**BUDGET PREPARATION GUIDELINES**

For Local Governments

FY 2016/17

March, 2016

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Abbreviations

|  |  |
| --- | --- |
| BFP | Budget Framework Paper |
| BRAT | Budget Requirements Assessment Tool |
| DDEG | Discretionary Development Equalisation Grant |
| DP | Development Plan |
| EMIS | Education Management Information System |
| FDA | Fiscal Decentralization Architecture |
| FPF | Final Planning Figure |
| HLG | Higher Local Government (Districts and Municipalities) |
| HLS | Higher Local Services |
| HMIS | Health Management Information System |
| IPF | Indicative Planning Figure |
| LG | Local Government |
| LLG | Lower Local Government (Town Councils, Divisions and Sub-Counties) |
| LLS | Lower Local Services |
| MoFPED | Ministry of Finance Planning and Economic Development |
| OTIMS | Online Transfer Management Information System |
| PBS | Performance Budgeting System (replacing OBT) |
| SGBG | Sector Grant and Budget Guidelines |

# Overview

## **Using the Guidelines**

These guidelines summarise the key activities Local Governments are required to do in preparation of their budgets for FY 2016/17 in the context of ongoing reforms to intergovernmental fiscal transfers and the implementation of the Public Finance Management Act (PFMA 2015) which, among others changes, introduces new timelines for the finalisation of the budget. This guidelines are divided into 5 different parts:

* Part 1 provides a **calendar for budget preparation**
* Part 2 gives an **overview of the reformed framework** of inter-governmental fiscal 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 work plans**, including issues such as budgeting for salaries, Lower Local Government activities and capital investments.

The Ministry has also developed the Online Transfer Information Management System (OTIMS) which is hosted on the budget website to increase transparency over the allocation of resources to Local Governments. Visit [www.budget.go.ug/fiscal\_transfers](http://www.budget.go.ug/fiscal_transfers) to view allocation formulae and download your Budget Call Circular allocations.

## Calendar for Budget Preparation

The Public Financial Management Act (PFMA) 2015 brings forward the budget preparation and reporting timelines. These have been reflected in the budget calendar shown below. The Bold areas indicate the most critical dates whereas those in Italics show national-level processes and Plain text represent intermediate Local Government budget deadlines.

Specifically, Local Government Budget Estimates for the next Financial Year should be laid, discussed and approved by the Local Council by 31st May every year, well before the start of the financial year on 1st July. As a result, Vote On Account by the Council will not be required.

1. Local Government budget calendar

|  | **Activity** | **Date** |
| --- | --- | --- |
| 1 | Regional Budget Consultative Workshops with Local Governments, discussing   * Draft Grant and Budget Requirements; and * LG Planning and Budgeting Guidelines | 20 August |
| *2* | *Local Government negotiations with sectors to agree grant conditions and allocation formulae.* | *10 September* |
| *3* | *MOFPED issues the first Budget Call Circular, accompanied by the:*   * *IPFs to local governments;* * *Final Grant and Budget Requirements communicated to LGs.* | *30 September* |
| 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 October |
| 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 October |
| 6 | LG Planning and Budget Conference to discuss   * LLG and Department Annual Workplans for the forthcoming budget * Identification of Investments for inclusion in LG Development Plans | 31 October |
| 7 | Budget Desk Compiles LG BFP and LG DPs | 5 November |
| 8 | Review of the draft LG BFP and LG DPs by the Technical Planning Committee and the LG Executive Committee | 10 November |
| **9** | **Approval by LG Executive Committee and Submission of the LG BFP to the MoFPED and Council** | **15 November** |
| 10 | National Consultative Budget Conference | 30 November |
| 11 | Discussion of the draft BFP by the Standing Committees of Council | 31 December |
| *12* | *Submission of the National BFP to Parliament Incorporating*   * *Grant allocations in the MTEF* * *Grant allocation formulae and Information* | *31 December* |
| *13* | *Review of LGBFPs by central government to assess compliance with overall and sector budget requirements.* | *1 February* |
| *14* | *National BFP Approved by Parliament* | *1 February* |
| *15* | *MoFPED Issues the Second Budget Call Circular, incorporating*   * *final IPFs,* * *feedback on compliance with budget requirements.* | *20 February* |
| 16 | Budget Desk prepares Second LG Budget Call Circular communicating:   * Revised IPFs for Departments and LLGs * Instructions to address feedback on compliance with budget requirements. | 28 February |
| 17 | Draft Departmental Budget Estimates and Annual Work Plans submitted to Budget Desk | 10 March |
| 18 | Budget Desk Compiles Draft Budget Estimates and Annual Work plans | 15 March |
| 19 | *Review of LGBFPs by Central Government to assess compliance with overall and sector budget requirements.* | 30 March |
| 20 | Review of the Budget Estimates and Annual Work plans by the Technical Planning Committee and the LG Executive Committee | 25 March |
| **21** | **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 April** |
| *22* | *MoFPED Lays the National Budget before Parliament* | *1 April* |
| **23** | **Approval of the Budget by Council** | **31 May** |
| *24* | *Approval of the National Budget by Parliament* | *31 May* |
| *25* | *Central Government reviews draft performance contracts and budgets to assess compliance with sector budget requirements.* | *31 May* |
| *26* | *Presentation of the National Budget Speech in Parliament* | *15 June* |
| *27* | *Budget Execution Circular issued by MOFPED* | *15 June* |
| **28** | **Submission of Final Performance Contract to MOFPED** | **15 June** |

