00 Unconditional, Public Sector Management and Accountability

# 2018/19 Sector Grant and Budget Guidelines

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## Introduction

These guidelines are issued by the Local Government Finance Commission to local governments to provide information about the unconditional grant to guide the preparation of local government budget estimates for the public sector management and accountability sectors. They give details of (i) the national policies for the sector, (ii) the role and mandate of local governments in the sectors, (iii) an overview of central government grants to local governments, (iv) an explanation of how these are allocated to each local government, and (v) requirements that local governments must follow when preparing the budget.

## National Development Plan and Policy Priorities

This section sets out the Policy Priorities, Roles, Responsibilities and Mandates of Local Governments for LG councils, Administration, Human Resources and Financial Management. It also sets out the purpose and structure of the Unconditional grant and allocation formulae.

There are several NDP priorities which relate to Local Governments in these areas:

* Strengthen Public Financial Management, through the introduction of the IFMS, Performance Based Budgeting and the Reform of Fiscal Transfers.
* Increase taxation.
* Improve statistical data production.
* Increase public demand for accountability and strengthen compliance with accountability rules.
* Enhance public contract management and performance.
* Improve citizen participation and contribution in promoting rule of law, transparency and accountability in the provision of services to achieve equitable and sustainable development.
* Improve the National M&E systems for increased service delivery, efficiency, and effectiveness.
* Improve coordination, and harmonization of policy, planning, budgeting, and M&E at National and Local Government levels.
* Improve democracy and governance for increased stability and development.
* Improve public service management, operational structures and systems for effective and efficient service delivery.
* Enhancing the performance of the public sector and strengthening service delivery.
* The Decentralisation of the Payroll, the Human Resources Function through the IPPS.

## Roles, responsibilities and mandate of Local Governments

The departments of Administration, Finance, Internal Audit, the Planning Unit and statutory Bodies are responsible for political and technical oversight and coordination of the Local Government in these areas. Their Vote Functions and associated mandates are set out below:

| Vote Function | Associated LG Mandate |
| --- | --- |
| District and Urban Administration  | * Coordination of LG activities, monitoring, organisation
* Human resource management, IPPS, coordination of capacity development
* Records management, public relations
 |
| Financial management & Accountability | * Revenue mobilisation, budgeting, financial management and accountability
 |
| Local Statutory Bodies | * Council, DEC/MEC, Standing Committees: policy formulation and direction, approval of plans and budgets, monitoring of administration,
* PAC: accountability and oversight of administration revenues and expenditures
* DSC: staff recruitment, discipline, promotion.
* Land Board: processing land rights / land administration issues
* Contracts Committees: procurement and disposal of goods and services
 |
| Local Government Planning Services | * Coordination of Planning Function, Data Management (MIS, surveys etc.), Reporting, M&E.
 |
| Internal Audit | * Oversight of PFM / management of Internal Controls, Reporting and Recommendations to Council.
 |

## Overall Structure and Purpose of Grants

The Unconditional Grant is the **minimum amount of money required by Local Governments** to **deliver Decentralised Services.**

|  |  |
| --- | --- |
| Grant | Purpose |
| **District Unconditional Grant** |  |
| Wage | To fund the salaries of staff paid from the traditional Local Government payroll (i.e. all staff except teachers, health workers, extension workers) in the higher Local Government and rural areas |
| Non Wage | *o/w District* | To fund both the recurrent and development costs of decentralised services alongside locally raised revenues in the districts and sub-counties  |
| *o/w Sub-county* |
|  | *o/w IFMS* |
|  | *o/w IPPS* |
|  | *o/w Payroll Printing* |
|  | *o/w Boards & Commissions* |
|  | *o/w Councillors Allowances & Ex-Gratia* |
| **Urban Unconditional Grant** |  |
| Wage | *o/w Municipality* | To fund the salaries of staff paid from the traditional local government payroll (i.e. all staff except teachers, health workers, extension workers) in urban areas |
| *o/w Town Council* |
| Non Wage | *o/w Municipality* | To fund both the recurrent and development costs decentralised services alongside locally raised revenues in urban areas |
| *o/w Town Council* |
|  | *o/w IFMS* |
|  | *o/w IPPS* |
|  | *o/w Payroll Printing* |
|  | *o/w Boards & Commissions* |
|  | *o/w Councillors & Ex-Gratia* |
| **Support Services** |  |
| o/w Pension | To provide for pension and gratuity payments and arrears for former Local Government employees |
| o/w Gratuity |
| o/w Pension and Gratuity Arrears |
| o/w Salary Arrears |
| o/w Urban Ad Hoc | Ad hoc allocation to local governments for administrative activities. |
| o/w Rural Ad Hoc |

