**BUDGET PREPARATION GUIDELINES**

For Local Governments

FY 2016/17

October, 2015

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Abbreviations

|  |  |
| --- | --- |
| HLG | Higher Local Government (Districts and Municipalities) |
| LLG | Lower Local Government (Town Councils and Sub-Counties) |
| PBT | Performance Budget Tool (replacing OBT) |
| DDEG | Discretionary Development Equalisation Grant |
| LG | Local government |
| BFP | Budget framework paper |
| DP | Development plan |
| IPF | Interim planning figure |
| FPF | Final planning figure |

# Overview

## Using the Guidelines

These guidelines summarise the key activities for local governments preparing budgets for FY 2016/17 in the context of ongoing reforms to intergovernmental transfers and the implementation of the new Public Finance Management Act (PFMA 2015) which requires budget preparation to begin earlier than in previous years.

* Part 1 provides a **calendar for budget preparation**
* Part 2 gives an **overview of the reformed framework** of inter-governmental transfers and local government budgeting.
* Part 3 outlines the **key stages of budget preparation,** including the Budget Framework Paper, Budget Estimates, Work Plan and Performance Contract.
* Part 4 gives details on **managing the budget process** for both recurrent and development budgets, including the key stages of consultation and engaging Lower Local Governments.
* Part 5 gives step-by-step guidance for the preparation of **department workplans**, including issues such as budgeting for salaries, lower local government activities and capital investments.

## Calendar for Budget Preparation

The indicative budget calendar is shown below. Bold lines indicate critical dates. Italics show national level processes. Plain text represent intermediate local government budget deadlines.

The calendar is aligned with the sequencing of events in the context of the PFMA (2015). The local government budget estimates should be approved by the local council on the 31st May, well before the start of the financial year on 1st July. As a result, vote on account by the Council is not required.

1. Local government budget calendar

|  | **Activity** | **Date** |
| --- | --- | --- |
| 1 | Regional Consultative Budget Workshops with local governments, discussing   * Draft Grant and Budget Requirements and * LG Planning and Budgeting Guidelines | 20 Aug |
| *2* | *Local Government negotiations with sectors to agree grant conditions and allocation formulae.* | *10 Sep* |
| *3* | *MOFPED issues the first Budget Call Circular, accompanied by the:*   * *IPFs to local governments;* * *Final Grant and Budget Requirements communicated to LGs.* | *30 Sep* |
| 4 | Budget Desk prepares the first Local Government Budget Call Circular and shares with HoDs and LLGs. This includes:   * Allocations to LLGs * Allocations to Departments | 5 Oct |
| 5 | Departments and LLGs prepare inputs for the LG BFP and draft LG DPs and submit to Budget Desk, including   * Identification of Investments for inclusion in LG Budget * Preliminary Budget estimates and Annual Workplans | 20 Oct |
| 6 | LG Planning and Budget Conference to discuss   * LLG and Department Annual Workplans for the forthcoming budget * Identification of Investments for inclusion in LG DPs | 31 Oct |
| 7 | Budget Desk Compiles LG BFP and LG DPs | 5 Nov |
| 8 | Review of the draft LG BFP and LG DPs by the Technical Planning Committee and the LG Executive Committee | 10 Nov |
| **9** | **Approval by LG Executive Committee and Submission of the LG BFP to the MoFPED and Council** | **15 Nov** |
| 10 | National Consultative Budget Conference | 30 Nov |
| 11 | Discussion of the draft BFP by the Standing Committees of Council | 31 Dec |
| *12* | *National BFP to Parliament Incorporating*   * *Grant allocations in the MTEF* * *Grant allocation formulae and Information* | *31 Dec* |
| *13* | *Review of LGBFPs by central government to assess compliance with overall and sector budget requirements.* | *1 Feb* |
| *14* | *National BFP Approved by Parliament*   * *NB: Approval involves commitment that allocation formulae and grant allocations will not be changed/reduced in nominal terms in the final budget* | *1 Feb* |
| *15* | *MoFPED Issues the Second Budget Call Circular, incorporating*   * *final IPFs,* * *feedback on compliance with budget requirements.* | *20 Feb* |
| 16 | Budget Desk prepares Second LG Budget Call Circular   * Revised IPFs for Departments and LLGs * Instructions to address feedback on compliance with budget requirements. | 28 Feb |
| 17 | Draft Departmental Budget Estimates and Annual Work Plans submitted to Budget Desk | 10 Mar |
| 18 | Budget Desk Compiles Draft Budget Estimates and Annual Work plans | 15 Mar |
| 19 | Review of the Budget Estimates and Annual Work plans by the Technical Planning Committee and the LG Executive Committee | 25 Mar |
| **20** | **Laying of the Budget before LG Council and Submission of draft Performance Contract to MOFPED**   * Submission includes a response as to how adjustments have been made to ensure budget requirements have been met. | **1 Apr** |
| *21* | *MoFPED Lays the National Budget before Parliament* | *1 Apr* |
| *22* | *Central Government reviews draft performance contracts and budgets to assess compliance with sector budget requirements.* |  |
| **23** | **Approval of the Budget by Council** | **31 May** |
| *24* | *Approval of the National Budget by Parliament* | *31 May* |
| *25* | *Presentation of the National Budget Speech in Parliament* | *15 Jun* |
| *26* | *Budget Execution Circular issued by MOFPED* | *15 Jun* |
| **27** | **Submission of Final Performance Contract to MOFPED** | **15 Jun** |

# Reforms to LG Transfers and Budgets

## Objectives of Reforms

In FY 2015/16, the government consolidated inter-governmental transfers as a first step in a broader reform to fiscal transfers. Reforms to fiscal transfers and budgeting aim to realise the following objectives:

* To allow existing and new national policies to be financed via the transfer system, at the same time avoiding future fragmentation of transfers and increasing discretion to ensure services are delivered in line with local needs;
* To shift the focus away fragmented input-based conditions towards accountability for allocation decisions, expenditures and results;
* To use the transfer system to provide incentives to improve institutional and service delivery performance; and
* To restore adequacy and equity in allocation of funds for infrastructure and service delivery.

This section sets out the main elements of the reform to fiscal transfers and budgeting at the local government level.

## Reform to Fiscal Transfers

The second phase of reforms of fiscal transfers will commence as part of the FY 2016/17 budget process. The second stage of grant consolidation will reduce the number of grants, as shown in the table below. To give local governments more discretion over how funding is used, earmarking will be restricted to the at most, the Vote Function level for recurrent grants and to the sector for development grants. Ad hoc grants will be accommodated through the Transitional and Support Services grants, within specific limits. Discretionary recurrent grants will be used to finance operations of local governments, while discretionary equalisation development grants will be used to ensure a fair, equitable distribution of funding to local government investments. The restructuring of grants will be accompanied by new allocation formulae which will be phased in gradually to improve the fairness and equity of resource allocation between districts and municipalities.

Accompanying the new grant structure will be Sector Grant and Budget Information Papers. These will set out the mandates of local governments in each sector, the purpose of sector transfers and sector budget and management requirements at the local government level that each local government will be required to fulfil.

1. The new grant structure

|  |  |  |
| --- | --- | --- |
| **Area** | **Recurrent Transfers** | **Development Transfers** |
| Six service delivery sectors  (health, agric., edu., etc.) | one wage and one non-wage conditional grant per sector | one development grant per sector |
| Transitional and Support Services | one non-wage support services conditional grant | one transitional development grant |
| Discretionary grants  (urban and rural) | one wage and one non-wage unconditional grant | one discretionary development equalisation grant |

### Recurrent transfers

In 2015/16, the government introduced a new structure for recurrent grants. This has one wage and one non-wage conditional grant per sector. In addition there is one non-wage conditional grant for Transitional and Support Services and four unconditional grants (wage and non-wage for urban and district local governments). This structure will be mostly maintained in 2016/17, with three major changes.

Earmarking will be restricted to, at most, the Vote Function and Level of Local Government. Until 2014/15, funding to local government was earmarked by grant or input (e.g. salaries for primary teachers). In 2015/16, the new grant structure was introduced, but existing grants were maintained as “of which” allocations and earmarking remained unchanged. From 2016/17, earmarking to the Vote Function level (e.g. pre-primary and primary education) will be reflected as “of which”. This will give local governments more discretion over how resources are used.

1. Changes to structure of recurrent grants

|  |  |  |
| --- | --- | --- |
| **2014/15 Budget** | **2015/16 Budget** | **2016/17 Budget** |
| Separate non-wage conditional grants | One non-wage conditional sector grant, earmarked by grant | One non-wage conditional sector grant, earmarked at most to Vote Function level |
| Primary Education (321411)  Secondary Schools (321419)  Health Training Institutions (321432)  Community Polytechnics (321455)  Technical & Farm Schools (321457)  Technical Institutes (321461)  Primary Teachers' Colleges (321462)  School Inspection Grant (321447) | **070000-321466 non-wage** **conditional grant**  o/w Primary Education  o/w Secondary Schools  o/w Health Training Institutions  o/w Community Polytechnics  o/w Technical & Farm Schools  o/w Technical Institutes  o/w Primary Teachers' Colleges  o/w School Inspection Grant | **070000-321466 non-wage** **conditional grant**  *Or at most:*  **070000-321466 non-wage** **conditional grant**  o/w 0781 Pre-Primary, Primary and Education Management  o/w 0782 Secondary Education  o/w 0783 Skills Development |

There will be no dedicated sector grants for Public Sector Management and Accountability sectors. The wage conditional grants will be folded into the unconditional wage grants. Similarly, most of the non-wage grants, including hard to reach allowances, will be folded into the unconditional non-wage grants, as shown in the table below.