# Reforms to LG Transfers and Budgets

## **Objectives of Reforms**

In FY 2015/16, the Government started implementing key reforms on inter-governmental fiscal transfers to Local Governments, the reform was propelled by two key studies: one done in 2012 by the Local Government Finance Commission (LGFC) on the “***Review of Local Government Financing****”* and another jointly done in 2013 by MoFPED and the World Bank on “***Service Delivery with more Districts in Uganda- Fiscal challenges and opportunities for reforms***”.

**The key objectives of the reform are:**

* 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 from 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 reforms are being implemented in four main phases and will be in full implementation in FY 2017/18. These include:

1. **Phase 1: Interim consolidation** of inter-governmental fiscal transfers to Local Government and the production of interim grant conditions;
2. **Phase 2: Consolidating and re-designing sector and discretionary transfers**, reviewing allocation formulae, and establishing new budgeting requirements;
3. **Phase 3: Reforming frameworks for accountability and incentives to promote better services,** including bystrengthening mechanisms for transparent and accountable grant management and introducing performance conditions to lever institutional and service delivery improvements from FY 2017/18 onwards; and
4. **Phase 4: Reviewing the broader Fiscal Decentralisation Architecture (FDA),** including the share of transfers in the national budget and Local Government mandates for providing services.

The first phase was implemented in FY 2015/16, which introduced a new super structure for the management of inter-governmental fiscal Transfers to Local Governments, introducing one Wage, one Non-Wage and one Development conditional grant per Sector. This led to a reduction of grants from 53 in FY 2013/14 to 18 in FY 2015/16, and is summarised in Table 2, below.

The second phase of reforms of fiscal transfers has commenced as part of the budget process for FY 2016/17. This will complete the consolidation started in 2015/16. There will also be changes in grant conditions to give Local Governments more discretion over how funding is used. Specifically, earmarking will be restricted to the at most, the Vote Function level for recurrent grants and to the sector for development grants. The restructuring of grants will also be accompanied by new allocation formulae which will be phased in gradually to improve the fairness and equity of resource allocation between Local Governments.

Importantly, each of the broad types of grants will have a specific purpose. Sector grants will support equitable allocations for local government services in that sector. 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 the Discretionary Development Equalisation Grant (DDEG) will be used to ensure a fair, equitable distribution of funding to Local Government investments.

Accompanying the new grant structure will be Sector Grant and Budget Guidelines. These will set out the mandates of Local Governments in each sector, the purpose of sector transfers and sector budget and management requirements that each Local Government will be required to adhere to during the course of Budget Preparation and Execution.

1. The new grant structure

|  |  |  |
| --- | --- | --- |
| **Area** | **Recurrent Transfers** | **Development Transfers** |
| Six service delivery sectors  (Health, Agriculture, Education, 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  (District and Urban) | one Wage and One Non-Wage Unconditional Grant | One Discretionary Development Equalisation Grant |

### **Recurrent transfer system**

In 2015/16, the Government introduced a new structure for recurrent grants with one Wage and one Non-Wage Conditional Grant per sector. In addition, there is one Non-Wage conditional grant for Support Services and four Unconditional Grants (Wage and Non-Wage, for Urban and District Local Governments). This structure will be mostly maintained in FY 2016/17, with three major changes.