It is important to note that the following grant allocations have been folded into the Unconditional Grants:

|  |  |
| --- | --- |
| * Wage Unconditional Grant
	+ Conditional transfers to DSC Chairs' Salaries
	+ Salary & Gratuity for LG elected leaders
	+ Hard to reach allowances
 | * Non-Wage Unconditional Grant
	+ IPPS Recurrent Costs
	+ Boards & commissions
	+ PAF monitoring (Normal and payroll printing)
	+ DSC Operational Costs
	+ Councillors Allowances and LLGs Ex-Gratia
 |

## Grant Allocation Formula

The formula used to allocate the UCG is described in the table below.

**Formula for Un-condition Grant Wage Allocation**

The formula for UCG wage is in the process of being developed. The current IPFs are based on the existing wage bill from MoPS plus approved recruitment by the Ministry of Public service.

**Formula for Unconditional Grant Non- Wage Recurrent**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variable** | **District** | **Sub-county** | **Municipal** | **Town Council** | **Justification** |
| Constant | 45 | 30 | 28 | 30 | To ensure the basic costs of delivering administrative services in a local government can be met, whatever its size. |
| Number of sub-counties/Number of town councils | 10 |  | 10 |  |
| Population (Rural/Urban) | 40 | 70 | 60 | 70 | Reflects the scale of beneficiaries for service delivery in local governments. |
| Land Area (Hectares) | 2 |  |  |  | To cater for the varying costs of delivering services in a local government, which are influenced by their geographical size and terrain and distance from Kampala.  |
| Population in Hard to reach and to stay areas | 2 |  |  |  |
| Distance from Kampala | 1 |  | 2 |  |

Allocations under the **support services grant** would remain ad hoc, and not formula based. The support services grant is current comprised of:

|  |  |
| --- | --- |
| **Item** | **Allocation Basis** |
| o/w Pension | Ad hoc, based on need |
| o/w Gratuity |
| o/w Pension & Gratuity Arrears |
| o/w Salary Arrears |
| o/w Urban Ad Hoc |
| o/w Rural Ad Hoc |

The above formulae will be phased in over the medium term. This formula itself and the **medium term allocations and phase in plan** for the allocation formulae is available on the budget website: [www.budget.go.ug/fiscal\_transfers](http://www.budget.go.ug/fiscal_transfers). An individual local government’s allocation formula can also be found on the site.

## Overview of Sector Budgeting Principles and Requirements

In order for the LG Performance Contract to be approved, Local Governments are required to adhere to a number of specific requirements relating to the relevant sector budgets. These are specified in the following sections, and are summarised in the table below for the Administration, Finance, Planning, Internal Audit and Statutory Bodies.

Standard minimum costs for different functions are currently being developed by the National Planning Authority.

| **Area** | **Summary of Requirements** |
| --- | --- |
| **Budget Requirements** |
| Narrative and performance contract | * The budget narrative summarises information on revenue, expenditure and key outputs in the performance contract.
 |
| Overview of Revenues and Expenditure | * Total Workplan revenues and expenditures balance and are divided correctly between wage, non-wage recurrent, GoU and donor development.
 |
| Salaries and related costs | * Salaries of permanent staff must not exceed the overall staff and budget ceilings.
* Salaries must be funded from the unconditional wage grant.
 |
| * Salary allocations to administrative departments must be according to the filled posts within the approved structure, recruitment plan and salary scales.
 |
| * The hard-to-reach allowance equivalent to 30% of a member of staff’s salary must be provided for staff in the hard-to-reach areas **outside town councils and HLG headquarters,** in line with the Hard-to-Reach Framework and schedule designated by the Ministry of Public Service.
 |
| * Salaries, allowances and gratuity for elected leaders and members of statutory bodies must be budgeted for in full.
 |
| * Pension and gratuity (computed pension) for retired staff must be budgeted for in line with support services allocations.
 |
| Lower Local Services | * The Unconditional Non-Wage Recurrent Grant must be allocated to Lower Local Governments using the schedule that accompanies the IPFs for districts and municipalities.
 |
| Higher Local Services | * All allocations including pensions, allowances and gratuity, allocations for statutory functions should follow IPFs
 |
| Monitoring and Management of Service Delivery | * A maximum of 5%of the non-wage recurrent budget can be used for monitoring and management of service delivery under the Administration Workplan.
 |
| Capacity Development | * Capacity building activities should be consistent with the positive and negative lists, below.
 |
| Development Investments | * The development budget should fund administrative capital investments only.
 |
| * At most, 10% of budget allocations to construction and rehabilitation will finance investment service costs, such as bills of quantities or economic impact assessments.
 |
| * Local governments must not budget for activities specified in the negative list for capital investment, below.
 |