1. Structure of discretionary recurrent grants

|  |  |
| --- | --- |
| **Grant** | **Grants absorbed** |
| 321450 District unconditional wage grant | * District unconditional wage grant * Conditional grant for DSC Chairs * Salaries and Gratuities for LG elected leaders (district) |
| 321451 Urban unconditional wage grant | * Urban unconditional wage grant * Salaries and Gratuities for LG elected leaders (urban) |
| 321401 District unconditional non-wage grant | * District Unconditional Non-Wage Grant * Boards and Commissions (district) * DSC Operational Costs * LLGs Ex-Gratia (district) * Hard to Reach Allowances * IFMIS (district) * IPPS * PAF Monitoring (district) |
| 321402 Urban unconditional non-wage grant | * Urban Unconditional Non-Wage Grant * Boards and Commissions (urban) * LLGs Ex-Gratia (urban) * PAF Monitoring (district) * IFMIS (urban) |

The Support Services non-wage recurrent grant will accommodate ad hoc non-wage allocations. It will also cater for specific crosscutting allocations to support services which cannot be captured under sector grants or unconditional grants. Earmarking will be permitted at the input level as an “of which” allocation. Recurrent allocations that will be maintained under this grant are recurrent costs for pensions payments to retired local government staff.

Allocations which are not cross-cutting will be earmarked for a temporary period only. After a maximum of three years, earmarking will end and the allocation will either be phased out or be integrated into the relevant sector or unconditional grants.

1. Transitional and Support Services allocations

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| To ensure that the number and size of ad hoc allocations remains under control, temporary sector allocations under Transitional and Support Services grants will be no more than 5% of sector transfers. Earmarking should be limited to three years. Also, no more than two earmarked allocations should be permitted per service delivery sector.  Examples for 2016/17 are provided below.   |  | | --- | | **Transitional and Support Services Conditional Grants** | | 321469 Support Services non-wage grant | | o/w 130000 Pensions payments to retired public sector staff (cross sectoral) | | 321472 Transitional development grant | | o/w 070000 Presidential Pledges for School Facilities (temporary) | | o/w 080000 Sanitation (temporary) | | o/w 090000 Sanitation (temporary) | |

### Development grants

The development transfers system will be made up of a maximum of one conditional development grant allocated for each of the six service delivery sectors, plus a discretionary equalisation development grant allocation provided either to district or urban LGs. A Transitional development grant will accommodate small ad hoc development allocations. In 2016/17, transitional development grants will include allocations for Presidential pledges for schools construction as well as grants for sanitation under the Health and Water and Environment sectors.

1. Changes to structure of development grants

|  |  |  |
| --- | --- | --- |
| **2014/15 Budget** | **2015/16 Budget** | **2016/17 Budget** |
| Separate development conditional grants | One development grant, earmarked by old grant | One development grant, earmarked to sector |
| 321433 School Facilities 321452 Construction of Secondary Schools | **070000-321470 Education - Development Grant**  o/w School Facilities  o/w Construction of Secondary Schools | **070000-321470 Education - Development Grant** |

Earmarking of the conditional development grants will be restricted to vote function level (e.g. primary or secondary education) to give local governments more discretion over development spending. The Transitional development grant may be used to introduce temporary earmarking for up to three years. Thereafter, the allocation will be ended or folded into the sector or discretionary development grants.

Discretionary development grants will be harmonised and used to promote greater equalisation between districts. The non-wage equalisation grants have been too small to meet their objectives, so will be incorporated into this new grant structure. Funding for PRDP, which has served as an equalisation grant in practice, and other regional programmes, will also be included within these grants. Aligning the processes for allocating and monitoring these grants (PRDP, LRDP, USMID and LGMSD) increases the level of resources for equalisation and simplifies grant management.

There will be two discretionary development equalisation grants (DDEGs) – one for rural and one for urban local governments. The rural grant will be allocated using one formula, then allocated to each district through only one of two windows – PRDP and LRDP, (other) Districts. The urban grant will have two windows – USMID and (other) Urban.

Over the medium term, the total resources for PRDP and LRDP will not be affected, though some local governments may receive more or less under the new formula. Each grant will have one set of harmonised conditions and rules.

1. The discretionary development grants

| **Grant** | **Window** | **Eligibility** | **Allocation and conditions** |
| --- | --- | --- | --- |
| Rural Discretionary Equalisation Development Grant | PRDP & LRDP | Allocated to LRDP PRDP III districts and sub-counties only | * The same allocation formula across three windows, * Identical conditions, planning, budgeting, reporting and accountability requirements * Common performance assessment * Includes all PRDP, LRDP, LGMSD, DEG |
| Other Districts | Allocated across the remaining districts and sub-counties |
| Urban Discretionary Equalisation Development Grant | USMID | Allocated to USMID Municipalities | * The same allocation formula across three windows, * Similar design, with special conditions for municipalities and town councils * Combines USMID Includes PRDP, LRDP, LGMSD, UEG |
| Non - USMID | Allocated across the remaining municipalities, divisions and town councils |

In recognition that more than just physical investments may be needed to increase the capacity to deliver services at the local government level, the discretionary development grant may be used to fund capacity development outputs as well as capital investments for service delivery or administration. These may be for skills development or for upgrading equipment or for upgrading. Allocations to capacity development and investment will be reflected as “of which” using new output codes in the chart of accounts. Furthermore, discretionary development grants may be used to fund a few items that are not typical capital investments, but are nonetheless developmental in nature. These include institutional land titling, the planting of trees and the restoration of degraded wetlands.

### Allocation formulae

To restore adequacy and equity, new allocation formulae will be introduced using a common set of guiding principles (see table below). The application of these principles will vary between the different types of grants:

* The Transitional and Support Services allocations will continue to have an ad hoc approach to allocation. Each allocation may have its own formula.
* Sector grants will be allocated in a way that provides equitable funding for local government services in that sector (e.g. funding for education). One combined allocation sector formula will be used for wage, non-wage and development grants in a sector.
* Discretionary recurrent grants will cover the operational costs of local governments, while the discretionary equalisation development grants will each have a unified formulae with a strong equalisation component to promote equalisation for less developed districts.

Variables for allocating sector grants will focus on outputs or outcomes rather than inputs (e.g. number of teachers) which are more likely to preserve existing disparities. The new formulae will entail some degree of redistribution, so will need to be phased in gradually to minimise the number of losers.

1. Guiding principles for designing allocation formulae

|  |
| --- |
| **1. Formulae should be simple and transparent**   * Formulae should have no more than 5 criteria for allocation * Formulae should be presented simply and accompanied by a written explanation of how it works and why it has been designed this way * Data used in the formulae and the formulae themselves should be publicly available |
| **2. Allocations should be equitable within the resources available**   * Allocations should match resources to the target population and capture any major differences in need and cost, and ensure a balance between these factors. * Formulae should not use input criteria as these reinforce existing disparities in allocations, * Formulae should be used to distribute a predetermined pool of resources * A grant should be country-wide and be distributed to all local governments where there is a need for services, unless it is funding a pilot initiative, or services provided spill over to specific jurisdictions |
| **3. Variables should be exogenous to influence from local governments and not provide a disincentive to improve service delivery**   * Incentive effects should be explicitly considered in the design process * Variables should be linked to overall objectives of the grant and service delivery mandates of local governments * Variables should be ‘exogenous’ to influence from local governments, and it should not be possible to influence/manipulate them. * Formulae should not undermine incentives to improve services. Therefore existing service levels/infrastructure stock must not be used. |
| **4. Variables should support predictable and politically viable allocations**   * Variables should not vary significantly from year to year * Variables should be measured regularly to avoid large changes upon revision * Variables should be available for all local governments or at least at the regional level * Variables should use official data sources only and use the most up-dated validated public statistics. |

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.

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.

## Focus on accountability for allocation decisions, expenditure and results.

The consolidation of fiscal transfers will give greater discretion to local governments by limiting the extent of earmarking, programme budgeting will improve the link between the budget and national policy, as well as focus on results. However this must be accompanied by reforms to improve accountability for the results of those allocation decisions.

Past and ongoing initiatives such as the Tier 2 IFMIS, online-PBT and the budget call centre and website provided a solid platform to establish and strengthen feedback loops which have the potential to ensure stronger accountability. These foundations will be built on in four areas.

### Focusing on allocation decisions and results during the budget process

Currently, accountability is enforced predominantly through input controls. These can restrict one of the key benefits of decentralisation – the ability to mix inputs to respond to local preferences or differences in the local context. It can also draw attention away from the overarching goal to improve public services at the local government level.

Changes will be introduced to refocus engagement with local governments on allocation decisions during the budget process. In particular, the focus will be on which outputs are funded in the budget and whether decisions are consistent with specific sector guidance in the Grant Budget and Information Papers.