Earmarking will be restricted to (at most) the Vote Function and whether funds should be transferred to Lower or Higher Local Governments. Until FY 2014/15, funding to Local Government was earmarked by grant or input (e.g. salaries for primary teachers). In FY 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”.

Changes in conditionality will give Local Governments more discretion over how resources are used, so long as they comply with Sector Budget Requirements in the Sector Grant and Budget Guidelines.

1. Changes to structure of recurrent grants

|  |  |  |
| --- | --- | --- |
| **FY 2014/15 Budget** | **FY 2015/16 Budget** | **FY 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) | **070000-321467 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 | **070000-321467 Non-Wage** **Conditional Grant**  *Or at most:*  **070000-321467 Non-Wage** **Conditional Grant**  o/w 0781 Pre-Primary, Primary and Education Management  o/w 0782 Secondary Education  o/w 0783 Skills Development  o/w 0784 Education & Sports Management and Inspection |

There will be no dedicated sector grants for Public Sector Management and Accountability sectors. Instead, the wage conditional grants and grants for Hard-to-Reach Allowances will be included as part of the Unconditional Wage Grants. Similarly, most of the old Non-Wage grants for these two sectors, will form part of 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 Gratuity for LG Elected Political Leaders (District) * Hard to Reach Allowances |
| 321451 Urban unconditional wage grant | * Urban unconditional wage grant * Salaries and Gratuity for LG Elected Political Leaders (Urban) |
| 321401 District unconditional non-wage grant | * District Unconditional Non-Wage Grant * Boards and Commissions (District) * DSC Operational Costs * LLGs Ex-Gratia (District) and Councillors’ Allowances * Hard to Reach Allowances * IFMS (District) Recurrent Costs * IPPS Operational Costs * PAF Monitoring (District) and Accountability |
| 321402 Urban unconditional non-wage grant | * Urban Unconditional Non-Wage Grant * Boards and Commissions (Urban) * LLGs Ex-Gratia (urban) and Councillors’ Allowances * PAF Monitoring (District) and Accountability * IFMS (Urban) Recurrent Costs |

The Support Services Non-Wage Recurrent grant will accommodate ad-hoc Non-Wage allocations, which cannot be captured under sector grants or unconditional grants. Unlike the sector grants, earmarking will still be permitted at the input level as an “of which” allocation. Recurrent allocations that will be maintained under this grant include recurrent costs for pension’s payments to retired Local Government staff. Urban water grants provide temporary finance to specific water systems to bridge the gap between operational costs and fee collections. Individual allocations are expected to be phased out as revenues from fees improve.

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) | | o/w 090000 Urban water (temporary for each scheme) | | 321472 Transitional development grant | | o/w 070000 Education Ad Hoc (1 year allocations to specific secondary education projects and presidential pledgers) | | o/w 080000 Sanitation and Hygiene (temporary, donor funded) | | o/w 080000 Health Ad Hoc (1 year allocation to rehabilitate general hospitals and other health facilities) | | o/w 130000 PSM Ad hoc (specific projects such as construction of administration blocks) | |

### **Development transfer systems**

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 Development Equalisation Grant (DDEG) allocation provided either to district or urban Local Governments. 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 (see Table 5, above).

1. Changes to structure of development grants

|  |  |  |
| --- | --- | --- |
| **FY 2014/15 Budget** | **FY 2015/16 Budget** | **FY 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**  **070000-321472 Transitional Development Grant** |

Earmarking of the conditional Development Grants will be restricted to the sector level (e.g. education or health) to give Local Governments more discretion over development spending. For example, in the education sector, there will be one development grant to cater for primary and secondary education, instead of two separate allocations. That gives Local Governments more choice over whether to use the development grant to fund construction, extension and rehabilitation of primary schools, or secondary schools, depending on local needs. The Sector Grant and Budget Guidelines will provide guidance on how to prioritise projects.

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. For example, allocations for the completion of secondary schools will be maintained for a temporary period of one year only. Once a project is complete the allocation will be phased out.

