretary.

34. The submission should include the actual expenditure returns, non-financial reports, Integrated Payroll and Personnel Database (IPPD) returns, pending bills and A-I-A returns.

35. The standard formats for project, financial and non-financial reporting is as attached in **Annexes 7, 8A and 8B** respectively.

- **Reporting on Disaster-Related Expenditures**

36. In addition to the above-mentioned reports, Accounting Officers are required to submit separate quarterly reports on disaster-related expenditures in accordance to **Treasury Circular No. 9/2020** alongside the quarterly submissions.

- **Pre-Election Report**

37. With the upcoming General Elections in 2022, the National Treasury is required to prepare a Pre-Election Report in accordance to Section 27(1) of the PFMA 2012. In this regard, Accounting Officers in MDAs involved in election preparation and the execution of election activities will be required on a monthly basis to submit details of all election related spending and any other information on the pre-election fiscal and economic update. The format for capturing the pre-election related expenditure is shown in **Annex 9** of this Circular.

- (xv) **Reallocations of Funds**

38. Reallocations should only be done in the context of the provisions of Section 43 (1), (2) and (3) of the Public Finance Management Act, 2012. In



addition, Accounting Officers should note that reallocations from the “Big 4” interventions and Post Covid-19 Economic Stimulus Programme to other expenditure Items is not allowed.

39. Reallocation from statutory obligations/utilities, or specific allocations which were recommended in the “Budget & Appropriations Committee Report on the Estimates of Revenue and Expenditure for FY 2021/22” or earmarked by the National Treasury for specific purpose is also not allowed.

40. Accounting Officers are in accordance with Clause 48(2) of the PFMA Regulations, 2015, required to keep a register of all budgetary reallocations. The Register should be used to prepare a report of all reallocations to the National Treasury not later than 10th day of each month. The report should indicate measures undertaken to address recurrence of reallocations.

**(xvi) Supplementary Estimates/Additional Funding**

41. The FY 2021/22 Budget has been formulated against the backdrop of economic recovery from the COVID-19 pandemic, and subdued economic activities. In this regard, Accounting Officers should avoid requesting for additional funding outside the budget framework approved by Parliament. MDAs will be granted additional expenditures only under special circumstances, under Article 223 of the Constitution. MDAs granted additional funding will be required to prepare and submit a Supplementary Budget after making the first withdrawal against the additional Budget granted under Article 223 of the Constitution.

42. To ensure accurate and timely reporting of these expenditures to Parliament, ***the Controller of Budget is required to immediately notify the Cabinet Secretary of the National Treasury and Planning where such withdrawals have been made.*** The format for reporting the additional



expenditures granted under this provision of the Constitution is shown in **Annex 10** of this circular.

**(xvii) IFMIS System**

43. All transactions during the implementation of the FY 2021/22 and the Medium Term Budget must be carried out in the IFMIS.

**(xviii) Consolidation of the Annual International Subscriptions**

44. The Budgeted Expenditures by MDAs for the Subscriptions to International Organization remain consolidated under the National Treasury. MDAs that budgeted for these expenditures are required to prepare and submit Cash Flow Plans for the subscriptions to the National Treasury. In addition, Accounting Officers will be required to be forwarding the demand note(s); banking details and justification for continuation of Kenya's Membership of such organizations before payments are processed to the respective organizations.

**(xix) Allocations for Conditional Grants and Performance for Results (PfR)**

45. MDAs with conditional grants earmarked for Counties should prioritize these expenditures owing to the fact that County Governments have assumed the allocations as sources of revenue. Delay in disbursing the funds will lead to distorted budgets at the County level as well as delay in implementation of associated programs, projects and activities.

46. Similarly, MDAs implementing Performance for Results (PfR) programs as well as programs that have disbursement linked indicators (DLIs) should prioritize the associated expenditures. Accounting Officers are therefore requested to closely monitor implementation of PfRs as well as programs with DLIs so as to bring to the attention of the National Treasury any challenges they may be facing that require unlocking.



**(xx) Management of Contracts with Legal Implications**

47. The Office of the Attorney General continue to face challenges in the defence of the Government against international cases. This exposes the Government to huge financial risks due to the nature of the colossal claims and non-payment of legal fees and costs by client Ministries. The international arbitrations are mostly brought about by cancellation of contracts and licenses held by investors largely due to poor contract management.