Sector budget requirements will include thresholds (minimum or maximum shares) for allocations to wage, lower local services, capacity development and infrastructure spending within a Vote Function. There will be lists of outputs which may be budgeted within the sector, as well as guidance on areas such as how to allocate resources between lower local governments and service providers. As long as these broad requirements are met, local governments will have discretion to allocate more of their budget to areas they need. For example, to increase their capital stock, hire contract staff or improve the quality of services.

Once local governments have submitted Budget Framework Papers, Sectors will host a joint review of Sector Budgets. This will be introduced in the 2016/17 budget process from November and January. Stakeholders will jointly evaluate compliance of local governments (and line ministries) with sector and cross-sectoral budget rules. Any adjustments needed will be communicated alongside the Second Budget Call Circular issued by MoFPED in February and will need to be incorporated into the budget estimates before 1 April. Estimates will again be reviewed for compliance in April so changes can be made before the Performance Contract is signed at the end of June. Failing to adhere to the guidance provided will mean the Performance Contract will not be signed by the PS/ST MoFPED.

This will provide an opportunity for line ministries, local governments and donors to coordinate their activities before the financial year begins. Sectors will be expected to hold dialogues with local governments over the alignment of national and local spending priorities.

### Ensuring reliable, comparable and readily-interpretable information

The online Performance Budget Tool (PBT) and the Budget Website and Call Centre provide information in a relatively standardised form and an avenue for stakeholder feedback. This provides a strong basis for comparing the allocation decisions in the budget with the actual performance of different local governments.

It is proposed that three changes are made to build on these foundations:

* The national Budget Framework Paper and Volume II of the Budget Estimates will include summary information on all grants to local governments, which is currently incomplete.
* A grant allocation database is available on the Budget Website ([www.budget.go.ug](http://www.budget.go.ug)) to increase transparency over the allocation of resources. For the 2016/17 Budget this will provide a tool for local governments to check whether they are being treated fairly and for external groups to more clearly understand how sector funds are distributed between local governments.
* Information in the OBT will be made directly accessible to local governments and the public from 2017/18. This will supplement the periodic reporting on the Budget Website with real time information on allocations, releases and budget execution.

### Stronger and joint monitoring, based on unified reporting

Improvements in information will support stronger monitoring of services at the local government level – helping to answer transparently whether the outputs planned in the budget were actually delivered as the budget is executed.

The Local Government Performance Contract and Budget Performance Reports will be the focus for budget accountability. They provide standardised reports from local governments to their various stakeholders (Councils, central government, the public, donors). In addition, local government departments will continue to report additional non-financial performance information through sector-specific systems, such as the EMIS and HMIS, used for analysing the impact, equity and quality of services.

To provide a uniform basis for monitoring across local governments, each sector will provide clear guidance in selecting and keeping track of performance indicators, starting with the standard outputs in the Annual Workplan. Line ministries will provide support to local governments which face administrative or technical capacity constraints.

District and Municipal Councils should then carry out periodic monitoring visits to assess the status of implementation of activities. In general, monitoring activities should involve the following:

* the verification of physical progress as reported in the local governments’ quarterly progress report and cumulative progress report;
* examination of the quality of services being delivered;
* examination of financial records / book keeping;
* identification of deficiencies in implementation in the programme and recommendations for their solution; and
* identifying issues which require follow up.

Each of the six service delivery sectors should produce monitoring reports at least on a quarterly basis. A local government may choose to produce joint monitoring reports, covering all sectors, or produce reports separately.

Other monitoring should be encouraged. Civil society groups engaged in monitoring at the local government level, for example, may be able to conduct joint or parallel monitoring to provide additional capacity.

The information produced will be assessed jointly by line ministries and higher local governments. This will include a review of quarterly reports submitted by local governments and sector-specific reviews of budget performance together with wider stakeholders. Scrutiny should focus on the quality of reports and issues being raised, not just compliance with submission deadlines.

The Budget Website ([www.budget.go.ug](http://www.budget.go.ug)) will be used as a central repository for information on the results of monitoring at all levels. Local governments must upload quarterly monitoring reports to the site.

### Follow-up on Monitoring and Feedback

In addition to these activities, use of public feedback can assist the government in ensuring that cost centres are making effective use of the funds provided to them, and that contractors are effectively carrying out works. There are a growing number of channels for the public to provide feedback on budget allocations, reporting or execution. Local government performance reports are posted on the Budget Website. The reports are available in full, and the data is also provided in a searchable format. Members of the public can access this information either through the website or through the Budget Hotline (0800 229 229).

Local government officials should respond to this feedback, and take actions to address the issues raised. Local government officials need to be registered on the website by MoFPED, and will be emailed when feedback is left on the website. (All feedback provided through the Budget Hotline can be accessed from the website.) Local governments will be required to respond to all feedback provided to it on the site within two weeks of the comment being posted. Where appropriate, local governments will be required to report the follow up actions taken on the website. MoFPED will communicate with the Accounting Officer when reporting on these follow up actions is required.

Local governments should appoint a site administrator who is responsible for (a) ensuring all relevant local government officials are registered on the website; (b) publicising the website and hotline within the local government; and (c) coordinating and moderating feedback relating to the Local Government. The Planner may be the most appropriate officer as they are also typically responsible for OBT submissions. MoFPED, through the Budget Policy and Evaluation Department, is available to provide further information and support on using the Budget Website and Budget Hotline.

Requirements for reporting and responding to stakeholder feedback have already been included in the Performance Contract Form B in 2015/16 to make this a key element of the evaluation of Chief Administrative Officers.

## Grant and Budget Information Papers

Grant and Budget Information Papers are provided for each of the six service delivery sectors (Agriculture, Education, Health, Social Development, Water and Environment, Works and Transport). There is also one for the Transitional and Support Services Grant and the Discretionary Equalisation Development Grant.

The Grant and Budget Information Paper summarises guidance on the grants provided to local governments in each sector, budget allocations, and conditionality. Conditionality includes (a) requirements that need to be followed in budget preparation, (b) sector management and reporting requirements and (c) the outputs and indicators that may be budgeted by local governments in the sector. The Papers will be made available online on the Budget Website.

This will help local governments and sectors by harmonising the budget guidance for different grants, which was previously disbursed over multiple documents. It will also help external stakeholders better understand the system of fiscal transfers to local governments. These papers are expected to form the basis for negotiations between central and local governments, facilitated by the LGFC in August/September.

|  |
| --- |
| Structure of the Grant and Budget Information Paper   * National priorities for the sector * The mandate, roles and responsibilities of local governments * Details of the transfers provided   + - Grant purpose, budget and structure     - Grant allocation formula     - Performance-based allocations * Overview of sector budget requirements * Workplan and budget requirements   + - Allocating resources between budget categories     - Salaries and related costs     - Non-wage budgets       * Lower Local Government services and Delivery Units       * Higher Local Government services       * Higher Local Government monitoring and operational costs     - Development budgets       * Capacity development       * Capital investments for service delivery and administration * Sector management and reporting requirements   + - Flow of funding     - Monitoring budget implementation     - Reporting requirements     - Performance assessment (not applicable until 2017/18) * Expenditure budget structure and performance indicators   Note: the structure of Grant and Budget Information Papers may differ for discretionary grants and the Transitional and Support Services grants. |

# Stages in Budget Preparation

All local governments must prepare budgets consistent with: (i) these Planning and Budgeting Guidelines; (ii) grant conditions stipulated in the Grant and Budget Information Papers; and (iii) allocations (IPFs) issued by the central government through the Budget Call Circulars.

The main stages of budget preparation are described here. These apply to all local governments, and include:

* Consultations between central and local governments
* Preparing the budget call for Higher and Lower Local Government units
* Preparing the Budget Framework Paper (LG BFP)
* Drafting Budget Estimates, Annual Workplans and Performance Contracts
* Finalising the Budget Estimates, Workplans and Performance Contracts

More details on managing these stages is given in section 4. Step-by-step guidance for preparing the Department Workplan is provided in section 5.

## Consultations between Central and Local Governments

The **regional consultative budget workshops** signal the start to the budget process in any given fiscal year. These take place in August. They are used to review issues arising from the implementation of Workplans and Budgets from the previous and current financial years, as well as the recently completed budget formulation process.

In preparation for the new fiscal year, the budget workshop involves discussion of:

* Changes to the transfer system, including allocation formulae and rules governing conditionality or reporting requirements;
* The purpose and budget requirements for expenditures financed by sector and discretionary grants as set out in Grant and Budget Information papers and;
* LG Planning and Budgeting Process for the forthcoming year.

Issues from the regional workshops feed into **negotiations coordinated by LGFC**, which take place in early September. The negotiations seek agreement between sectors and local governments on the terms and conditions for expenditures financed by conditional grants. Local governments are represented by Uganda Local Government Negotiation and Advocacy Team (UNAT), which is constituted by members of Uganda Local Governments Association and Urban Authorities Association of Uganda. If the Local Council has any issues that they wish to be considered, they should write to their respective local government associations and the Chair of the Local Government Budget Committee within the Local Government Finance Commission. Any technical support required by local governments should also be discussed at this time.

Negotiations conclude with an **Agreement of Sector Grant and Budget Requirements** signed by UNAT and the Sector, and witnessed by LGFC, MoFPED, MoPS, MoLG and NPA. This agreement should be posted on the Uganda Budget Website and be used as the basis for planning and budgeting by sectors and local governments. The outcome of the negotiations will also be used to update the Grant and Budget Information Papers for each sector.