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 District and one for Urban Local Governments. The District grant will be allocated using one formula, then allocated to each district through only one of two windows – (i) PRDP and LRDP, (ii) (other) Districts. The Urban grant will have two windows – USMID and (other) Urban. A Local Government will receive allocations from either the District or Urban DDEG, but not both.

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. The DDEG will have an overall set of conditions, although each programme may have its own additional specific requirements.

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 Equalisation 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. Allocations to capacity development and investment will be budgeted using new output codes in the Chart of Accounts. Furthermore, the DDEG may be used to fund outputs that are not typical capital investments, but are nonetheless developmental in nature. Specifically, ten percent of the DDEG allocation to each Local Government will need to be allocated to livelihoods development – interpreted as Agriculture, Natural Resources and Social Development activities.

### **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, or other means of allocation.
* Sector grants will be allocated in a way that provides equitable funding for Local Government services in that sector (e.g. funding for education).
* Discretionary recurrent grants will cover the operational costs of local governments, while the Discretionary Equalisation Development Grants will each have unified formulae with a strong equalisation component to give more to less developed Local Governments.

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 five (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; and * 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; and * 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; and * Variables should be ‘exogenous’ to influence from Local Governments, and it should not be possible to influence/manipulate them; and * 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; and * 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 might necessitate retrenchment. Instead, Local Governments with Wage grant allocations higher than would be the case under the formula must not recruit new staff. Additional funding will be targeted as Local Governments with Wage allocations less than they should under the new formulae.
* Non-Wage Recurrent and Development Grants formulae will be phased in gradually, subject to the availability of funding. Allocations will be a combination of 2015/16 allocations and the new formula, with the share of the new formula increasing over time until it determines the full allocation to each Local Government.
* MoFPED in the medium term will identify additional funding to increase total allocations to Local Government grants to reduce the impact on Local Governments receiving a smaller share of overall allocations under the new formulae.

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.**

This reform aims at giving greater discretion to Local Governments by limiting the extent of earmarking for grants. However, this must be accompanied by reforms to improve accountability for the results of those allocation decisions.

Ongoing budget reforms such as IFMS, online-Performance Budgeting System (PBS) and the Budget Transparency Initiatives like the Budget Call Centre and Website have 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. Input controls check whether Local Governments spend their budgets on certain types of spending (e.g. wages or allowances) rather than what outputs are produced. 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 Sector Grant and Budget Guidelines.

These 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 2017/18 budget process from November to January. Stakeholders will jointly evaluate compliance of Local Governments (and line ministries) with high-level sectoral and cross-sectoral budget guidelines. 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 15 March.

Starting in 2016/17, Draft Estimates will be reviewed for compliance with more detailed budget requirements in April. The assessment will be done by an independent firm, using the Budget Requirements Assessment Table (BRAT) included in the Sector Grant and Budget Guidelines. 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 Budgeting System (PBS) 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 now includes summary information on all grants to local governments.
* 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 PBS/OBT will be made directly accessible to Local Governments and the public from FY 2018/19. 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 Sector 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 on the site within two weeks of the date the comment was 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 PBS/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 and Town Clerks.

## **Sector Grant and Budget Guidelines**

Sector Grant and Budget Guidelines 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 Administration and Unconditional Grants, and one for the Discretionary Development Equalisation Grant. These will be issued by the respective Sector Ministries and Agencies with grant transfers under their mandate to all Local Governments.

The Sector Grant and Budget Guidelines summarise guidance on the grants provided to Local Governments in each sector, budget allocations, and conditionality. Conditionality includes:

1. Requirements that need to be followed in budget preparation;
2. Sector management and reporting requirements; and
3. The outputs and indicators that may be budgeted by Local Governments in the sector.

Attached to this is the tool that will be used by Central Government to assess Local Government compliance with the new budget requirements. The Guidelines will be made available online on the Budget Website.

The Guidelines 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   * Introduction * National priorities for the sector * The mandate, roles and responsibilities of local governments * Grant purpose, budget and structure * Grant allocation formula * Performance-based allocations (if any) * Overview of sector budget requirements * Positive and negative lists (what may, or may not be funded) * Budget Requirements Assessment Table   + - Overall 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 Sector Grant and Budget Guidelines may differ between sectors. |

# Stages in Budget Preparation

All Local Governments must prepare budgets consistent with:

These Planning and Budgeting Guidelines;

Grant conditions stipulated in the Sector Grant and Budget Guidelines; and

Budget Allocations (IPFs) issued by the MoFPED 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 are given in section 4. In addition, a Step-by-step guidance for preparing the Department Workplan is provided in section 5.

