

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF MACHAKOS

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY TREASURY

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TREASURY CIRCULAR No. 2 OF 2020/2021

24th August, 2020

To:

All Accounting Officers

County Government of Machakos

**RE: GUIDELINES FOR THE PREPARATION OF ANNUAL BUDGET FOR FINANCIAL YEAR
2021/2022 AND THE MEDIUM-TERM EXPENDITURE FRAMEWORK FOR THE PERIOD
2022/2023 AND 2023/2024**

A. PURPOSE

1. This circular is issued in accordance to section 128(2) of the Public Finance Management (PFM) Act, 2012 which states that “The County Executive Committee Member for Finance shall issue a circular setting out guidelines to be followed by all of the County Governments entities in the budget process”.
2. The circular is meant to provide guidance to all County Government of Machakos entities (Departments, Directorates and Boards) in preparation of their 2021/2022-2023/2024 Medium Term Budget Estimates.

3. The purpose of this circular is to guide the Accounting Officers on;
 - i. Key policy frameworks that will be taken into consideration when preparing the FY 2021/2022 budget;
 - ii. Legal timelines and requirements for Key Activities in the budget making process.
 - iii. The format in which information and documents relating to the budget are to be submitted;
 - iv. The methodology for the review and projection of revenues and expenditures;
 - v. Framework for public participation in the budget making process.

B. CONTEXT OF FY 2021/2022 BUDGET PREPARATION.

4. The budget for FY 2021/2022 will aim at consolidating the gains achieved in the previous financial years through implementing the County development agenda as espoused in CIDP 2018-2022, and the National Government's "Big Four" agenda. Therefore, policies will be guided by the need to achieve enhanced sustainable socio-economic growth and will focus on key productive sectors of the economy that will yield the highest impact to the society. In preparing their budget estimates, county entities are therefore encouraged to ensure that their programmes are aligned to these county policies;
 - i. Enhancing food security;
 - ii. Access to clean and safe water;
 - iii. Infrastructure development;
 - iv. Improving access to quality healthcare;
 - v. Provision of quality education;
 - vi. Creation of conducive business and investment environment; and
 - vii. Sustainable environmental conservation.

C. SPECIFIC GUIDELINES

I. Budget Preparation Schedule

The Public Finance Management (PFM) Act 2012 provide the specific timelines for the budget making process which should be respected. The 2021/2022 Budget process will run from 28th August 2020 until the approval of the Finance Bill 2021/2022 by the County Assembly. All Accounting Officers will be required to strictly adhere to the

deadlines set out in the budget calendar as these are legally binding timelines. The budget calendar is indicated in **Annex I**

II. Expenditure Review

5. Expenditure reviews are an integral part in the budget process. They provide an analysis of performance of the budget against the process outlined and targets set. In reviewing the budgets, all County entities should focus on the achievement of County goals, objectives and targets set out in the program based budget. These in turn provides a basis for future policy decisions by identifying the challenges, strengths and weaknesses which are used to map the way forward.
6. County Government entities will therefore be required to carry out a comprehensive expenditure review which will determine which programmes to be given priority, those to be discontinued and whether in the previous allocations programmes achieved the intended objective(s). The process should therefore identify any challenges which lead to non-achievement of set priorities and provide recommendations to be considered in future budgets.

III. Programme Based Budget (PBB)

7. The Public Financial Management Act, 2012 requires the County Government to implement Programme Based Budget. Program based budget focuses on results required to achieve specific outcomes. The process involves identifying key inputs, outputs, performance indicators targets and expected outcomes.
8. County Government entities should prioritize expenditure to ensure that resources allocated to a programme are adequate and beneficial to the community.
9. County Government entities should also improve efficiency and effectiveness of service delivery in their specific departments.
10. All County entities are expected to define their programmes and ensure that their objectives are clear and are linked to outputs, targets and performance indicators. The programme performance indicators should be SMART (specific, measurable, achievable, and realistic and time bound).