## Preparing the first Budget Call

Each local government must prepare a Budget Framework Paper setting priorities for spending and planned outputs, based on interim planning figures (IPFs) communicated by MoFPED in the First Budget Call Circular. The Budget Desk will use the IPFs, and estimates of locally raised revenue and donor funding, to prepare an indicative revenue budget for the local government as a whole.

Indicative allocations to Department Workplans and Lower Local Governments (LLGs) will be communicated through the **First Local Government Budget Call Circular**. This includes:

* Indicative revenue budgets for sector department workplans, including the higher local government share of discretionary equalisation development grants, unconditional recurrent grants, locally raised revenues, sector conditional grants and donor funding.
* Indicative allocations to LLGs based on allocations from discretionary equalisation development grants and unconditional grants.

As well as information on allocations, the Local Government Budget Call Circular will include information to guide local government planning and budgeting, such as key information from Grant and Budget Information Papers for transfers from central government. It will also notify stakeholders of the Budget Conference, specifying the information each stakeholder should prepare and submit in advance.

## Preparation of Budget Framework Papers

Local Government Budget Framework Papers should be approved by the Local Government Executive Committee and submitted to MoFPED and the Local Government Council by mid-November. Thereafter, the Budget Framework Papers should be approved no later than 1 February.

Once they receive the budget call, Heads of Department and LLGs should prepare initial **draft annual workplans and budget allocations**, as their inputs for the Budget Framework Paper. The Budget Desk should be expected to provide support to departments and LLGs in following guidance, prioritising spending requirements and meeting deadlines.

|  |
| --- |
| Department Workplan  The department workplan is made up of the following components:  **Workplan Summary** - This provides an overview of workplan revenues from different sources and expenditures. It also provides a summary of past and planned workplan outputs and key performance targets. It also sets out the key challenges faced by the department.  **Workplan Outputs** - This provides details of the workplan outputs and the budget allocations associated with those outputs. There are three main types of outputs. Firstly, higher local government services – those provided directly higher local government departments. Secondly, lower local services, which are those delivered by service providers and lower local governments. Thirdly, capital purchase, which are investments made in the sector.  **Outputs by Location** - This provides information on the services provided by lower local governments and service providers by location, and also the details of capital investments.  **Staff Lists** - These provides a list of all the staff by grade, and form the basis of the salary budget. |

Allocations within the sector budgets should be linked to the achievement of service delivery results. A full list of outputs should be provided in the Grant and Budget Information Papers.

There is some flexibility for departments to propose to **reallocate conditional grant** **funding** between Vote Functions within the sector up to a value of 10% of the total allocation. There is also some flexibility to allocate funds from wage to non-wage recurrent, and recurrent to development. Such decisions must be consistent with the overall requirements set out in these guidelines and the relevant sector Grant and Budget Information Papers.

The Budget Desk will compile the Budget Framework Paper using submissions from departments and LLGs, which should be presented to stakeholders at the **Budget and Planning Conference** before 31 October. The Conference will involve members of the district and LLG councils, local government staff, civil society organisations, the private sector, citizens and other non-state stakeholders. The aim is to get feedback (and agreement) on the annual workplans in the draft BFP.

There are several **stages of approval**. Once any amendments are made following the Budget and Planning Conference, the BFP needs to be reviewed by the Technical Planning Committee (with representatives from all sub-counties, such as Chiefs and Chairpersons) and approved by the Local Government Executive Committee. The BFP will then be **submitted by 15 November** to the Standing Committees of the HLG and LLG Councils for consideration and (in parallel) to MoFPED for integration with the National BFP.

The National BFP will incorporate grant allocation formulae and sectoral grant allocations into the Medium-Term Expenditure Framework (MTEF). These will be considered by Parliament.

## The Annual Workplan and Budget and Performance Contracts

In order to comply with the PFM Act, Draft Budget Estimates, Workplans and Performance Contracts need to be submitted to Council and to MoFPED by 1 April. The preparation of Draft Estimates, Workplans and Performance Contracts focuses mainly on making refinements to the priorities set by the Local Government BFP.

Once the National BFP is approved by Parliament, revised IPFs will be communicated to local governments in the **Second Budget Call Circular** in February. These will be used for preparing Draft Budget Estimates and Workplans. As the revised IPFs are approved by Parliament, they should no longer change in nominal terms before the Budget is approved.

Line Ministries will review local government BFPs for **compliance with sector budget requirements** and provide feedback to local governments alongside the Second Budget Call Circular. Comments will need to be addressed as part of the preparation of Budget Estimates and Workplans.

On receipt of the (national) Second Budget Call Circular and comments from line ministries on compliance with sectoral budgeting processes, the Budget Desk will issue the **Second Local Government Budget Call Circular** to departments and LLGs informing them of any changes grant ceilings for their final input in the process. The circular will also communicate any changes required by the local government to comply with sector budget requirements, passing on the comments provided by line ministries.

By 10 March, Heads of Departments will have finalised their Workplans and the Sector Committees will have reviewed the **final Draft Budget Estimates and Workplan** with assistance from the Budget Desk. To do this, LLGs must first submit their inputs to the relevant departments no later than the last day of February, which will consolidate and reconcile the inputs within available resources.

The Heads of Department will make their submissions to the Budget Desk, which in turn, will compile the Workplan, Estimates and Cash Plan for the local government as a whole by mid-March. Note that LLG budgets are shown below the budget items. The input from the Technical Planning Committee (with representatives from all sub-counties) will be incorporated before meetings are held with the Executive Committee. The Executive Committee may, if need be, hold consultations with individual sector committees or the Technical Planning Committee to clarify outstanding issues.

The Executive Committee will submit the Draft Annual Workplan and Budget Estimates to LLG and HLG Councils by 1 April. Alongside the submission to Councils, the Executive will submit draft documents to MoFPED together with a response to issues raised by line ministries in the review of compliance with budget guidelines.

## Finalisation and Approval of Budget Revisions and Performance Contracts

By April, preparations for the Budget are in the final stages. Central government will provide feedback to local governments on compliance with budget requirements. LLGs will also have approved their Budget Estimates and Workplan by 30 April. HLG Councils will then have until 31 May to approve the Budget Estimates and Workplan. Thereafter, the local government accounting officer must submit a revised Performance Contract to MoFPED by 15 June.

As with the Budget Framework Papers, the **central government will review draft budgets** to ensure that all budget requirements have been met, and provide feedback by the 30 April, or within three weeks of receiving the draft budget from a local government, whichever is later. If changes are needed, budgets should be amended and resubmitted to Council. The Performance Contract Form B will also be revised.

The Chairperson of the Council shall sign the approved budget on behalf of the Council. A copy of the approved budget shall be submitted to the full Council, Ministry of Local Government, MoFPED and LGFC. This will be a key trigger for the disbursement of central government funds to the local government in the new fiscal year.

To confirm the final grant allocations, MoFPED will communicate **Final Planning Figures (FPFs)** within one week of the approval of the budget by Parliament. (A copy will be available at [www.budget.go.ug](http://www.budget.go.ug)). These should be included in the final Performance Contract (Form B), Budget Estimates and Annual Work Plans.

The Government has committed to maintain the allocations for grants to local governments approved in the national Budget Framework Paper. However, if there are changes to grant budgets, these will need to be reflected in the local government budget. Prior to the submission of Performance Contracts by the 15th June, higher local governments should take the following steps:

1. If there are changes to budget allocations for grants (i.e. in the FPFs):
   1. Decide on sectoral budget allocations for new discretionary allocations, and update the allocations in the Recurrent and Development Transfer Budgets.
   2. Inform relevant heads of department and LLGs of changes in allocations and request them to update their Work Plans and Budgets.
2. Once changes have been made, generate the Annual Work Plan and Budget. These will need to be reviewed and approved:
   1. first by the Technical Planning Committee; and
   2. then by the Executive Committee of the Council.
3. A Supplementary Budget should then be introduced to the Council effecting the changes that have been made, once MoFPED has accepted the final Performance Contract.

The Budget Desk must communicate relevant information with Heads of Department, Sector Committees and Lower Local Governments.

# Managing the Budget Process

This section provides greater detail for some of the key stages of the budget, focusing on the information the Budget Desk requires to manage the budget process. These issues will also be relevant to other officials engaging in the budget process, for both the recurrent and development budgets, and include:

* Planning for and managing the budget process
* Preparing the overall department revenue budgets
* The LLG budget process
* Compiling HLG budget documents
* Council approval of the BFP and Budget Estimates

## Planning for and Managing the Budget Process

### Reviewing Budget Performance

In September, each local government should start preparing for the budget process. Preparations should be led by the Budget Desk, in consultation with the Heads of Departments and should aim to:

* Review locally raised revenue performance against budgeted revenues, and identify areas of over/under performance and options for improving the realism of projections and raising revenue.
* Review recurrent budget allocations against actual outturns to identify areas of over- or under-spending or where outputs were not delivered as planned.
* Undertake targeted reviews with the assistance of line ministries or donors to evaluate service delivery challenges and needs in priority areas.
* Identify options for any new programmes, the expansion of existing programmes, or phasing out of low-priority or low-impact activities.