The table below provides information on indicative items for **capital investments and other development activities** which may or may not be funded under the sector development budget from central government grants:

| **Positive list (what may be funded)** | **Negative list (what may not be funded)** |
| --- | --- |
| * Rehabilitation/construction of (and purchase or titling of land for)
	+ Administration blocks
	+ Community centres
	+ Staff houses at sub-county headquarters in hard to stay areas
* Equipment for administrative offices
	+ Computers and peripherals, office furniture & fittings
	+ Solar systems, generators, extension of grid power to administrative offices
* Purchase of vehicles for entitled officers (MoLG authorisation required)
 | * Purchase of vehicles for officers who are not entitled
* Purchase of military equipment.
* Non capital items.
 |

The table below provides an indicative list of **capacity development activities** which may or may not be funded under the sector development budget from central government grants:

| **Positive list (what may be funded)** | **Negative list (what may not be funded)** |
| --- | --- |
| * Short training courses
	+ based on established curricula
* Career development for areas that are a requirement for confirmation or promotion (max 20%)
	+ Professional qualifications (e.g. accounting, procurement)
	+ Masters via correspondence or local courses
 | * Undergraduate qualifications (degrees, diplomas etc)
* Post-graduate qualifications
* PhD’s
 |

## Additional Sector Guidance

**7.1 Introduction**

The main issues affecting local government financing were elaborated in the LG financing study of 2012. Therefore LGFC in consultation with Ministry of Finance, Planning and Economic Development and other stakeholders prioritised to have the following out of the key recommendations to be implemented. They include the following:

* Review of the Grants Allocation Formulae - the majority of formulae have already been implemented;
* Designing a Fiscal Decentralisation Architecture (FDA) and determining LG share (grants transfers) out of the national budget - a draft report has already been prepared;
* Improving the Sector conditional grants negotiation to make it effective;
* Establishing and Rolling out of the local revenue database for local revenue enhancement in LGs;
* Review of the some of the relevant legislation on local revenue management.
	1. **Negotiations on Sector Conditional Grants**

Negotiations between local governments and Government (sector ministries) on the operations of sector conditional grants are mandated under article 193(3) of the Constitution of the Republic of Uganda. It states as follows; *“Conditional grants shall consist of moneys given to local governments to finance programmes agreed upon between the government and the local governments and shall be expended for purposes for which it was made in accordance with the conditions agreed upon’’*.

In the Study on Financing LGs, it was recommended that the timing of the negotiations be changed from April to much earlier in the budget process to enable the outcome feed into the budget formulation process. Therefore, since 2013/14 negotiations on Conditional grants funded program have been held in the first quarter of the financial year. The negotiations for FY 2018/19 took place in August 2017.

Additionally, the Commission has noted a number of critical factors affecting the effectiveness of the process and therefore a technical team has been established to evaluate the negotiations system and provide advice on the way forward.

**7.3 Unconditional Grant under the revised allocation formulae**

Under the revised allocation formulae, formulae for Unconditional grant has undergone some changes. Creation of new LGs has grossly affected the constant for Unconditional Grant which now has to be shared among more LGs and every LG has therefore experienced a **“loss”.**

It has been noted that some LGs have been grossly affected and as a result, some **‘loser’** LGs have actually found themselves with very insufficient funds to maintain their basic operations. These shall be stabilised in FY 2018/19 subject to availability of more resources.

**7.4 Establishing and Rolling-out of the Local Revenue Database**

From the series of studies that have been undertaken by the Commission and several other organizations and research institutions regarding local revenue enhancement in LGs, one of the main challenges hindering local revenues in the local governments is lack of credible and sufficient data on the current local revenue sources. For example, the lack of data on the employees in the private sector that has made assessing private sector employees for local service tax difficult, insufficient data on all type of businesses; lack of data on some economic operations that could attract royalties. As a result, unrealistic reserve prices are normally set by the technical teams to guide the tendering process, resulting into revenue losses to the LGs.

Currently the performance of local revenue is so too low to contribute reasonably to meet the requirement for service delivery in local governments. The Commission has therefore been supporting local governments to establish computerised local revenue registers that could enable collection of nearly all the estimated local revenues.

**Objectives of establishing local revenue database**

The overall objective of establishing local revenue database is to improve the performance of local revenues in the local governments.