11. Every entity should group functions that are closely related to a single budget programme or sub-programme in order to ensure there is no duplication. In addition, each programme should have a distinctive name that reflects the overall objective of the programme. This makes it easier to identify potentially overlapping mandates and responsibilities.
12. A budget programme or budget sub-programme should include all cost items involved in delivering the services being financed i.e. compensation of employees, use of goods and services, current or capital transfers to Government agencies and acquisition of non-financial assets.
13. Every budget programme should have result statement (context for budget intervention) that provides a basis for review and evaluation of programme performance.
14. Where a County entity has more than one programme, a programme should be created to cater for management and administration of overhead costs which cannot be attributed to only one programme. Such a programme should have costs such as general administration, financial services, procurement, human resource management, planning, internal audit and ICT services.
15. Accounting Officers should take into consideration that the Programme Based Budget will form the basis for itemized budget. Careful consideration should therefore be made in preparing the PBB. The PBB will therefore be submitted alongside the Itemized Budget. The format for the PBB is indicated in **Annex II**.
16. While itemizing the budgets, Accounting Officers will be required to submit not only the 2021/2022 budget estimates but also realistic projection for two outer years i.e. 2022/2023 and 2023/2024 (See **Annex III**). In addition, the vote lines should conform to the Standard Chart of Accounts (**SCOA**).

IV. Prioritization and Allocation of Resources

17. The County Treasury will ensure there is rationalization of expenditure in order to ensure that programmes funded are core and are in line the Medium Term Expenditure

Plan (MTEF) of Machakos County. Accounting Officers should therefore be guided by the following criteria when prioritizing and allocating resources;

- i. Programmes prioritized by the County Integrated Development Plan (CIDP) 2018-2022 and the Annual Development Plan (ADP), 2020
- ii. Ongoing capital projects.
- iii. Operationalization of completed projects.
- iv. Budget ceilings allocated by Commission on Revenue Allocation (CRA)
- v. Equitable share of revenue allocation of the National Government.
- vi. Degree to which the programme addresses the priorities outlined in various policy documents.
- vii. The expected output and outcome of the programme and the linkage a programme has with other programmes;
- viii. Degree to which the programme is addressing the core functions and responsibilities of the department
- ix. Cost effectiveness and sustainability of the programme.

18. Accounting Officers are advised to list all projects earmarked for implementation during the financial year are aligned to the development budget for the respective County Entity. Template for the submission of the projects is indicated in **Annex IV**

V. Recurrent and Development Budget

19. The Public Financial Management Act, 2012 under section 107(2) requires the County Treasury to enforce the following fiscal responsibility principles in managing public finances;

- i. The recurrent expenditure should not exceed the County's total revenue
- ii. Over the medium term, a minimum of thirty percent (30%) of the total budget shall be allocated to development expenditure.
- iii. The County Government expenditure on wages and benefits of public officers shall not exceed thirty five (35) percent of the County Government total revenue as prescribed by the County Executive Member for Finance.
- iv. Over the medium term, the County Government's borrowing shall be used to finance development expenditure and not recurrent expenditure.
- v. The County debt shall be maintained at a sustainable level as approved by the County Assembly.

vi. Fiscal risks shall be managed prudently.

20. All Accounting Officers should critically analyze their Operations and maintenance expenditure so as to allow the departments to render service to the community. The County Treasury will critically review the budget proposals and where necessary rationalize the provisions for less productive expenditures in order to create savings to be directed towards capital investment and other priority areas within or across departments.

21. The Costing of capital projects should be based on technical estimation and/or reasonable market price to enhance fiscal prudence.

VI. Cash Flows

22. The Public Financial Management Act (PFM), 2012 (Section 127), requires that the County Treasury submits the annual cash flow projections not later than 15th June for the next financial year. In this regard Accounting Officers are therefore required to prepare a cash flow projection for their respective department and submit to the County Treasury on or before 5th of June, 2021 to give the County Treasury sufficient time for compilation, consolidation and subsequent submission to the Controller of Budget. The format of the cash flow is as indicated in **Annex V**.

VII. Public Participation and Stakeholder Involvement.

23. Public participation is an integral part of budget making process as stipulated in the Public Financial Management Act (PFM), 2012 Section 125 and Regulations 6(2). This is aimed at collecting views as well as priorities from all stakeholders. Therefore, All Accounting Officers are expected to incorporate the inputs/recommendations from the public forums in the budget proposals. The schedule and timelines of public participation is as attached.

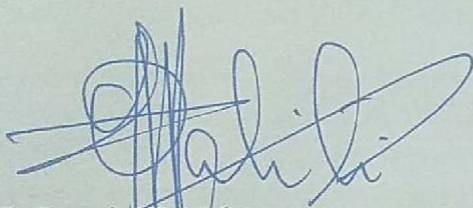
24. The dates for public participation and venues will be advertised in daily publications of County wide circulation as well as in the local vernacular radio stations. Accounting Officers are expected to facilitate the process in any way the County Treasury requests them to.