The outcome of these discussions and reviews should be summarised and presented to the Technical Planning Committee and the Executive, and used to frame the prioritisation of the budget for the forthcoming fiscal year.

### Preparing Budget Call Circulars

The Budget Desk will lead the preparation of the two Local Budget Call Circulars. These will follow the National Budget Call Circulars issued by MoFPED.

The First Local Government Budget Call Circular initiates the preparation of the Budget Framework Paper and should be prepared in early October. It will draw on the IPFs provided by MoFPED and conditions in the Grant and Budget Information Papers. The following information should be included:

* Budget calendar for departments and LLGs and who is responsible for the various activities
* Important changes to the budget process
* Indicative revenue budgets for departments and allocations to LLGs, inclusive of conditional and unconditional grants as well as local own-source revenues
* Key priorities, including local government policies/projects and national policies which must be executed by the local government
* Important information from the Grant and Budget Information Papers for transfers from central government
* Dates of the Budget and Planning Conference and stakeholders invited and information that each stakeholder should prepare and submit in advance
* Standard formats for budget submissions, including workplans, staff lists and development projects.

The Second Local Budget Call Circular should be issued in early February to begin the preparation of Draft Budget Estimates. The following information should be included:

* Revised budget calendar for departments and LLGs
* Important changes to the budget process
* Revised revenue budgets for departments and allocations to LLGs, inclusive of conditional and unconditional grants as well as local own-source revenues
* Feedback from central government on the compliance of the Budget Framework Paper with sector budget requirements
* Standard formats for budget submissions, including budget estimates, workplans and staff lists.

Each Local Budget Call Circular will be prepared under the guidance of the Technical Planning Committee and should be reviewed by the Executive Committee.

### The Local Government Budget and Planning Conference

The Budget and Planning should take place before 31 October. Dates should be included in the Local Government Budget Call Circular. It will be organised by the Budget Desk and used to get feedback (and agreement) on the annual workplans in the draft BFP.

The Conference should involve all heads of department, heads of LLGs and the full Council. It should also encourage participation from members of the district and LLG councils, local government staff, civil society organisations, the private sector, citizens and other non-state stakeholders.

The aim is to reach consensus about objectives, priorities and budget allocations in order for the Budget Desk to prepare a final draft budget framework paper, including a tentative annual and medium-term revenue and expenditure budget.

Key points of discussion should be:

* Update on local government reforms
* Overview of financial and non-financial performance against previous budget
* Revenue outlook of the forthcoming fiscal year
* Key outputs to be delivered in the forthcoming fiscal year, including allocation decisions over the use of conditional grants and discretionary resources.

Minutes of the Conference should be compiled by the Budget Desk and posted on the Uganda Budget Website ([www.budget.go.ug](http://www.budget.go.ug)).

### Council Approval of the BFP and Budget

At each stage of the budget process, the draft budget and workplan should be signed off by the Head of Department and presented to the Technical Planning Committee for consideration. Once all comments have been addressed, the draft documents are forwarded on to the Executive Committee for approval. The Executive Committee may, if need be, hold consultations with individual sector committees or the Planning Committee to clarify outstanding issues, before the budget and workplan are finalised and submitted to the HLG and LLG Councils and MoFPED.

The Budget Framework Paper will be:

* approved by the Executive Committee and submitted by 15 November to the relevant Councils, to MoFPED, and to other government bodies as dictated in the Grant and Budget Information Papers.
* presented to the HLG Council by the Chief Administrative Officer of the HLG.
* presented to the LLG Council
* discussed and approved by the LLG Council before 10 December
* discussed by the standing committees of the Council and approved by the full Council before 31 December

Any changes proposed by the Councils prior to adoption of the Budget Framework Paper will be incorporated by the Executive Committee, facilitated by the Budget Desk. Once approved, the Budget Framework Paper will form the basis of

The Budget Estimates will be:

* approved by the Executive Committee and submitted by 1 April to the relevant Councils, to MoFPED, and to other government bodies as dictated in the Grant and Budget Information Papers.
* presented to the HLG Council by the Chief Administrative Officer of the HLG.
* presented to the LLG Council by
* discussed and approved by the LLG Council before 15 May
* discussed by the standing committees of the Council and approved by the full Council before 31 May
* signed into law by the Chairperson of the Council on behalf of the full council, and submitted to MoFPED and the LGFC.

While the government will aim to maintain the IPFs for local government grants as approved by Parliament in the National Budget Framework Paper, changes to the IPFs may still be made in the final budget before 31 May. If these affect local government budgets and workplans, adjustments will need to be made before the start of the new fiscal year. If the local government budget has already been approved, this may require a supplementary budget to be tabled in Council.

## Preparing the Overall and Department Revenue Budgets

The first step is the MoFPED will provide IPFs electronically alongside the Budget Call Circular. These will be used to update the OBT and prepare the Recurrent and Development Transfer Budget and Department Revenue Budgets. Together these link the Local Government Revenue Budget to the Expenditure Budget by allocating revenues to sectors and sub-sectors. It will be aggregated at the sub-sector level, and not go into the detail of allocations to items, which will be added by Heads of Departments.

### Chart of Accounts

The consolidation of grants has implications for the revenue codes in the chart of accounts for local governments (and the asset code for the central government). Previously each grant had its own code. This has been replaced by the codes below.

1. Item codes for conditional grants

|  |  |  |
| --- | --- | --- |
| **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 Non-Wage | 133369 | 321469 |
| District Unconditional Grant Wage | 133351 | 321451 |
| District Unconditional Grant Non-Wage | 133301 | 321401 |
| Urban Unconditional Grant Wage | 133350 | 321450 |
| Urban Unconditional Non-Wage | 133302 | 321402 |
| **Development grant codes** |  |  |
| Sector Development Grant | 133370 | 321470 |
| Transitional Development Grant | 133372 | 321472 |
| District Development Equalisation Grant | 133303 | 321403 |
| Urban Development Equalisation Grant | 133363 | 321463 |

### Flexibility of department revenues

Financing for services, management, oversight and capital costs will come from a range of sources. The type of financing dictates the degree of flexibility during budget allocation; they are listed here in from the least to the most flexible:

* Transitional and Support Services grants must be used for specific inputs or services (e.g. IFMIS roll out). Local governments will have no flexibility to reallocate these transfers.
* Sector conditional grants must be used for specific functions (e.g. primary education). Local governments will be able to reallocate resources between vote functions within the sector, up to a limit. There is also some flexibility to reallocate between recurrent and development grants (with a ceiling for wage expenditures, and floors for non-wage and development expenditures).
* Discretionary/unconditional grants may be earmarked to wage or non-wage expenditures, but can otherwise be used to fund any expenditures from the menu provided.
* Local own-source revenues may be used to finance any part of the local government budget.

Conditional grants in each sector will have flexibility to reallocate between wage and non-wage grants, and from recurrent to development grants, but not from development to recurrent. This is to allow areas which are under-staffed to hire contract workers or construct new service facilities (e.g. schools or health centres). The flexibility will be generally limited in each sector by requiring:

* Wage expenditure to be below a ceiling (maximum percent of the total)
* Budgets for lower local governments, excluding salaries, to be above a floor (minimum percent of the total)
* Development expenditures to be above a floor (minimum percent of the total)

*Note:* the specific conditions and limits on flexibility will be specified in the Grant and Budget Information Papers. These are available online ([www.budget.go.ug](http://www.budget.go.ug)).

### Allocating revenues to departments and LLGs

The Department Revenue Budgets will illustrate how the different sources of financing have been allocated between sectors and sub-sectors. It will also show if powers to reallocate grants have been used.

The Budget Desk is responsible for allocating the projected resources. To guide decisions, the Technical Planning Committee should be convened in the first week of October.

The first step is to allocate indicative ceilings to each department and LLG. The ceilings should include all revenues, including from the unconditional grants and from local government revenues. These will be communicated to departments and LLGs as part of the Local Government Budget Call Circular.

Preparation of the overall revenue budget in the OBT will follow a number of steps:

* Import IPFs into the revenue budget and add estimates of local revenues.
* Set indicative ceilings for LLGs by capturing transfers to LLG services based on the minimum allocations required in the Grant and Budget Information Papers for each sector, which can then be supplemented by discretionary revenues from donors, grants and own-source revenues.
* Set ceilings for HLGs from remaining revenues and review draft budget/BFP.

After the Local Government Budget Call Circular is issued, any adjustments to ceilings will need to be negotiated bilaterally with the Budget Desk and the Head of Department. Changes should be reviewed by the Technical Planning Committee.

### Changes to IPFs or local government priorities

Central government may make changes to the IPFs that require adjustments to the local government revenue and transfer budgets. Generally, this would happen at three different times in the budget cycle:

* The first set of IPFs are issued with the First Budget Call Circular (in September) and are used to prepare the Budget Framework Paper.
* The second set of IPFs are issued in the Second Budget Call Circular (in February) after Parliament has reviewed the allocations recommended in the National Budget Framework paper.
* Final planning figures (FPFs) will be circulated by MoFPED one week after Parliament has approved the national budget and will be used as the basis for releases to local governments.

Other changes may result from local government consultations (e.g. the Planning and Budget Conference) or as a result of deliberations by Councils.

If changes to the budget and workplan are required, the Technical Planning Committee should convene and make recommendations for the Budget Desk to implement in the PBT. These may be followed with bilateral meetings with affected departments.

