**NOTE ON SUPPORTING GUIDANCE FOR 2016/17 INDICATIVE PLANNING FIGURES AND REFORM TO FISCAL TRANFERS**

1. This note is to provide an overview of supporting guidance to the preparation of Budget Framework Papers.

**Background**

1. As mentioned in the Budget Call Circular, the Government is in the process of reforming fiscal transfers. The main changes for 2016/17 include:

* The consolidation of discretionary as well as sectoral grants to local government to provide greater discretion to local governments to budget in line with their priorities.
* Revisions to the allocation formulae for grants to increase the equity of allocations to local governments.
* Establishment of budget requirements to ensure that sector policy priorities are implemented, whilst providing discretion to LGs to deliver services in line with local needs and priorities.

1. Wide consultations have been taking place on the proposed reforms with local governments via the LGBFP workshops; with sector ministries; and crosscutting agencies. The proposed changes were discussed at the negotiations between central and local government on conditional grants hosted by the Local Government Finance Commission.
2. It is important to note that the status of the budget requirements, revised allocation formulae and associated Indicative Planning Figures (IPFs) remain in draft form, and may be subject to change. Feedback on the reforms are encouraged.

**Structure of Consolidated Conditional Grants**

1. Following the interim grant consolidation of conditional transfers in 2015/16, further consolidation of transfers will take place for 2016/17. In summary transfers for 2016/17 will be as follows:

* There will be **a maximum of one wage, one non-wage and one development conditional grant per sector**.
* **Each local government will receive a single allocation from the unified Discretionary Development Equalisation Grant**. The Discretionary Development Equalisation Grant combines various discretionary transfers (PRDP, LRDP, Equalisation Grant, LGMSD and USMID).
* In addition there are limited number of ad-hoc allocations under the **Support Services and Transitional Grants**.

1. Each sector grant may have separate windows for allocations to major programmes. The DDEG and Unconditional Grant will involve separate windows for lower local governments.
2. As mentioned earlier, it is important to note that these formulae remain in draft form. The variables, weightings and data on which the IPFs are calculated will go through a process of further discussion and validation.

**Allocation Formulae**

1. The new IPFs are based on new allocation formulae developed with a view to improving the equity in resource allocation. These allocations are based on objective criteria which balance factors such as cost, need and demand for services.
2. Inevitably some local governments will receive additional resources and some will receive fewer resources as a result of the new formulae. In order to reduce the negative impact of changes on local governments:

* Wage allocations will not be cut directly as a result of the formula, which would necessitate retrenchment. Instead, LGs with Wage allocations higher than would be the case under the formula must not recruit new staff. Any savings as a result of staff leaving the service will be transferred to local governments below formula levels.
* Non-Wage Recurrent and Development Grants formulae will be phased in gradually beginning FY 2016/17. Allocations will be a combination of 2015/16 allocations and the new formula, with the share of the new formula increasing over time.
* The ministry intends to identify fiscal space to increase total allocations to local government grants to reduce the impact on local governments receiving a smaller share of overall allocations over the medium term.

1. To enable the transparent administration of formulae, the Ministry has developed the Online Transfer Information System (OTIMS) which is hosted on the budget website. Visit [www.budget.go.ug/fiscal\_transfers](http://www.budget.go.ug/fiscal_transfers) to view allocation formulae and download your BCC allocations.

**Sector Budget Requirements**

1. When preparing sector workplan budgets, it is important that Local Governments adhere to sector budget requirements, which have been established to guide local governments in preparation of budgets. These will include

* Principles for allocations to service delivery units within a local governments.
* Criteria for Local Government Investments

1. It is important to note that budget requirements apply to all revenues and expenditures within a sector, whether funded from Sector Development Grants, the DDEG or any other grant or revenue source.
2. Your LGBFP must adhere to all budget requirements, and your adherence will be assessed by sector ministries.

**New Local Governments**

1. The new IPFs include allocations to the newly created districts and municipalities. The data on which these allocations are likely to be subject to change.
2. The basis for allocations are as follows:

* 2015/16 allocations, which form the base allocation for the phase in of the formulae have been disaggregated in proportion to the population of the old and new local governments.
* Variables used in the allocation formulae have either been disaggregated in a similar way, or where appropriate the value of the historical parent. In a limited number of cases it has been possible to disaggregate based on lower local government data.

**Supporting Materials**

1. The following materials have been prepared to facilitate you in your BFP and budget preparation process and are available on <http://budget.go.ug/budget/guidance-laws-and-regulations>:

* **A Table of IPFs** in the new consolidated structure of grants.
* **Supporting Schedule to the IPFs, with** 
  + **lists of LGs with wage allocations above formula level** who should not budget for the recruitement of additional staff; and
  + a**llocations to Lower Local Governments** under the Unconditional Grant and the DDEG;
* **Draft Grant and Budget information Papers** which set the purpose and structure of grants in a sector; the allocation formulae and budget requirements. Sector ministries may update thse papers during the course of the budget process.
* **Budgeting Guidelines and Presentations** to facilitate the preparation of BFPs and Local Government Budgets ; and
* **Guidelines for Use of OTIMS** to enable local governments to view their allocations online.