**Status:** The LGFC with support from FINMAPIII has supported a total of 93 districts and these are: 18[[1]](#footnote-2) districts in FY 2014/15, 25[[2]](#footnote-3) districts in FY 2015/16; and another 50[[3]](#footnote-4) more districts in FY 2016/17. It is now targeting to support another 48 Local Governments in FY 2017/18. With support from Uganda Support to Municipal Infrastructure Development Programme (USMID) the Commission has supported the 14[[4]](#footnote-5) Municipalities to increase their collections – since FY2013/14 to date.

As a result all the LGs supported have significantly increased their local revenue collections.

* Local revenue has expanded for many LGs for example, between FY2012/13 and FY2015/16 for example, Jinja DC improved collections from **UGX 597m** to **UGX 1.0bn** while Ntungamo DC improved from **UGX 289m** to **UGX 685m;** Mbarara MC has improved from **UGX 3.6bn to UGX 5.1bn;** Arua MC from **UGX 2.1bn to UGX 3.1bn;** Gulu MC from **UGX 1.96bn** to **UGX 3.87bn**; Busia MC from **UGX** **1.76bn** to **UGX** **2.75bn**; Jinja MC from **UGX 3.5 bn to 15.02 bn;** Buikwe DC from **UGX 790m to UGX 2.63bn;** Nakaseke DC from **UGX 1.0bn to UGX 1.4bn** and Kayunga DC from **UGX 560m** to **UGX 732m**, just to mention few.

**Benefits of Local Revenue Databases**

1. The data files for the local revenue sources are now more orderly.
2. Currently there is more pressure on elected staff and appointed staff to provide services.
3. There is reasonable taxpayer data on which to base when making budget estimates. The estimates on revenue are now more credible and this makes it better for planning purposes.
4. The local government staff have acquired some basic skills to administer and manage local revenue collection
5. More taxpayers are now paying taxes/non taxes willingly after being sensitized during data collection
6. The increased local revenue has improved the level of service delivery in the local governments
7. The local governments can monitor the collection of local revenue with established databases

**Challenges**

1. Some of the LGs which have been supported have not given the activity the attention it deserves; so they need to strategically provide support to the LLGs (in terms of operational funds to collect and update data, assess etc) and supervision follow-up.
2. Many of these LGs that are receiving the support do not have appropriate equipment like computers and printers, yet they are very necessary and therefore should be included in the budgets for revenue enhancement. We are calling upon the technical and political leaders of Local Governments to ensure they include the above items in their budgets.

**Recommendation: The LG Councils have to support the LLGs to effectively handle the above mentioned tasks.**

**7.5 Review of legislation for local revenues**

Legal issues have been identified as a major challenge that inhibits the effective management of local revenues. A number of weak legal provisions have been identified that require reviews and amendments to strengthen the legal regime that strongly supports local revenue management in local governments have been proposed.

The key ones include those on Local Service Tax, Local Government Hotel Tax, Property Rates, Trading licenses, Market dues, Royalties, Agency fees, Fish licenses and Departmental fees.

These provisions were identified and discussed in the Local Revenue Enhancement Committee (LRECC) meetings. The draft bills have been finalized and are due for submission for consideration in Cabinet.

The Objective of these review proposals is to improve the local revenue performance from the FY 2014/15 collection of **UGX 177 billion to over UGX 680 billion** estimated potential.

## Outputs and Indicators

**Sector: 13 Public Sector Management**

***Vote Function: 1381 District and Urban Administration***

Output: 138101 Operation of the Administration Department

Output: 138102 Human Resource Management

Output: 138103 Capacity Building for HLG

Indicator: Availability and implementation of LG capacity building policy and plan

Indicator: No. (and type) of capacity building sessions undertaken

Output: 138104 Supervision of Sub County programme implementation

Indicator: %age of LG establish posts filled

Output: 138105 Public Information Dissemination

Output: 138106 Office Support services

Output: 138107 Registration of Births, Deaths and Marriages

Output: 138108 Assets and Facilities Management

Indicator: No. of monitoring visits conducted

Indicator: No. of monitoring reports generated

Output: 138109 Payroll and Human Resource Management Systems

Output: 138111 Records Management

Output: 138112 Information collection and management

Output: 138113 Procurement Services

Output: 138159 Multi sectoral Transfers to Lower Local Governments

Output: 138151 Lower Local Government Administration

Output: 13815y Town/Division Administration

Output: 138172 Administrative Capital Investment

***Vote Function: 1382 Local Statutory Bodies***

Output: 138201 LG Council Adminstration services

Output: 138202 LG procurement management services

Output: 138203 LG staff recruitment services

Output: 138204 LG Land management services

Indicator: No. of Land board meetings

Indicator: No. of land applications (registration, renewal, lease extensions) cleared

