



**REPUBLIC OF KENYA**  
**THE NATIONAL TREASURY**

**Telegraphic Address: 22921**

**FINANCE - NAIROBI**

**Fax No. 315779**

**Telephone: 2252299**

**When replying please quote:**

**The National Treasury**

**P.O. Box 30007**

**NAIROBI.**

**Ref. DGIPE/A/1/10**

**Date: December 3, 2025**

**THE NATIONAL TREASURY CIRCULAR NO 13/2025**

**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 2026/2027 and Medium-Term Projections for FYs 2027/2028 & 2028/2029**

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**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 Line Ministry and the National Treasury 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 2026/2027** and Medium-Term projections for **FYs 2027/2028 & 2028/2029**.
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 the National Treasury Circular No. 08/2025 dated **8<sup>th</sup> August, 2025** on Guidelines for Preparation of the FY 2026/2027 and Medium-Term Budget. In this regard, State Corporations are required to submit their itemized Annual Budgets for FY 2026/2027 and projections for FYs 2027/2028 & 2028/2029 to their respective Line Ministries and the National Treasury, not later than **31<sup>st</sup> January 2026** for review and approval.

4. As per the calendar for the preparation and approval of the FY 2026/2027 Annual Budget contained in aforementioned the National Treasury Circular No. 08/2025, it is expected that, State Corporations whose operations are funded through the National Budget resource allocation, 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. In this regard, the National Treasury will not approve or recommend for approval proposed budget with operating deficit.
6. In efforts towards enhancing operational and financial oversight role on Government investments, the National Treasury continues to leverage on ICT with 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 2026/2027 budget estimates and revised budgets through GIMIS.

**B. General Guidelines**

7. The FY 2026/2027 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 resource envelope.
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 directed vide the National Treasury Circular No.2/2024 dated 27<sup>th</sup> March 2024.
9. In this regard, in preparing the FY 2026/2027 proposed budgets, State Corporations will be required to develop and implement measures that will enhance diversification and increase internally generated revenues. Further, state corporations should rationalize personnel, operational and administrative costs and leverage on ICT in delivery of services among other measures with a view to minimizing dependence on the support of the National Exchequer.

**Policy Priorities**

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



11. State Corporations should harmonize their FY 2026/2027 and the Medium-Term Budget with priorities of the Government. Consequently, unnecessary expenditures not supportive of the core mandate like travel, training, seminars, consultancies, legal expenses, overtime, and all non-core activities must be scaled down to the bare minimum. This therefore is to emphasize that the policy measures to enhance State Corporations' revenue generation and expenditure rationalization in line with Government Fiscal Consolidation efforts as conveyed vide the National Treasury Circular No.2/2024 dated March 27, 2024 remains in force.
12. Prioritization and allocation of the Corporation's available resources should support the objectives outlined in the State Corporation Strategic Plan and planned activities for FY 2026/2027. In doing so, it is understood that the Strategic Plan under implementation by the respective State Corporation has already been aligned to the Fourth Medium-Term Plan (MTP IV) and the Government's key 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 2026/2027 budget will require fresh review and approval before spending.

#### **Expenditure Control**

14. In the FY 2026/2027, 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 as guided by the National Treasury Circular No.2/2024 dated March 27, 2024. State Corporations are therefore required to curtail the growth of recurrent/development expenditure by optimally allocating available resources to projects and programmes with high impact on growth.
15. State Corporations are required to entrench prudent financial management practices in their planning. As a matter of priority, State Corporations should enhance cost containment 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 in line with State Corporations Act, Cap. 446, Sections 11 and 12 is irregular, and they will be held personally liable for such expenditures in accordance with the applicable laws.

