

Telephone: 256 41 4707 000
: 256 41 4232 095
Fax : 256 41 4230 163
: 256 41 4343 023
: 256 41 4341 286
Email : finance@finance.go.ug
Website : www.finance.go.ug



Ministry of Finance, Planning &
Economic Development
Plot 2-12, Apollo Kaggwa Road
P.O. Box 8147
Kampala
Uganda

In any correspondence on
this subject please quote: No. BPD\86/153/01

22nd June 2015

All Local Government Accounting Officers

CIRCULAR ON THE CONSOLIDATION OF FISCAL TRANSFERS AND THE FINALISATION OF PERFORMANCE CONTRACTS FOR FY 2015/16.

A. INTRODUCTION

1. Refer to the second Budget Call Circular ref BPD 86/107/05 dated 20th March 2015 where you were informed of government intension to consolidate fiscal transfers to Local Governments with an aim of reducing their number, cutting down the associated transaction costs and improving their manageability. This circular and accompanying guidelines therefore, elaborate the interim consolidation for 2015/16.
2. The consolidation of fiscal transfers forms part of a broader reform to fiscal transfers whose objectives are to:
 - i). increase discretion to enable LGs deliver services in line with local needs whilst ensuring that national policies are implemented;
 - ii). allow new national policies to be funded through the transfer system, at the same time avoiding future fragmentation of transfers and reduction in discretion;
 - iii). shift the focus away from fragmented input-based conditions towards accountability for allocation decisions, expenditures and results;
 - iv). use the transfer system to provide incentives to improve institutional and service delivery performance; and
 - v). restore adequacy and equity in allocation of funds for infrastructure and service delivery.
3. In line with these objectives, my ministry is working collaboratively with central and local government stakeholders to develop proposals for 2016/17 and beyond. This will involve further redesign of discretionary and sector transfers and revision of their allocation formulae and principles. Over the coming months, my ministry will be holding consultations with local governments on these proposals.

Mission

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"

B. CONSOLIDATION OF GRANTS FOR FY 2015/16 AND ALLOCATIONS

4. In FY 2015/16, the allocation and conditionality associated with existing grants will be maintained and presented as 'of which' within the consolidated framework.
5. **Under the Recurrent Transfers System (RTS)** the conditional grants will be consolidated as follows:
 - i). **Wage:** one wage for each of the six service delivery sectors - Health, Education, Agriculture, Works and Transport, Water and Environment, and Social Development;
 - ii). **Non-wage:** one Non- wage for each of the six service delivery sectors - Health, Education, Agriculture, Works and Transport, Water and Environment, and Social Development;
 - iii). **A Support Services conditional grant** will consolidate non-wage grants for Boards and Commissions, the IFMIS, IPPS, PAF Monitoring, Start Up Costs, LLG ex-gratia and Hard to Reach Allowances; and
 - iv). **The Unconditional grant** will consolidate transfers to Transfers to DSC Chairs Salaries and Salary and Gratuity for LG Elected Leaders
6. **Under the Development Transfer System (DTS),** the conditional grants will be consolidated as follows:
 - i). There will be one conditional development grant per sector with development funding (Agriculture, Works and Transport, Education, Health, Water and Environment); and
 - ii). The **discretionary development grants (LGMSD and USMID)** will remain unchanged. An additional grant for the Luwero and Rwenzori Development grant has also been introduced.
7. The Chart of Accounts will be adjusted with the changes to the revenue codes in the central government budget and the revenue budget for Local Government. Previously each grant had its own code. Now each sector grant will be identified by a combination of the grant item code and the sector code as follows:

GRANT NAME	LG Revenue Budget	CG Budget (Asset)
Recurrent grant codes		
Sector Conditional Grant Wage	133366	321466
Sector Conditional Grant Non-Wage	133367	321467
Support Services Conditional Grant Wage	133368	321468
Support Services Conditional Grant Non-Wage	133369	321469

