



Kenya Power

THE KENYA POWER & LIGHTING COMPANY PLC

BUDGET MANAGEMENT POLICY

Part A – Document Control Sheet			
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Complementary Documents	1. Supply Chain Policy 2. KPLC Strategic Plan		

Budget Management Policy

Part B – Definitions and Abbreviations

Account to Charge	This is an account element accumulating/aggregating expenditure of a specific nature e.g. salaries and wages or travelling
Actuals	Are the real financial transactions of revenues coming in and expenditures going out. This differs from budgets, which are a forecast and approved spending plan, not actual income or expense
Budget	A plan or forecast of revenues, expenses, or both, for a future specified timeframe such as a fiscal year. A budget is also a mechanism for controlling spending within a financial system, and allows spending to occur prior to the receipt of actual revenues which may flow in at a later date
Budget Holder	An Officer allocated funds for execution of specific functions or activities
Budget Reallocation	Transfer of funds from one cost center to another without a corresponding increase or decrease to the total budget
Capital Budgeting	The process in which a business determines and evaluates potential investments that are large in nature. Ideally, businesses should pursue all projects and opportunities that enhance shareholder value
Cost Centre	This is an account allocated to a budget holder accumulating expenditure for a function or an activity usually coded for Region and Division

Expenses	Expenditures or Spending or Funding Uses - represent purchases and other costs paid out by KPLC to a variety of purposes such as employee payroll, vendors, consultants.
Internal Order	This is an account to accumulate/aggregate an expenditure either recurrent or capital which will form an asset or an addition to an existing asset or for managing a project or function
Net Income	is the mathematical difference between revenue and expense. When revenues are greater than expense, the amount represents a "surplus" or in the corporate sector, "profit". When expenses exceed revenue this is a "deficit"
Recurrent Budget	<p>Consists of regular revenues and ongoing expenses. Companies may use a recurrent budget to account for expenses that occur monthly. In the Company, two types of recurrent budget exists -</p> <ul style="list-style-type: none"> a) Major R&M. These are expenditure items that are occasional. i.e. payment of consultation services, major repairs and maintenance and payment of licences b) Recurrent budget. These are the daily expenditures in the cost centres
Revenues	Income or Funding Sources are earnings that come into an institution, organization or company from an external source. In KPLC, revenues may include electricity revenue, rent income, State appropriations, donations, grants, interest earned, etc.
Supplementary Budget	Involves either an addition or reduction to a cost center resulting in an increase or decrease in the total budget
Variance	Is a calculation of the difference between two pieces of data, such as Actuals vs. Budgets, as a means to determine how well actual spending is adhering to the approved budget plan

Zero Based Budgeting	Refers to a budgeting process that allocates funding based on program efficiency and necessity rather than budget history. As opposed to traditional budgeting, no item is automatically included in the next budget
The Board	Board of Directors of the Company
The Company	The Kenya Power and Lighting Company PLC or KPLC
GIMIS	Government Investments Management Information Systems
TNT	In full, The National Treasury & Economic Planning or short form, The National Treasury

Part C – Introduction

The Company is required to prepare and submit an annual budget to TNT each year in accordance with the Public Finance Management Act, 2012 (PFMA). The submission, analysis and approval of annual budgets is done via GIMIS an end-to-end automated platform developed by The National Treasury.

To achieve its financial objectives and strengthen its financial management framework, the Company has developed this Budget Management Policy to guide in preparing and submitting its annual budget in line with the PFMA.

Part D - Purpose

This Policy sets out the broad guidelines for the preparation, submission and management of the utilization of the annual budget through which resources are efficiently and effectively allocated to various functions, projects and initiatives.

Part E - Policy Objectives

1. To ensure that the annual budgeting process is undertaken in a timely manner in line with the relevant laws and regulations.
2. It is intended to ensure that the budget is aligned with and supports the Company's Corporate Strategy.
3. To establish the necessary controls and limits to guide the budgeting process and ensure financial sustainability.
4. To ensure that the allocation of funds is aligned with Company objectives for maximum return on investments.

Part F – Scope

This Policy governs the budgeting preparation process, monitoring of budget performance, reporting requirements as well as the review and revision of budgets.