*Note:* the government aims to avoid making changes to IPFs in nominal terms after the National BFP is approved, in order to provide a predictable basis for preparing the Budget Estimates, Annual Work Plan and Performance Contract by 1 April.

## The LLG Budget Process

The budget process for LLGs follows the same broad processes as HLGs. However, because LLG budgets are incorporated into the HLG budget, LLGs must follow interim deadlines for inputs set by the Local Government Budget Call Circular.

The preparation of the budget at LLG level will be overseen by the Chief Executive (Sub-county Chief, Town Clerk, and Assistant Town Clerk) with support from the LLG Technical Planning Committee.

Prior to the start of the budget process (in September) LLGs should review performance against their previously planned and identify the activities they wish to carry out in the forthcoming fiscal year. Ideally, this should be done jointly with HLG counterparts and other stakeholders. It is recommended that LLGs host planning and budgeting meetings with parishes, wards and communities to identify priorities.

The first stage of the budget will be to provide inputs into the Local Government Budget Framework Paper. To start, each LLG will need to match priorities to the indicative allocations provided in the Local Government Budget Call Circular. This will include resources from all sources – conditional, discretionary and unconditional grants as well as own-source revenues. The draft budget and workplan is submitted to the Head of Department at the HLG to be reviewed and aggregated with the department work plan.

Once the draft budget has been prepared by the HLG, the relevant sections of the budget and workplan will be submitted to the LLG Council for discussion and approval before 10 December. The final approved budget will be submitted to the Chief Administrative Officer of the HLG.

The second stage of the budget is to prepare the draft budget estimates, based on the priorities outlines in the Budget Framework Paper. It may also be necessary to take on feedback from central government or the HLG on compliance with sector budget requirements. Once integrated, the inputs will be submitted to the Head of Department at the HLG to be reviewed and aggregated with the HLG Draft Budget Estimates and Workplan.

The relevant parts of the draft budget will then be submitted before 1 April to the LLG Council for approval. To allow the LLG decisions to feed back into HLG budget processes, the LLG Council should approve the budget no later than 10 May.

## Compiling HLG Budget Documents

The Budget Desk is responsible for coordinating the compilation of the overall Workplan, Estimates and Cash Plan for all units within the local government, using submissions from Heads of Department and Lower Local Governments.

Departments are responsible for preparing their budgets using the PBT, and integrating LLG budgets under their sector. Services may be delivered by HLG (services provided) or the LLG (services funded). The Budget Framework Paper and Budget Estimates will include all types of outputs, with the budget separated by wage, non-wage and development inputs. A list of outputs is provided in the Grant and Budget Information Paper for each sector.

For services provided, each output should be linked to an output indicator, which stipulates in greater detail what will actually be provided. For example LG Financial Accountability (a high-level output) may support the review of audit queries or Public Accounts Committee reports (output indicators). Many are standardised “output indicators” which should be reported against by all local governments, but there may also be “non standard outputs” which are activities not captured by standard output indicators. Outputs that are outside the local government mandate cannot be funded.

Budget allocations to outputs should comply with the earmarking rules for conditional and discretionary grants. For example, if UShs 100,000 is provided for primary education, at least this amount should be allocated to primary education outputs under the Education Department of the recipient local government, unless a proportion has been reallocated to another Vote Function in the sector, such as secondary education.

Activities and budgets are divided up by quarter. The Quarterly Workplan specifies the outputs to be delivered in each quarter, and the Cash Plan indicates when the budget will be spent. These will be the basis for quarterly disbursements of conditional grants by the central government during the fiscal year. They will also be monitored during execution through Quarterly Performance Reports.

The Workplan is accompanied by a narrative for each department. The narrative should provide a short summary of revenues and expenditures for the Budget as well as the main activities and outputs planned for coming fiscal year. This will be complemented by a description of off-budget activities.

The Budget Desk will provide assistance for departments in this process. Departments will in turn support LLGs. It will also be possible to request support from Sector Ministries.

## Adhering to Sector Budget and Grant Management Requirements

The PS/ST will not renew the appointment of an Accounting Officer or sign a performance contract with an Accounting Officer if sector and crosscutting budgeting and management requirements are not met. Budget funds will also not be transferred to local governments at the start of the financial year until the Performance Contract is signed. It is therefore important that local governments ensure compliance with these requirements.

A summary of budgeting and management requirements are set out below, and more detail is provided in the subsequent sections and the associated sector Grant and Budget Information Papers.

1. Overview of Budget and Management Requirements

| **Grant** | **Overview of Requirements** |
| --- | --- |
| **Budget Requirements** |  |
| Overall | * Performance contract is fully consistent with the final budget ceilings (FPFs). * Annual Budget, Workplan and Quarterly Cash Plan is fully compliant with sector budget requirements and within mandate of LG (as assessed by joint review of sector budget requirements in Jan 2015). * Workplans reflects national policy priorities in each sector and fund existing commitments before starting new ones. |
| Salaries   * Salary budgets * Wage-related costs | * Salaries within each sector do not exceed the maximum level provided, but can be below. * Salary budgets should not involve recruitment of new staff where LG wage allocations are higher than would be the case under the formulae. LGs should not replace staff who leave the employment of the local government in such cases. * Salary budgets are based on verified staff list and include all vacancies and new posts. * Salary budgets meet minimum staffing requirements and are consistent with guidance on the distribution of staff between different LLGs and service delivery units in a sector. * Related non-wage costs of employment are budgeted in full. |
| Non-Wage Recurrent   * Lower Local Services * Higher Local Services * Sector management | * Budget for Lower Local Services within each sector is above the minimum level required and consistent with guidance on allocations between LLGs and service delivery units. * Non-wage budget for HLGs includes adequate allocations for monitoring and supervision within the range allowed in each sector. * Non-wage budgets caters for all relevant committees and district support teams. |
| Development/Capital   * Capacity development * Infrastructure | * Development budget overall is at least equal to the sector development grants, but may be above. * Budget for capacity development is allocated at the HLG level within specified limits, and accompanied by a capacity building plan. * Budgets for service delivery and administrative infrastructure are consistent with the specified limits. * Budget for sector development grants is allocated to HLGs only * Allocations cover investment servicing costs of capital investments, below the maximum level. |
| **Management Requirements** |  |
| Flow of Funds | * All salaries and hard to reach allowances are transferred directly to employee bank accounts from the Treasury. * Transfers funding budget allocations to LLGs and service delivery units, will be made direct to them from the Treasury. * All other transfers, which fund HLG budget allocations, will be made to the general fund. |
| Reporting Requirements | * The 3rd Quarter report for the preceding FY, and the three quarterly reports prior to that must have been submitted be submitted before the Performance Contract is signed. |
| Monitoring Implementation | * Local Governments have posted separate or consolidated quarterly budget monitoring reports containing information for each of the six service delivery sectors (health, education, works, water & environment, production & commerce, social development) * Local Government has replied to all issues raised on the Budget Website received by the close of the 3rd Quarter. * Joint review of sector performance indicates compliance with management and implementation requirements (for 17/18 budget onwards). |

# Preparation of Department Workplans and Budgets

## Introduction

This section provides details specific to the preparation of department workplans and budgets, which reflect government investments and donor-funded projects. The preparation of department workplans and budgets budget should be prepared in line with the following principles:

* Local governments will use the same guidelines for planning and budgeting for the recurrent and development budget irrespective of the funding sources (e.g. donor, conditional grant, discretionary grant).
* Workplans and budgets must be consistent with sector specific budget requirements set out in the Grant and Budget Information Papers. These include earmarking (what the grant may be spent on) and other conditions (such as requirements to pass funding to LLGs, or the existence of certain institutional arrangements).
* Department revenues shall be allocated to services and investments within the mandate of local governments, the framework of the national policies and strategic objectives set out in the National Development Plan.
* Investments and services that will be implemented by local governments should be based on those set out in the annual work plan and budget estimates, which in turn should draw from the Budget Framework Paper.
* The local government must ensure that all infrastructure projects being implemented have provisions for recurrent cost implications – both in terms of staffing and operational inputs – and that existing commitments are covered before new projects are introduced.

## Allocating Department Revenues to Major Budget Categories

To summarise, there are three main elements to the department budget:

* The department **revenue budgets** sets out the recurrent and development revenues. The department revenue budget sets out the total recurrent and development allocation to the sector and the, broken down into wage recurrent, non-wage recurrent, GoU development and donor development.
* The department **recurrent budget** is for expenditures that will be consumed/executed within the fiscal year that are required each year in order to continue to provide services. In the Budget and Workplan these are captured as wage and non-wage expenditures. Recurrent revenues consist of conditional sector grants, the transitional and Support Services grant, unconditional grants, and/or own-source local revenues. External donors may finance recurrent activities, but unless they are funded by budget support, these will though these will be reflected as development expenditures.
* The department **development budget** is used mainly to fund government investments and donor-funded projects. In theory, development spending today will support higher levels of economic activity and service delivery in the future. These activities shall be financed by transitional and support services development grants, sector conditional development grants, the discretionary development equalisation grant, locally-raised revenues, or off-budget donor and NGO programmes.

### Budgeting for wage, non-wage and development outputs

The first stage of the workplan and budget preparations is to make initial allocations to **wage costs** of service providers, lower local governments, and higher local government services to the corresponding outputs.