48. To mitigate future risks to international arbitrations, MDAs are required to follow due process in the management of contracts with contractors and service provider as well as in the issuance and cancellation of licenses and contracts.

- ***Delayed Performance***

49. If at any time during the contract period, the service provider is unable to perform in a timely manner, the service provider must notify the MDA in writing of the cause of and the duration of the delay. Upon receipt of the notification, the MDA should evaluate the circumstances and, if deemed necessary, the MDA may extend the service provider's time for performance which will constitute an amendment to the contract in line with Section 139 of the PPADA, 2015. The MDA may decide to impose a delay penalty.

- ***Unsatisfactory Performance***

50. When an MDA is not satisfied or there are problems with the service provider's performance, the MDA must:

- (i) Review the conditions causing the problems and determine whether or not the MDA itself has significantly contributed to the problem;



- (ii) Review the contract and other relevant documentation in order to identify the rights and responsibilities of each party; and
- (iii) Notify the service provider in writing that their performance does not comply with the terms and conditions set out in the contract.

51. The written notification sent to the service provider should clearly identify the following:

- (i) The problem so as to avoid any misunderstanding;
- (ii) The corrective actions that are to be taken;
- (iii) The time frame allowed for the service provider to address and correct the problem; and
- (iv) The consequences that would arise in the event that the problem is not corrected within the specified period.

- ***Dispute Resolutions***

52. The MDA can apply different measures during the preparation and administrative phases of the contract in order to avoid any problems that may lead to a dispute. These measures include the following:

- (i) Stating the contractual requirements, such as specifications and delivery dates, as clearly as possible;
- (ii) Using plain and clear language in the contract itself, as well as all other contract documentation;
- (iii) Addressing issues or problems as and when they arise to prevent them escalating;
- (iv) Maintaining a good working relationship with the service provider; and
- (v) The policies and procedures regarding dispute resolution should be detailed in the contract and agreed to by both parties. The resolution options should be listed in order of preference starting



with the least severe method moving towards more severe methods.

**(xxi) The role of the PFM Staff in Budget Implementation**

53. The Public Finance Management Staff play a key role in the preparation and implementation of the budget. In this regard, to ensure smooth implementation of the FY 2021/22 and Medium Term Budget, Accounting Officers are required to ensure PFM Staff are involved at all stages of budget implementation, monitoring, evaluation, and preparing financial and non-financial reports, and correspondences.

**IV. CONCLUSION**

54. Finally, Accounting Officers are required to ensure strict adherence to these guidelines, the Public Finance Management Act, 2012, the Public Procurement and Asset Disposal Act, 2015, and their attendant regulations, as well as all other relevant Government Rules and Procedures. Accounting Officers are also required to ensure that they bring the contents of this Circular to the attention of all Public Officers working under them, including the Heads of Semi-Autonomous Government Agencies (SAGAs).

  
**HON (AMB). UKUR YATANI, EGH**  
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**ALL COUNTY EXECUTIVE MEMBERS FOR FINANCE**



## **ANNEX I: TERMS OF REFERENCE FOR THE BUDGET IMPLEMENTATION COMMITTEE**

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There shall be established a Budget Implementation Committee (BIC) in all MDAs at the beginning of each financial year. The Committee will be required to meet once after every two weeks to review budget implementation progress. The terms of reference for the Committee shall be:

1. To review and consider the cash flow plans- this shall involve a regular review of the Ministerial cash plan and approval of any changes to the initial cash flow plan to be communicated to the National Treasury;
2. To review the utilization of cash limits and consider any changes as may be required;
3. To review the utilization of donor funds voted for the MDA;
4. To advise the Accounting Officer on any challenges related to the budget implementation;
5. To review and recommend reallocation of expenditures;
6. To review and approve the submission of the expenditure returns, non-financial reports, IPPD, Pending bills and A-I-A returns for the MDAs and recommend actions to be taken;
7. To participate in Sector Working Groups; and
8. To prepare the budgets for MDAs in consultation with Heads of Departments.