Part G - Policy Commitments

The Company is committed to implement this Policy in order to derive the benefits

of an effective and efficient budgeting process that achieves financial sustainability and complies with applicable laws, regulations and international best practices. Towards this end, the Company shall provide all the resources required to meet the requirements of this Policy.

Part H - Policy Statements

This Policy describes and defines the budgeting process from initiation, provision of budget guidelines, collation of budget proposals, consolidation and the approval process. It also looks at the implementation of the budget; controls in place in order to avoid over-expenditures; reporting on budget utilization and the process of seeking for supplementary budgets whenever necessary.

The formulation and preparation of the Budget proposal involves the consideration of business requirements, corporate strategic objectives and financial projections. The proposed budget is then subjected to review and by the Board before submission to TNT.

The process is guided by the Budget calendar which stipulates timelines for a number of key activities to be undertaken in order to finalize the Budget and submit it for approval by the statutory timeline of each financial year. The Budget calendar is contained in the TNT circular issued in accordance with section 36 of the PFMA providing guidelines on the processes and procedures for preparing the subsequent financial year and the Medium-Term Budget.

The following Policy Statements shall guide the Budget Management Policy -

1. Budgets and Budgetary Control

- 1.1 The Company shall establish the Budget & Budgetary Control function that will be responsible for facilitating the annual budget process and for overseeing budget management throughout the year.
- 1.2 The terms of reference of the Budget & Budgetary Control function are contained in the Finance Manual and Procedures.

2. Preparation and Submission of Budget

- 2.1 The Budget is the primary instrument of fiscal control and, accordingly, contains all projected revenues and expenditures both recurrent and capital of the Company for the twelve-month period.
- 2.2 The Annual Budget shall be prepared in accordance with statutory requirements, in line with the Corporate Strategy and submitted to TNT for approval on or before prescribed statutory timeline of each financial year.
- 2.3 The consolidated Annual Budget shall be submitted to the Executive Committee for review and recommendation to the Board of Directors for approval through the Finance and Risk Committee of the Board.
- 2.4 The Board will consider and approve the Annual Budget prior to submission to TNT on or before prescribed statutory timelines of each financial year.
- 2.5 The Company shall, unless otherwise specified and justified, adopt a Zero Based Budget approach during budget preparation with a view to optimizing resources.
- 2.6 The Annual Budget shall include, but not be limited to the following: -
 - 2.6.1 Recurrent Revenue Budget
 - 2.6.2 Recurrent Budget Expenditures – Cost of sales and operational costs
 - 2.6.3 Budget for Capital Projects
 - 2.6.4 A projected cash flow statement
 - 2.6.5 Details of funding sources for the Budget

3. Commitment Control Budgets & Purchasing/Procurement

The processing of budget commitments and incurring of expenditure against the budget will be according to the Budget operating procedures and annual guidelines as revised from time to time.

4. Budget Absorption and Monitoring

- 4.1 Business absorption assesses how KPLC utilizes its budgeted funds while budget monitoring involves ongoing oversight and variance analysis to

ensure that actual financial performance aligns with the budget. These processes are essential for effective financial management and resource utilization.

- 4.2 The budget utilization status shall be presented to the Board on a quarterly basis detailing the level of absorption and explaining variances.
- 4.3 The Company shall ensure that all expenditures are within the approved budget. Any projected expenditure exceeding 15% of the approved budget shall be subject to supplementary budget approval process.
- 4.4 The approved budget shall be released periodically in line with the corporate plan and on need-basis.
- 4.5 A budget utilization report incorporating a detailed variance analysis, showing the budgeted expenses versus actual expenses and accompanying explanatory notes, shall be submitted to the Board on a quarterly basis.

5. **Budget Revision**

- 5.1 Budget revision entails change to an existing budget either through re-allocation, adjustments or Supplementary Budget.
- 5.2 All budget revisions shall be undertaken in accordance with the provisions of the PFMA and the Treasury Budget Circular for the respective budget period. Realignment of budgets within the same cost element but across cost centres shall be approved by the respective General Managers.
- 5.3 Reallocation across cost elements shall be submitted to the Executive Committee for review and recommendation to the Board for approval through the Finance & Risk Committee. All reallocations within a quarter shall be included in the quarterly budget utilization report for the Board's information and noting or ratification as the case may be.
- 5.4 There shall not be any reallocation of the capital or development budget towards recurrent utilization.
- 5.5 Requests for Supplementary Budgets shall be made in writing with accompanying supporting documents and justifications by the respective General Manager to the General Manager Finance. These shall then be reviewed, compiled and submitted to the Executive Committee for approval and thereafter to the Board for approval through the Finance & Risk Committee. All Supplementary Budgets approved by the Board shall be submitted to TNT for approval.