Output: 138205 LG Financial Accountability

Indicator: No.of Auditor Generals queries reviewed per LG

Indicator: No. of LG PAC reports discussed by Council

Output: 138206 LG Political and executive oversight

Output: 138207 Standing Committees Services

Output: 138259 Multi sectoral Transfers to Lower Local Governments

Output: 138272 Administrative Capital Investment

***Vote Function: 1383 Local Government Planning Services***

Output: 138301 Management of the District Planning Office

Output: 138302 District Planning

Indicator: No of qualified staff in the Unit

Indicator: No of Minutes of TPC meetings

Indicator: No of minutes of Council meetings with relevant resolutions

Output: 138303 Statistical data collection

Output: 138304 Demographic data collection

Output: 138305 Project Formulation

Output: 138306 Development Planning

Output: 138307 Management Information Systems

Output: 138308 Operational Planning

Output: 138309 Monitoring and Evaluation of Sector plans

Output: 138359 Multi sectoral Transfers to Lower Local Governments

**Sector: 14 Accountability**

***Vote Function: 1481 Financial Management and Accountability(LG)***

Output: 148101 LG Financial Management services

Indicator: Date for submitting the Annual Performance Report

Output: 148102 Revenue Management and Collection Services

Indicator: Value of LG service tax collection

Indicator: Value of Hotel Tax Collected

Indicator: Value of Other Local Revenue Collections

Output: 148103 Budgeting and Planning Services

Indicator: Date of Approval of the Annual Workplan to the Council

Indicator: Date for presenting draft Budget and Annual workplan to the Council

Output: 148104 LG Expenditure mangement Services

Output: 148105 LG Accounting Services

Indicator: Date for submitting annual LG final accounts to Auditor General

Output: 148106 Integrated Financial Management System

Output: 148107 Sector Capacity Development

Output: 148108 Sector Management and Monitoring

Output: 148159 Multi sectoral Transfers to Lower Local Governments

Output: 148172 Administrative Capital Investment

***Vote Function: 1482 Internal Audit Services***

Output: 148201 Management of Internal Audit Office

Output: 148202 Internal Audit

Indicator: Date of submitting Quarterly Internal Audit Reports

Indicator: No. of Internal Department Audits

Output: 148203 Sector Capacity Development

Output: 148204 Sector Management and Monitoring

Output: 148259 Multi sectoral Transfers to Lower Local Governments

Output: 148272 Administrative Capital Investment

1. the 18 district LGs supported in FY2014/15 were Arua, Nebbi, Gulu, Lira, Kapchorwa, Soroti, Kumi, Jinja, Mbale, Tororo, Mukono, Masaka, Kabarole, Kasese, Mbarara, Rukungiri, Bushenyi and Kabale. [↑](#footnote-ref-2)
2. the 25 district LGs supported in FY2015/16 were Iganga, Busia, Kamuli, Kaberamaido, Bukedea, Moroto, Napak, Kitgum Ngora, Amolatar, Dokolo, Apac, Luwero, Kayunga, Wakiso, Mubende, Mityana, Buikwe, Kiboga, Nakasongora, Hoima, Masindi, Kisoro, Ntungamo and Nakaseke. [↑](#footnote-ref-3)
3. As for FY 2016/17, fifty (50) selected district local governments:

Kiruhura, Ibanda, Mitooma, Rubirizi, Isingiro, Kamwenge, Kyenjojo, Sheema, Sembabule, Kibuku, Mpigi, Rakai, Kalungu, Lyantonde, Lwengo, Butambala, Pallisa, Bugiri, Mayuge, Sironko, Serere, Amuria, Manafwa, Nwoya, Alebtong, Otuke, Yumbe, Adjumani, Moyo, Zombo, Kanungu, Rubanda, Bundibugyo, Kyegegwa, Kibaale, Bukomansimbi, Kalangala, Buyende, Kiryandongo, Katakwi, Namayingo, Kaliro, Budaka, Buduuda, Bulambuli, Agago, Lamwo, Oyam, Koboko and Amuru. [↑](#footnote-ref-4)
4. Under USMID, the 14 MCs getting support are Kabale, Mbarara, Masaka, F/Portal, Hoima, Entebbe, Jinja, Mbale, Tororo, Soroti, Moroto, Arua, Lira and Gulu. [↑](#footnote-ref-5)