VIII. Deadline for Submission of Annual Budget Estimates

25. The Public Financial Management Act (PFM), 2012 requires the County Executive Member for Finance to submit annual budget estimates to the County Assembly by 30th April. In order to achieve this, every Accounting Officer is required to finalize the Budget proposal for their respective Department, Board or Directorate and submit both Programme Based Budget and Itemized Budget to the County Treasury by 10th March 2021. Additionally, all submissions will have to be accompanied with clear explanatory notes.
26. Accounting Officers are expected to sign all the budget documents submitted to the County Treasury as a proof of their authenticity and accuracy.

IX. Conclusion

27. In the preparation of the budget and other budget documents, Accounting Officers must ensure all requirements and time lines provided in the Constitution of Kenya 2010, Public Financial Management Act (PFM), 2012, regulations and any other directives issued by the County Treasury are taken into consideration.
28. All Accounting Officers should ensure adherence to these guidelines and bring the contents of this circular to the attention of all officers working under them.
29. The County Treasury shall provide any other additional information as need arises.



H.E. Francis W. Maliti

Deputy Governor/County Executive Committee Member –Finance and Economic Planning

Cc.

The County Secretary,
County Government of Machakos

County Executive Committee Members
County Government of Machakos

Annex I: Machakos County Budget Calendar for the FY 2021/2022

No.	ACTIVITY	RESPONSIBILITY	TIMELINES
1.	Issue guidelines for preparation of FY 2021/2022 and Medium Term County Budget Estimates	County Executive Committee Member for Finance (CECMF)	30 th August 2020
2.	Submission of Annual Development Plan (ADP) for FY 2021/2022 to the County Assembly for approval	County Executive Committee Member responsible for Planning	1 st September, 2020
3.	Draft County Budget Review and Outlook Paper (CBROP)-2020	County Treasury	15 th September 2020
4.	Submission of CBROP 2020 to the County Executive Committee for deliberation and approval	County Treasury	30 th September 2020
5.	Deliberation and approval of CBROP 2020 by the County Executive Committee	County Executive Committee	14 th October 2020
6.	Submission of 1 st Quarter Reports (Financial and Non-financial) to County Treasury	Accounting Officers	15 th October, 2020
7.	Submission of approved CBROP 2020 to County Assembly	County Treasury	21 st October 2020
8.	Submission of 1 st Quarter Reports (Financial and Non-financial) to County Assembly		31 st October, 2020
9.	Submission of Annual Financial Statements to Auditor General, National Treasury, CoB and CRA	County Treasury	31 st October, 2020
10	Submission of 2 nd Quarter Reports (Financial and Non-financial) to County Treasury	Accounting Officers	15 th January, 2021
11	Draft County Fiscal Strategy Paper (CFSP)-2021 circulated to stakeholders/Public Participation	County Treasury	24 th January, 2021
12	Submission of CFSP 2021 comments to County Treasury	Accounting Officers/Stakeholders	31 st January, 2021
13	Submission of 2 nd Quarter Reports (Financial and Non-financial) to County Assembly	County Treasury	31 st January, 2021
14	Submission of Sector Reports to County	Sector Working Groups	31 st January,

No.	ACTIVITY	RESPONSIBILITY	TIMELINES
	Treasury		2021
15	Submission of the CFSP- 2021 to County Executive Committee	County Treasury	14 th February, 2021
16	Submission of the CFSP-2021 to County Assembly	County Treasury	28 th February, 2021
17	Adoption of CFSP	County Assembly	14 th March, 2021
18	Submission of budget Estimates proposal for 2021/2022 to County Treasury	Accounting Officers	10 th March, 2021.
19	Consolidation of Budget Estimates for FY 2021/2022	County Treasury	30 th March, 2021.
20	Submission of 3 rd Quarter Reports (Financial and Non-financial) to County Treasury	Accounting Officers	15 th April, 2021
21	Submission of County Budget Estimates and other supporting documents to County Executive Committee	CECMF	20 th April, 2021
22	Submission of County Budget Estimates and other supporting documents to County Assembly	CECMF	30 th April, 2021
23	Submission of 3 rd Quarter Reports (Financial and Non-financial) to County Assembly	County Treasury	30 th April, 2021
24	Approval of the Budget Estimates	County Assembly	30 th June 2021
25	Submission of Finance Bill to County Assembly	CECMF	June 2021
26	Submission of 4 th Quarter Reports (Financial and Non-financial) to County Treasury	Accounting Officers	15 th July, 2021
27	Submission of 4 th Quarter Reports (Financial and Non-financial) to County Assembly	County Treasury	30 th July, 2021
28	Approval of Finance Bill	County Assembly	30 th September, 2021

Annex II: Format for the presentation of Programme Based Budgets (PBB) Vote Title:

Part A. Vision

Part B. Mission

Part C. Context and strategy for Budget Intervention

This section should briefly explain the overall goal of each ministry and within which the budget is required.