After that, **non-wage recurrent allocations** should be made to outputs under vote functions and major categories of:

* Lower Local Services, delivered by service providers or lower local governments
* Higher Level Services provided by the district and municipality, including the direct delivery of services and the management of service delivery.

**Development allocations** will then be made to outputs for:

* Capacity development; or
* Capital purchases, which include investment service delivery infrastructure and facilities and supportive administrative investments.

### Flexibility in budgeting

It is important to note the overall flexibility in budgeting for outputs and activities:

* Some sector recurrent grants are earmarked to the Vote Function level (as “of which” allocations). When preparing the budget, Local Governments will be able to reallocate up to 10% of the value of one Vote Function to another Vote Function within the same sector.
* Each sector will specify a maximum allocation to wages (ceiling) and a minimum allocation for lower local government services and for capital purchases (floors). This means local governments will have flexibility:
  + - To allocate wage conditional and unconditional allocations to non-wage allocations and development allocations within a vote function.
    - To allocate any non-wage resources available above the floor to either service delivery or capital investments.
* Local governments will have flexibility in choice of investments in service delivery infrastructure, provided they are consistent with the positive and negative lists set out in sector guidance, and any national minimum standards.
  + - HLGs and LLGs will be free to allocate Discretionary Equalisation Development Grants to infrastructure priorities in a range of sectors.
    - HLG departments will be free to allocate sector development grants to service delivery infrastructure on priorities within their sector.
* The Discretionary Development Equalisation Grant may be used to fund capacity development activities (up to a limit) and developmental services that are not purely capital in nature. This recognises that infrastructure is not the only barrier to reaching higher levels of development.

In exercising this flexibility, it is recommended that departments and LLGs consult with the Budget Desk to ensure compliance with sector budget requirements in the Grant and Budget Information Papers.

### General budgeting requirements

In addition to the maximum and minimum allocations, there are some general requirements for budget preparation which cut across all sectors.

* Local Governments must budget adequately fund the management and monitoring of service delivery, in line with the allocations specified in Grant and Budget Information Papers.
* Government funding from the development budget should be allocated to either (i) infrastructure investments and associated investment servicing costs or (ii) capacity development using the output codes listed in the Grant Budget and Information Paper. Only external funding can be allocated to other investments. The recurrent budget should not be allocated to capacity development or capital purchases.
* 100% of the sector conditional development grants should be allocated to the HLG (districts and municipalities) and not to LLGs.
* The discretionary equalisation development grants will be shared between HLG and LLGs using a standard formula for rural and urban areas.
* Investment service costs shall be restricted to a maximum of the development budget for capital investments and budgeted for at the HLG level (district and municipality) only.
* The development grants shall have a capacity building grant allocated to and managed by HLGs (districts and municipalities) to enhance the capacity of local governments (both HLGs and LLGs) to fulfil their mandates.

## Budgeting for Wages and Staff Costs

### Budgeting for Salaries

Salaries may be funded from conditional wage grants and unconditional wage grants. The allocation to sector wage conditional grant and the unconditional wage grant represents a ceiling for the allocation to salaries in a given local government.

The local government should ensure that recruitment is within the resources available under the salary ceiling. As long as the budget for salaries covers all staffing commitments, the local government can choose to allocate less than the ceiling to the wage conditional and unconditional grant. In such cases, savings can be allocated to the non-wage or development conditional grants in the same sector (and Vote Function, if earmarked).

However, the draft budget estimates for wages should:

* be based on a verified staff list, submitted to the MoPS and MoLG.
* not involve recruitment of new staff where LG wage allocations are higher than would be the case under the formula must not recruit new staff. LGs should not replace staff who leave the employment of the local government. These areas are set out in a schedule provided by MoFPED accompanying the IPFs
* cover existing staff commitments for HLG and LLG, including vacancies and new posts that the local government expects to fill in FY 2016/17, excluding allowances and pensions payments which are budgeted under non-wage items.
* allocate staff to the relevant sector vote functions and outputs as specified in the Grant and Budget Information Paper for each sector.
* provide staff to operationalise any new service delivery infrastructure being delivered in the new fiscal year.
* be consistent with sector guidance on the allocation of staff to HLGs, LLGs and service delivery units.

### Non salary staff Allocations, including hard to reach areas

Wage grants cater for the salaries of permanent staff of the local government. These may need to be supplemented by allowances, rental costs or by contract staff, which are budgeted for as non-wage items.

These inputs should be budgeted at the same time as the salary costs:

* Contract Staff Salaries
* Hard-to-reach allowances
* Gratuity payments
* Staff accommodation rentals
* Other wage-related costs

These will be budgeted against standard outputs. Where the relevant output is not available, the activities supported should be entered as non-standard outputs.

The Grant and Budget Information Papers will provide specific sector guidance on allocations to these items. If information is not sufficient, the local government should contact the relevant line ministry for further guidance.

### Verifying payrolls

The staff list for all cost centres (complete with names, post title and salary scales) is the basis for the salary budget in the Budget Framework Paper and subsequent Budget Proposals. Each local government will be required to verify staff list is accurate for existing staff and vacancies. Higher Local Governments have the responsibility of verifying LLG staff lists. The verified list should be submitted to the Ministry of Public Service and Ministry of Local Government, together with a list of any posts that have been allocated wrongly (such as to the wrong department, LLG or service delivery unit).

## Budgeting for Service Providers and Lower Local Governments

Services budgeted for implementation by LLGs and/or service providers (such as schools, health units) are known as services funded or Lower Local Services (LLS). These do not include services which are provided by HLGs directly at the level of the LLG or service provider.

Allocations made to service providers and LLGs from conditional grants will be transferred to them directly by MoFPED on the basis of the budget prepared by local governments. Therefore the accuracy of budget projections is important. For example, any new service providers constructed or expanded will need to be catered for in these allocations.

### Sector budgeting requirements

Sector Grant and Budget Information Papers will give guidance of the principles for allocating funds to LLGs and/or service providers and specify associated requirements.

Sector requirements will cover:

* the minimum level of allocations to be provided to service providers and/or LLGs in total, either in terms of share or absolute size of recurrent budgets.
* how allocations should be made horizontally between service providers and between LLGs, based on the principles of equity and need.

Some sectors will specify a minimum level (a floor) for service providers or LLGs. This will give some flexibility to local governments to vary the size of transfers to service providers within sector specific requirements. Compliance with the sector budget requirements will be assessed by central government before and after the Draft Budget Estimates and Workplan are prepared. Comments will be relayed to local governments alongside the Second Budget Call Circular (February) and in April/May before budget estimates are approved by the HLG Council.

Outputs that will be delivered by lower local governments are listed in the OBT as lower local services (LLS). These are listed in the table below and in the Grant and Budget Information Paper for each sector.

1. Lower Local Service (LLS) Outputs

|  |
| --- |
| 04 8151 Community Access Road Maintenance (LLS) |
| 04 8154 Urban paved roads Maintenance (LLS) |
| 04 8156 Urban unpaved roads Maintenance (LLS) |
| 04 8154 Urban paved roads Maintenance (LLS) |
| 04 8156 Urban unpaved roads Maintenance (LLS) |
| 07 8151 Primary Schools Services UPE (LLS) |
| 07 8251 Secondary Capitation (USE) (LLS) |
| 08 8151 District Hospital Services (LLS) |
| 08 8152 NGO Hospital Services (LLS) |
| 08 8153 NGO Basic Healthcare Services (LLS) |
| 08 8154 Basic Healthcare Services (HCIV-HCII-LLS) |
| 10 8151 Community Development Services for LLGs (LLS) |

In budgeting for each output for Lower Local Services, local governments will use the transfer items listed in the OBT.

## Budgeting for Services Provided by Higher Local Governments

The next step is to budget for services provided as well as monitoring and management by higher local government departments. These are allocated from non-wage grants or from local own-source revenues and budgeted at the HLG level.

### Direct Delivery of Services by HLGs

Several higher local departments have a direct role in the delivery of services, or in procuring and supplying inputs for lower local service providers. For example, community development workers are paid by higher local departments, but operate at the level of LLGs.

Grant and Budget Information Papers will include sector-specific guidance over:

* The main national priorities for services that are expected to be delivered by higher local governments, together with the associated outputs.
* Any requirements for the delivery of services, including the inputs necessary for delivering those services (such a minimum allocation for medical supplies).

### Management and Monitoring of Service Delivery

Local governments are expected to budget for management and monitoring activities to ensure resources are used efficiently, as planned, and accountabilities can be provided to central government and the Council.

These allocations should be made in line with sector budget requirements, which will specify:

* Any requirements for management and monitoring of service delivery, and the associated outputs;
* The associated performance indicators for service delivery, management and monitoring.

This will include budget requirements for the district service offices (such as the District Education Office) and committees (such as the District Roads Committee). It will also include reporting requirements which must be covered from either the conditional or unconditional grants.

## Budgeting for Capacity Development Activities

Capacity development activities are financed as part of the discretionary development equalisation grant and sector development grants, in the recognition that funding is not the only barrier to greater equalisation of performance between local governments.

Capacity development outputs are recurrent in nature but are funded from development grants or own-source revenues, not from recurrent grants. The outputs must be budgeted at the level of the higher local government, even if they will be used to strengthen lower local governments.