## **Consultations between Central and Local Governments**

The **Regional Budget Consultative Workshops** signal the start to the budget process in any given fiscal year. These take place in August and/or early September. 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 will among others, involve key 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 Sector Grant and Budget Guidelines and;
* Local Government Planning and Budgeting Process for the forthcoming year.

Issues from the Regional Budget Consultative Workshops feed into Sector Grant **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 (ULGA) and Urban Authorities Association of Uganda (UAAU).

If the Local Council has any issues that they wish to be considered, they should raise them for consideration through 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 Guidelines** signed by UNAT and the Sector, and witnessed by LGFC, MoFPED, MoPS, MoLG and NPA. This agreement will be posted on the LGFC and Uganda Budget Websites and should be used when making allocation decisions during the planning and budgeting process. The outcome of the negotiations will also be used to update the Sector Grant and Budget Guidelines for each sector.

## **Preparing the first Budget Call Circular**

Each Local Government must prepare a Budget Framework Paper setting priorities for spending and planned outputs, based on Indicative 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, Other Government Transfers 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 departmental work plans, including the higher Local Government share of discretionary equalisation development grants, unconditional recurrent grants, locally raised revenues, sector conditional grants, Other Governmental Transfers 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 Sector Grant and Budget Guidelines 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 1st February.

Once they receive the budget call, Heads of Department and LLGs should prepare initial **draft Annual work plans 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 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 Sector Grant and Budget Guidelines.

There is some flexibility for departments to **reallocate conditional grant** **funding** between Vote Functions within the sector up to a value of 10% of the total allocation. Such decisions must be consistent with the overall requirements set out in these guidelines and the relevant sector Sector Grant and Budget Guidelines.

**Local Governments should have functional Budget Desks.**  The Budget Desk will compile the Budget Framework Paper using submissions from Heads of Departments and LLGs. The draft BFP should then 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 submitted for review 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 15th 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 (2015), 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 Budget Framework Paper.

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. The IPFs will be accompanied by lists of service delivery units that will be eligible in the next fiscal year to receive funding from the government, and who will receive their budget allocations directly from the Treasury by Straight Through Processing (STP) Modality.

Line Ministries will review Local Government BFPs for **compliance with the overall sector budget requirements** and provide feedback to Local Governments alongside the Second Budget Call Circular. The overall budget requirements check that Wage, Non-Wage and Development Budgets balance correctly, and that salaries are allocated from the unconditional and conditional wage grants. Comments received by the Local Government 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 then issue the **Second Local Government Budget Call Circular** to Departments and Lower Local Governments 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 10th 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 not later than the last working day of February, which will consolidate and reconcile the inputs within available resources. Each Local Government will also need to have approved the list of service delivery units that will receive transfers.

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 15 March. 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 1st 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 assess draft budgets** to ensure that budget requirements have been met, and provide feedback by within one month of receiving the draft budget from a Local Government. This process will be conducted by an independent contractor recruited by MoFPED to ensure objectivity and the process will be fair and transparent. Sector Line Ministries will review the results for the relevant Local Government Departments. The basis for the assessment will be Sector Grant and Budget Guidelines, which include a Budget Requirements Assessment and Compliance Table that defines “compliance” objectively. If changes are needed after the assessment, 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. Before the Performance Contract is signed, the **Central Government will assess the budget once more** to check if each Local Government incorporated the necessary changes identified at the draft budget stage.

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 (through MoFPED) will communicate Indicative Planning Figures (IPFs) and will ensure that the allocations are maintained at the level of the National Budget Framework Paper. IPFs may be revised before Approval of the Budget by Parliament, if for example additional resources are made available for Local Governments. Any changes will be communicated to the Local Governments to adjust their budgets accordingly. 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 Accounting Officer is requested to communicate all relevant information to the Heads of Department, Sector Committees and Lower Local Governments.