24

GRANT NAME	LG Revenue Budget	CG Budget (Asset)
District Unconditional Grant Wage	133351	321451
District Unconditional Grant Non-Wage	133301	321401
District Equalization Grant Non-Wage	133303	321403
Urban Unconditional Grant Wage	133350	321450
Urban Unconditional Non-Wage	133302	321402
Urban Equalization Grant Non-Wage	133363	321463
Development grant codes		
Sector Development Grant	133370	321470
LGMSD	133326	321426
Municipal Infrastructure Grant (USMID)	133365	321465
Luwero & Rwenzori Dev't Programme (LRDP)	133371	321471

8. The approved allocations for fiscal transfers to local governments are attached to this circular. They are presented in line with the above framework.
9. Also attached are a set of Sector Grant Information Papers which provide a highlight of the roles of LGs under the Sector, The purpose of Sector transfers, grant specific guidance and the expenditure budget structure and performance indicators.

C. ADJUSTMENTS TO BUDGETS AND FINALISATION OF PERFORMANCE CONTRACTS

10. Following the approval of the national budget and the interim consolidation of fiscal transfers, there are three important sets of changes that must be made in Local Government budget:
 - i). The revenue budget of local governments must be adjusted to reflect the new consolidated framework for conditional grants;
 - ii). The Performance Contract has been summarized and compressed to focus on key local government results (*refer to a letter BPD 86/107/02 dated 19th June 2015 on Modification of Template for Performance Contracts*); and
 - iii). Any changes made to the grant allocations in budget approved by Parliament need to be reflected. This include allocations for the new discretionary development allocation for the Luwero Rwenzori Development Program (LRDP), which was not included in the 2015/16 Interim Planning Figures (IPFs).
11. Budget changes will need to appear in the Performance Contract (Form B) of the Chief Administrative Officer, and in the Local Government Budget Estimates and Annual Work Plans that support it. If the Local Government Budget has already

Mission

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"

been passed by the Council, a supplementary budget should be introduced effecting these changes.

12. Alongside this circular an update of the OBT and encrypted file containing the adjusted ceilings will be availed to you to facilitate this revision process. This will automatically adjust the revenue budgets to the consolidated framework.

D. CONCLUSION

13. The purpose of this circular is:

- i). To inform Local Governments the progress of reforms to fiscal transfers and provide details of their interim consolidation in 2015/16;
- ii). To communicate the IPFs for fiscal transfers following the approval of the Budget for FY 2015/16; and
- iii). To request local governments to adjust their budgets and finalize their performance contracts using the Output Budgeting Tool (OBT), in light of the provision of the interim consolidation and their final allocations for 2015/16; and

14. Accompanying this circular are guidelines for the finalization of performance contracts and budget execution in the context of these reforms.

15. You are requested to submit your **signed Performance Contract (Form B)** for 2015/16 no later than the 30th June 2015.


Keith Muhakanizi

PERMANENT SECRETARY/SECRETARY TO THE TREASURY

- cc: Head of Public Service and Secretary to Cabinet.
Deputy Head of Public Service and Deputy Secretary to Cabinet.
Secretary, Local Government Finance Commission.
The Permanent Secretary, Office of the Prime Minister.
The Permanent Secretary, Ministry of Education and Sports.
The Permanent Secretary, Min. of Gender, Labour and Social Development.
The Permanent Secretary, Ministry of Health.
The Permanent Secretary, Ministry of Agriculture, Animal Industry of Fisheries.
The Permanent Secretary, Ministry of Water and Environment.
The Permanent Secretary, Ministry of Works and Transport.

The Permanent Secretary, Ministry of Public Service.

The Permanent Secretary, Ministry of Lands, Housing and Urban Development.

The Ag. Permanent Secretary, Ministry of Local Government.

The Executive Director, National Agricultural Advisory Services.

The Executive Director, Uganda Road Fund.

The General Manager, National Medical Stores.



74

Mission

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"