Grant and Budget Information Papers will provide details of the proportion of the discretionary development equalisation grant and sector conditional grants which may be used to fund capacity development. Critically, no more than 20% of capacity development activities may be used for career development of technical staff – i.e. requirements for confirmation or promotion.

All outputs for capacity development will be budgeted at the HLG level – that is for the needs of both HLGs and LLGs.

### Identifying capacity development needs

Capacity building activities will be coordinated by the Human Resource Management Unit under Administration in the HLG. Capacity building needs are identified by prioritising gaps identified from three sources:

* by validating capacity building needs from the Comprehensive Capacity Building Plans, which should include needs from LLGs as well as HLGs;
* by identifying gaps in the local government performance assessment (conducted annually for the urban and district discretionary development grants); and
* by considering other inputs and priorities from LLGs and sector departments.

Not all these documents will be available from the start of the budget process. Therefore, initial recommendations in the Budget Framework Paper are more likely to rely on source 1 and 3, with the performance assessment informing changes as the Draft Budget Estimates are prepared in February and March. All initial submissions for capacity building support for LLGs and departments should be submitted alongside inputs to the Local Government BFP in October.

## Budgeting for Capital Investments for HLGs and LLGs

The process for identifying and allocating funds to capital investments is a critical one for local governments for both economic and social development. There are two broad categories of capital investment:

* Service delivery Infrastructure, Facilities and Equipment
* Administrative Infrastructure, Facilities and Equipment

There are also other development activities, such as tree planting. These are not capital in nature, but nonetheless may be important developmental priorities for a local government.

Outputs for sector development grants will be budgeted at the HLG level. Resources from the Discretionary Development Equalisation Grant will shared between HLGs and LLGs using a standard formula.

1. Service Infrastructure Capital Outputs

|  |  |
| --- | --- |
| 018280 | Valley dam construction |
| 018281 | Cattle dip construction |
| 018282 | Slaughter slab construction |
| 018283 | Livestock market construction |
| 018284 | Plant clinic/mini laboratory construction |
| 018285 | Crop marketing facility construction |
| 048180 | Rural roads construction and rehabilitation |
| 048183 | Bridge Construction |
| 048280 | Street lighting facilities constructed and rehabilitated |
| 048281 | Construction of public Buildings |
| 048282 | Rehabilitation of Public Buildings |
| 078180 | Classroom construction and rehabilitation |
| 078181 | Latrine construction and rehabilitation |
| 078182 | Teacher house construction and rehabilitation |
| 078183 | Provision of furniture to primary schools |
| 078280 | Classroom construction and rehabilitation |
| 078281 | Administration block rehabilitation |
| 078282 | Teacher house construction |
| 078283 | Laboratories and science room construction |
| 088180 | Healthcentre construction and rehabilitation |
| 088181 | Staff houses construction and rehabilitation |
| 088182 | Maternity ward construction and rehabilitation |
| 088183 | OPD and other ward construction and rehabilitation |
| 088184 | Theatre construction and rehabilitation |
| 088185 | Specialist health equipment and machinery |
| 098180 | Construction of public latrines in RGCs |
| 098181 | Spring protection |
| 098182 | Shallow well construction |
| 098183 | Borehole drilling and rehabilitation |
| 098184 | Construction of piped water supply system |
| 098185 | Construction of dams |
| 098280 | Solid waste management |

### General guidance on selecting projects

Departments will need to prioritise investments within the resources communicated in the Local Government Budget Call Circular, which will include sector conditional development grants and the discretionary development equalisation grants.

In doing so, the selection of investments needs to be consistent with the Local Government Development Plan and take into account:

* Equity of allocations, which includes the prioritisation of investments in underserved areas.
* Prioritisation of rehabilitation of infrastructure over new infrastructure.
* Local needs and priorities.
* Investment servicing costs – which shall comply with the thresholds set by the sector and be budgeted for at the HLG level.
* Ensuring there will be funds in future for the operation and maintenance of any planned investments.

Grant Budget and Information Papers will provide a positive or negative list (the investment menu) specifying which outputs may or may not be funded in each sector or through the Discretionary Development Equalisation Grant.

### Process of LLG for Identification of Investments

A significant proportion of discretionary development resources will be budgeted by LLGs and submitted to HLG departments for integration into the overall local government budget. This process will follow several stages.

On receiving the First Local Government Budget Call Circular, LLGs will:

* Estimate total available resources for the development budget, including the ceilings for conditional and discretionary grants, local revenues and donor/NGO funding.
* Validate priorities for investments, review annualised workplans, and prepare a clear justification for new investments to be included in the budget.
* Review initial budget allocations against the general and sector-specific budget requirements.

The LLG should invite stakeholders to participate in a LLG budget conference before 20 October, and at least a week before the HLG Budget and Planning Conference (which must take place by 31 October). This will be used to:

* Facilitate bottom-up inputs into the prioritisation of investments and capacity development.
* Communicate guidance from district sector departments on national strategic objectives and investments that should be planned by HLG instead.
* Review challenges that have affected the construction and operation of recent investments, and consider how these may be addressed for investment projects planned for the new fiscal year.

By 20 October, LLGs will forward the priorities identified to the HLG Budget Desk and relevant Heads of Department using the PBT template. This will indicate the development activities funded from the LLG’s discretionary resources (discretionary grants, donor, local revenues) and projects funded from conditional grants.

The HLG departments and Budget Desk will review the proposals for consistency with sector budget requirements and HLG plans. Follow-up meetings may be required at this stage. Changes to the revenue budget will be communicated to LLGs after each National Budget Call Circular is received from MoFPED (February, June).

### Process of HLG for Identification of Investments

At the start of the budget process in September and October local governments should begin reviewing the projects in the existing Development Plan, and the annual workplan for investments. A clear justification will need to be provided by departments for any new investments that are not contained in the Development Plan.

Once the First National Budget Call Circular has been issued by MoFPED, the Budget Desk will allocate resources to the relevant department. This happens differently for discretionary and conditional funding:

* Conditional grants will be allocated to the relevant departments in the Call Circular. LLGs can submit priorities to be funded using these conditional resources using the PBT template shown below. These will be considered by the department at the HLG in compiling their submissions for the Draft Budget Framework Paper.
* Discretionary resources will be allocated to departments and LLGs in the Budget Call, dividing the available local revenues and discretionary development grant funding. These will be allocated to priority investments and revised if the IPFs or revenue forecasts change between October and June when the final planning figures are issued.

At this stage, the departments and LLGs will also allocate any (off-budget) donor/NGO funds earmarked to the sector to priority investments.

Submissions from LLGs will be integrated into the department workplans. The Budget Desk will combine these into an overall workplan for the local government and submit it to the Technical Planning Committee for review before the Budget and Planning Conference is held in late October.

The Budgeting and Planning Conference should be used to get inputs on investments from LLGs and other local stakeholders such as: communities, NGOs, the private sector and staff. Local government departments will share the guidance they have received on the national strategic objectives relevant to the local government. This will also be an opportunity to review the challenges that may affected the delivery of recent investments, and how these challenges might be mitigated in the next budget.

Feedback from the Budgeting and Planning Conference will need to be integrated into the workplan by departments. When this is done the Budget Desk will finalise a draft Budget Framework Paper and submit it to the Technical Planning Committee and then to the Executive Committee for approval. The deadline for Executive Committee approval is 15 November, giving just over 2 weeks to finalise the Budget Framework paper after the Budget and Planning Conference.

The approved Budget Framework Paper will be forwarded to the Council and MoFPED. Council discussions must take place before 31 December.

### Investment Servicing Costs

Investment servicing costs are expenditures for project preparation and monitoring costs which are incurred by the local government rather than the contractor. These include project design, environmental impact assessments, feasibility studies or monitoring and supervision of capital works. Such activities are the responsibility of the sector department implementing a project.

Investment servicing costs should be provided for in the budget for each capital output. The budget for investment servicing should not exceed the thresholds set in the Grant and Budget Information Papers, and apply to the following capital items:

* Land
* Buildings
* Roads and bridges
* Other structures

The table below shows the items relevant to investment servicing costs. Investment servicing item codes

|  |  |
| --- | --- |
| **Item** | **Description** |
| 281501 | Environment Impact Assessment for Capital Works |
| 281502 | Feasibility Studies for Capital Works |
| 281503 | Engineering and Design Studies & Plans for capital works |
| 281504 | Monitoring, Supervision & Appraisal of capital works |

As with other budget requirements, the Budget Desk and Sector Ministries will check the value of investment servicing in the development budget estimates to ensure it is within the maximum amount permitted.

## Quarterly Workplans and Cash Plans

The guidelines so far have focused on the process for determining what should be included in the Budget. However, the annual workplan will also be broken down by quarter to indicate when activities will be taking place.

Budgets and workplans should be prepared alongside an annual procurement plan. Templates are available from the Public Procurement Disposal of Public Assets Authority (PPDA). This will help improve the costing of services provided/funded and allocate resources at the time when they are needed to make commitments/payments for salaries, operational expenditures and works. The Budget Desk will check that activities in the work plan are consistent with the procurement plan.

The quarterly breakdown of the work plan (known as the Cash Plan) will be used by MoFPED as the basis for releases.