# **Managing the Budget Process**

This section provides details of the key stages of the budget, focusing on the information that is required 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:

1. Planning for and managing the budget process;
2. Preparing the overall department revenue budgets;
3. The LLG budget process;
4. Compiling HLG budget documents; and
5. 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 Accounting Officer with support from the Budget Desk, in consultation with the Heads of Departments and should aim to:

1. 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.
2. Review recurrent budget allocations against actual outturns to identify areas of over- or under-spending or where outputs were not delivered as planned.
3. Undertake targeted reviews with the assistance of line ministries or donors to evaluate service delivery challenges and needs in priority areas.
4. 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**

**Following the issuance of Budget Call Circular from MoFPED, Local Government Accounting Officers are also requested to issue Local Government Budget Call Circular (BCCs).**

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 Sector Grant and Budget Guidelines. 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 Sector Grant and Budget Guidelines 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 (if any)
* Lists of service delivery units (e.g. schools) eligible for funding from the government, and that will receive their release in the new fiscal year via Straight Through Processing
* 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 31st October. The exact dates and times lines for preparing inputs 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 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 Accounting Officer 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 physical performance against previous budget
* Revenue projections 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.

### **Council Approval of the BFP and Budget**

At each stage of the budget process, the draft budget and workplan should be prepared by the Head of Department, consolidated by the Budget Desk and presented to the Technical Planning Committee for consideration by the Accounting Officer before it is forwarded to the Executive Committee for approval. After Approval, this should be submitted to the MoFPED, MOLG and LFGC with the Departmental extract to respective sector Line Ministry.

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 Sector Grant and Budget Guidelines.
* presented to the HLG Council by the Chief Administrative Officer of the HLG.
* distributed to the LLG Council and discussed by the LLG Council before 10th December
* discussed by the standing committees of the HLG Council and approved by the full HLG Council before 31 December

Changes proposed by the Councils prior to adoption of the Budget Framework Paper will be incorporated and approved by. The Budget Framework Paper then will form the basis of the Budget Estimates.

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 Sector Grant and Budget Guidelines.
* 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 PBS/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 may be able to reallocate resources between vote functions within the sector, up to a limit.
* 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.

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 Sector Grant and Budget Guidelines. 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 PBS/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 Sector Grant and Budget Guidelines 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 Indicative Planning Figures (IPFs) is 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.

## **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 compiling 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 the HLG (services provided) or the LLGs and service delivery units (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.

For services provided, each output should be linked to an output indicator, which stipulates in greater detail what will actually be provided. For example, Local Goverment 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. The Sector Grant and Budget Guidelines outline these requirements in detail along with the outputs that should (or should not) be budgeted for – see the section for the Budget Requirements Assessment Tool for details.

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, but must at least cover the indicators specified in the Performance Contract.

It is important that all service delivery units that will be financed by the government are agreed with the Sector Line Ministry. The Sector Line Ministry will issue a list of service delivery units to Local Governments after the Second Budget Call Circular in February. The lists will include schools, health centres, private-not-for-profit health facilities, and other providers. Each Local Government is expected to check that this list is complete and to provide information on:

1. The status of infrastructure in each government facility; and
2. The bank details which can be used for releasing resources directly via Straight Through Processing.

This list will provide a unique identifying number for each service provider which can be included in the Annual Work Plan Details.

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 Requirements**

The adherence to budget requirements will be a key input into the appointment of an Accounting Officer and the signing of the Performance Contract. The PS/ST will not renew the appointment of an Accounting Officer or sign a Performance Contract with an Accounting Officer if sector budget and crosscutting accountability requirements are (substantively) 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 budget and Accountability Requirements are set out below, and more detail is provided in the subsequent sections and the associated Sector Grant and Budget Guidelines. These requirements will be assessed annually at the time of submission of draft budgets and performance contracts.