Part I - Risk Statement

Lack of a Budget Management Policy may result in uncontrolled spending leading to increase in costs and expenses. This Policy guides the Company in prioritization of tasks and prudent allocation of resources. It aligns KPLC's budget process to the relevant laws and regulations thereby ensuring compliance.

Part J - Responsibility for Implementation of the Policy

1. The Board of Directors

- 1.1 Approval of the consolidated Annual Budget
- 1.2 To receive quarterly reports on the status of the utilization of the Budget
- 1.3 To consider and approve Supplementary Budget
- 1.4 Provide oversight on the Policy.

2. Managing Director & Chief Executive Officer

- 2.1 The Managing Director & CEO takes the overall responsibility for the execution of the budgeting process by ensuring that KPLC prepares the Annual Budget as stipulated by the PFMA.

3. General Manager, Finance

- 3.1 Oversee the budget preparation and implementation processes to facilitate delivery of its mandate. This includes -
 - 3.1.1 Providing budget guidelines to the budget holders; consolidation; review and discussion of submissions with budget holders and ensuring alignment to the Corporate Strategy
 - 3.1.2 Reporting to the Executive Committee and the Board on the budget utilization status on a quarterly basis
 - 3.1.3 Enforce compliance with PFMA and provide technical support to budget holders.

4. Other General Managers and Managers

- 4.1 General Managers and Departmental Managers have budget responsibility for their Division and Departments. Divisions and Departments also have designated cost centres holders who support their Division in conducting financial business and overseeing the Divisional or Departmental budget.

5. Manager, Budget and Budgetary Control

- 5.1 The Manager, Budget & Budgetary Control prepares and submits the annual request in accordance with Company priorities. The Manager B&BC shall -
 - 5.1.1 Prepare the annual budget submission to the KPLC Board and support the GM Finance, Executive Committee and Board of Directors on budget matters.
 - 5.1.2 Manage resource allocation for the Company by linking Company budgets with strategic planning.
- 5.2 Develop and monitor the Company's annual budget through variance analysis and generate relevant reports.
- 5.3 Manage the financial management system used for budgeting and reporting.
- 5.4 Production of analytical data/information for management decision making.

6. Budget Holder

- 6.1 The Budget Holder is responsible for the submission of budget estimates and once approved is required to ensure that all expenses he/she incurs are within the Budget in order to forestall over spending.
- 6.2 Responsible for aligning the utilization of the budget towards the planned programs and projects as well as the overall organizational objects.

Part K - Monitoring and Evaluation

The Finance Division shall oversee implementation of the provisions of this Policy.

Part L - Triggers for Policy Review

The Policy will be reviewed under the following circumstances -

1. Legal and regulatory changes
2. Change in organization structure and policies
3. Changes in the Business Environment.

Part M - Statutory and Regulatory Compliance Requirements

In the implementation of the corporate budget process, the latest editions of the following documents shall be adhered to:

1. The Constitution of Kenya, 2010
2. Companies Act
3. State Corporations Act, 2015
4. Public Finance Management Act, 2012
5. International Financial Reporting Standards (IFRS)
6. Regulatory circulars, guidelines, directives and codes of practices.

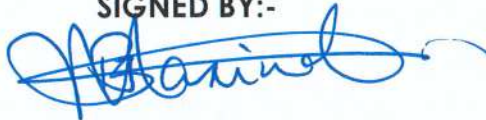
Part N - Reference Documents

1. Corporate Strategic Plan
2. Annual Budget
3. Annual Procurement Plan
4. TNT Circulars on the Annual Budget

Part O - Distribution List

All Staff of KPLC to comply with the provisions of this Policy and the PFMA.

SIGNED BY:-



JOY BRENDA MASINDE
CHAIRMAN, BOARD OF DIRECTORS

Signature Date: 24TH MAY 2024