Part D. Programmes and their Objectives.

List all the programmes and their strategic objectives. Please note that each programme should have only one strategic objective

Part E. Summary of Expenditure by Programmes; 2021/2022-2023/2024

Sub- Programme (SP)	Approved Budget FY 2020 /2021	Budgeted Estimates FY 2021/2022	Projected Estimates	
			FY 2022/2023	FY 2023/2024
Programme: 1. (name of the programme)				
Sp:1.1				
Sp: 1.2				
Total expenditure of Programme 1				
Programme: 2. (name of the programme)				
Sp: 2.1				
Sp: 2.2				
Total Expenditure Programme 2				
Total Expenditure of Vote				

N.B/ The total expenditure of each programme must be equal to the total expenditure of the Vote.

Part F. Summary of Expenditures by Vote Economic Classification 2021/2022-2023/2024

Expenditure Classification	Approved Budget FY 2020 /2021	Budgeted Estimates FY 2021/2022	Projected Estimates	
			FY 2022/2023	FY 2023/2024
(1) Current Expenditure				
Compensation to Employees				
Use of goods and services				
Current Transfers to Government Agencies				
Other Recurrent				
(2) Capital Expenditure				
Acquisition of Non-Financial				

Expenditure Classification	Approved Budget FY 2020 /2021	Budgeted Estimates FY 2021/2022	Projected Estimates	
			FY 2022/2023	FY 2023/2024
Assets				
Capital Transfers to Government Agencies				
Other Development				
Total Expenditure of the Vote				

Part G. Summary of Expenditure by Programme and economic classification; 2021/2022-2023/2024

Expenditure Classification	Approved Budget FY 2020 /2021	Budgeted Estimates FY 2021/2022	Projected Estimates	
			FY 2022/2023	FY 2023/2024
Programme 1: (Name of the programme)				
(1) Current Expenditure				
Compensation to Employees				
Use of goods and services				
Current Transfers to Government Agencies				
Other Recurrent				
(2) Capital Expenditure				
Acquisition of Non-Financial Assets				
Capital Transfers to Government Agencies				
Other Development				
Total Expenditure				
Programme 2: (Name of the programme)				
(1) Current Expenditure				
Compensation to Employees				
Use of goods and services				
Current Transfers Government Agencies				
Other Recurrent				
(2) Capital Expenditure				
Acquisition of Non-Financial Assets				
Capital Transfers to Government Agencies				
Other Development				
Total Expenditure of the Vote				

Note: The total current and capital expenditure for each programme in Table G must add up to total expenditure of the programme in Table E.

Part H. Summary of the Programmes Key Outputs and Performance Indicators

Name of the Sub-Programme	Key Outputs (KO)	Key Performance Indicators (KPI)	Project Location <i>(Indicate the exact site project implementation will take place-e.g. ward sub location, village etc.)</i>
Programme 1: (Name of the programme) Outcome : (Each programme should have one outcome)			
SP:1.1			
SP:1.2			
Programme 2: (Name of the programme) Outcome : (Each programme should have one outcome)			
SP:2.1			
SP:2.2			

Note: The Programme Based Budget should be presented as a word document

Annex III: Format for presentation of Itemized Budget

Item Code	Item Description	Approved Budget FY 2020 /2021	Budgeted Estimates FY 2021/2022	Projected Estimates	
				FY 2022/2023	FY 2023/2024

Note:

- The itemized budget should be per programme and presented as an excel document.
- The budget estimates **must** be accompanied by budget notes for every programme.

Annex IV: General Departmental Projects' Submission Form for FY 2021/2022

MACHAKOS COUNTY PROPOSED PROJECTS FOR FINANCIAL YEAR 2021/2022						
SUB COUNTY	WARD	LOCATION	DEPARTMENT	PROPOSED PROJECT	ACTIVITY(IES)	BUDGET ALLOCATION

Annex V: Cash Flow Projections

Department														
Program														
Item Code	Item Description	Ksh	July	August	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June