#### **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 and to other shareholders, where the corporation is not wholly owned by the Government. The commercial State Corporations should set aside 80% of profit after tax for payment of dividends as directed vide the National Treasury Circular No 2/2024 dated 27<sup>th</sup> March 2024.
17. In this regard, all commercial State Corporations are required to revise their dividend policies accordingly. All commercial and regulatory 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 to the National Treasury, under Section 16(3), to recall the whole or part of the surplus funds to be paid to the Consolidated Fund.
19. In accordance with the Public Finance Management Act, (National Government Regulations, 2015), 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 the mandate to collect the 90% of the operating surplus on behalf of the National Treasury.
20. However, it has been noted with concern that some Regulatory Authorities are adjusting operating surplus by netting capital expenditure from the operating surplus purposely to determine the 90% of the operating surplus to remit to the National Exchequer. As it has been advised earlier, operating surplus are all revenues generated including budgetary allocations received by a corporation less total operating/recurrent expenses incurred excluding capital expenditure.

#### **Settlement of Pending Bills/Outstanding Obligations**

21. Despite efforts put in place to check on the accumulation of pending bills by MDAs, the National Treasury continues to observe an upsurge of the same in the reports submitted. It is the Government policy vide the National Treasury Circular No. 10 of 2020 dated June 16, 2020 that MDAs including State Corporations prioritize settlement of confirmed pending bills. For purposes of common understanding, pending bills are any undisputed invoices due for payment but are outstanding for more than the Corporation's credit period.
22. Pending bills have adversely impacted on economic activities especially on the small and medium enterprises. In this regard, Accounting Officers of State Corporations are reminded of their cardinal responsibility of prudent financial management and directed to comply and settle all pending bills. Payment of pending bills including interest and principal loans repayment should therefore be the first charge of the entity's revenue.
23. In accordance with the PFM Act (2012) Section 74(d), Accounting Officers are reminded that accumulation of confirmed and verified liabilities/pending bills is prohibited and may invite punitive actions against those responsible. State Corporations should therefore not initiate implementation of new projects prior to ensuring that all outstanding obligations/pending bills are cleared.
24. 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. The National Treasury will **NOT** grant or recommend approval annual budgets for State Corporations without clear action plan on settlement of pending bills.

#### **Pension Schemes and Statutory Deductions**

25. All State Corporations are expected to have converted their pension schemes from Defined Benefit (DB) to Defined Contribution (DC) in line with Government policy.

26. It is noted that some State Corporations have not been remitting sponsor and staff Pension contributions to the respective schemes. Consequently, they have accumulated huge arrears of sponsor and staff pension contributions contrary to existing laws and Government policies. In this regard, State Corporations should budget for and honour their staff pension obligations including the arrears. **The Board of Directors are reminded of their responsibility to protect the interests of the pensioners and to provide oversight for effective operations of such schemes.**
27. The National Treasury has noted with concern that some State Corporations deduct statutory contributions from employees but fail to remit the same to relevant Government Agencies and other Institutions as required by the law. This constitutes breach of statutory obligation, exposes institutions to significant legal and governance risks, and unfairly infringes upon employees' rights.
28. ALL Accounting Officers and Board of Directors are hereby directed to ensure timely and complete compliance with remittance of ALL statutory deductions without exception.

#### **Borrowings**

29. 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 specific approval (outside of budget approval process) of the Cabinet Secretary, -Line Ministry with the concurrence of the Cabinet Secretary, the National Treasury.
30. The National Treasury 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**

31. 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.
32. 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**

33. Employees of State Corporations are remunerated in accordance with categorization as per Circular No. OP/CAB.9/21/2A/LII/43 dated 23<sup>rd</sup> 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.
34. 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.**
35. The Government through Circular No. **OP/CAB.9/IA** of 2022 **dated 7th February, 2022** on recruitment of new staff directed strict observance of approval processes before any recruitment is undertaken with a view to ensuring rationalization of staffing across State Corporations and adherence to staffing ceilings. This seeks to ensure wage bill control and sustainability of personnel costs in State Corporations.

36. Under this provision and to ensure justifiable and sustainable hiring process, State Corporations, including Public Universities, are obligated to seek and obtain approvals from the respective line Ministry and the concurrence of the National Treasury prior to initiating recruitment of new staff or replacements.

### **Capital Budget**

37. The capital projects to be prioritized for execution should be those that adhere to Public Investment Management (PIM) regulations 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.
38. 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 and confirmed;
  - iii. All conditions precedent including land acquisition and ownership are fulfilled;
  - iv. Detailed designs are completed and relevant approvals obtained where applicable;
39. 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 FY 2026/2027, including all on-going projects indicating the status of implementation, Implementation level, amounts required to complete the project, new projects and other capital items.
40. The FY 2026/2027 and the medium-term budget will put more emphasis on BETA projects, completion of ongoing and viable stalled projects. In particular, projects nearing completion should be prioritized within the available resources to ensure that citizens benefit from such investments.

### **Carry-Over Funds and Multi-Year Projects**

41. 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. It has been noted that State Corporations are utilizing funds beyond the legally defined budget cycle within which the activity was approved.
42. As defined in Section 24(1) of the PFM Act, State Corporations are reminded that an approved budget is effective for 12 months, starting from 1st July to 30th June, with Section 24(4) providing that any expenditure or use of public funds beyond the financial year requires fresh approval from the Cabinet Secretary to the National Treasury.
43. The multi-year projects should be budgeted for each respective financial year over the project implementation period. 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.

44. 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.

#### **Revision of Budgets**

45. As State Corporations implement approved annual budget for revenue and expenditure, 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 regardless of whether or not it is less than 10% or from one sub-item to another must be submitted for review and approval by the line Ministry and the National Treasury through GIMIS.

#### **C. Submission of FY 2026/2027 Annual Budget and Projections for FYs 2027/2028-2028/2029**

46. 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.
47. The information required in the submission of the FY 2026/2027 budget proposal is as outlined in the GIMIS platform. State Corporation are therefore, required to submit **ALL** information for each interface without exception.

***Please note that GIMIS has been configured to block the capturing and submission of the FY 2026/2027 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:***

48. The proposed FY 2026/2027 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 2026/2027 and Medium Term;
  - iv. Summary of the proposed recurrent and capital budget as per agreed budgetary allocations in the Sector Working Groups ceilings and other information;
  - v. Detailed remedial action plan for any outstanding liabilities/pending bills including outstanding debt and pension scheme liabilities.



49. 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.
50. 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 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.
51. 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 2026/2027 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 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.
  - v. Plans in place to revive stalled projects.
52. 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.

**D. Deadlines for Submission of FY 2026/2027 Annual Budget and FYs 2027/2028 & 2028/2029 Projections**

53. Annual budget for FY 2026/2027 and projections for the FYs 2027/2028 & 2028/2029 for State Corporations should be submitted through the GIMIS platform not later than **31<sup>st</sup> January, 2026.**
54. 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**

55. 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

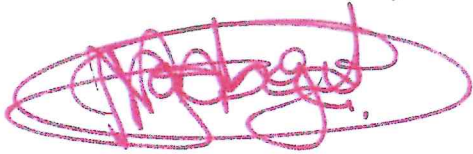


Officer of the State Corporation. The Accounting Officer of the respective line ministry should, as part of their oversight role, ensure that State Corporations falling within their dockets comply with this Circular.

56. 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**

57. The National Treasury 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.



**HON. FCPA JOHN MBADI NG'ONGO, EGH**  
**CABINET SECRETARY**

**Copied to: All Cabinet Secretaries**

**The Hon. Attorney General**  
Sheria House  
**NAIROBI.**

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

**The Auditor-General**  
Office of the Auditor General  
**NAIROBI.**

**The Controller of Budget**  
Office of the Controller of Budget  
**NAIROBI.**

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

**All Chairpersons of State Corporations**

**Annex: Deadlines for Submissions of FY 2026/2027 Annual Budget and the  
2027/2028- 2028/2029 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, 2026

Submission of Recommendations by line ministries to The National Treasury, with specific comments and recommendations, for each State Corporation. February 14, 2026

Review and Analysis of the Annual Budget Proposals and the projections by The National Treasury. February 15 to April 15, 2026

Submission of Annex of Estimates of Revenue and Expenditure for State Corporations FY 2025/2026 to the National Assembly. April 30, 2026