1. Overview of Budget and Management Requirements

| **Area** | **Overview of Requirements** |
| --- | --- |
| **Budget Requirements** |  |
| Overall | * Performance contract is fully consistent with the final budget ceilings (FPFs). * Specifically, total Workplan revenues and expenditures balance and are divided correctly between wage, non-wage recurrent, GoU and donor development. |
| Allocating non-wage budgets   * Between Vote Functions | * Provided all other requirements are met, Local Governments may exercise flexibility in the allocation of non-wage grants. * For some sectors, non-wage conditional grants may be reallocated from one Vote Function to another, up to a specified proportion (e.g. 10% of the grant allocation). |
| Salaries   * Salary budgets * Wage-related costs | * Salary budgets within each sector do not exceed the maximum level provided, but can be below. The ceiling for permanent staff salaries will usually be the combination of the unconditional wage grant and the sector conditional wage grant. * Salary budgets and staff lists should be consistent with the approved Local Government structures. * Salary budgets are based on verified staff list and include all vacancies and new posts. * Salary budgets should not involve recruitment of new staff where LG wage allocations are higher than would be the case under the allocation formulae. LGs should not replace staff who leave the employment of the Local Government in such cases. A schedule of the affected LGs will be provided. * Salary budgets meet any minimum staffing requirements and are consistent with guidance on the distribution of staff between different LLGs and service delivery units in a sector. |
| 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. * Budgets for Higher Local Services are allocated to the correct outputs and are consistent with any guidance on allocations between outputs. * 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. * Allocations cover investment servicing costs of capital investments, below the maximum level. * Planned investments and capacity development activities are consistent with the negative and positive lists provided in the sector. |
| **Accountability Requirements** | |
| Timeliness of Budget Submissions | * A LGBFP submitted by the 15th November |
| * A draft budget submitted by the 15th March |
| * A final performance contract submitted by the 15th June on the basis of the approved budget. |
| Supporting Documents for the Budget required to the PFMA are submitted and available | * Budget Submission includes a Procurement Plan for the forthcoming FY. |
| * Budget Submission includes an annual Recruitment Plan for the budget year |
| * Budget Submission incudes the cash flow projections of the vote |
| * Budget submissions include a Vehicle Utilization Report |
| * Budget submissions include the Asset Register of the vote |
| Timeliness of Reporting | * The annual accounts for the previous financial year have been submitted |
| * The annual accounts for the previous FY were submitted on time on or before 31st August |
| * The last four quarterly performance reports report due have been submitted. |
| * The annual performance report for the previous FY was submitted on or before 31st July. |
| * The first quarter’s budget performance report for the previous FY was submitted on or before the 31st October |
| * The second quarter’s budget performance report for the previous FY was submitted on or before the 31st January |
| * The third quarter’s budget performance report for the previous FY was submitted on or before the 31st April |
| Procurement Information Available | * Procurement Plan entered by the vote on the Tender Portal for the current FY |
| * New Information has been posted on the tender portal for the vote in the current calendar year. |
| * The information posted on the portal in the current calendar year includes updated status of tenders, either as the best evaluated bidders or signed contracts. |
| Arrears | * There were no new arrears accumulated in the previous financial year. |
| Internal Audit | * The LG has provided information to the PS/ST on the status of implementation of internal audit findings for the previous financial year. |
| * This statement includes actions against all findings where Internal Audit recommended the accounting officer to take action. |
| External Audit | * The most recent Audit Opinion is neither Adverse nor Disclaimed. |
| * There are no audit findings relating to overpayment of salaries, |
| * There are no audit findings relating to funds not being accounted for |
| * There are no audit findings relating to procurement anomalies |
| * There are no audit findings relating to unsatisfactory or delayed civil works |
| * There are no audit findings relating to locally-raised revenue |
| * There are no audit findings relating to assets management |
| * There are no audit findings relating to unspent balances |
| * There are no audit findings relating to assets management |
| * There are no audit findings relating to unspent balances |
| * The LG has provided information to the PS/ST on the status of implementation of external audit findings for the previous financial year |
| * This statement includes actions against all findings where the Auditor General recommended the accounting officer to take action. |
| Transparency, Monitoring and Follow up | * Respond to and take appropriate follow up actions to feedback provided on the budget website and call centre. |
| * Post the LG Payroll on the budget website |
| * Post the LG Pensioner Schedule on the budget website. |
| * Prepare quarterly monitoring reports which outline the findings of monitoring activities and post them on the budget website |
| * Post all quarterly monitoring reports on the budget website within one month of the end of the quarter. |

# **Preparation of Department Workplans and Budgets**

## **Introduction**

This section provides details specific to the preparation of department work plans and budgets, which reflect government investments and donor-funded projects. The preparation of department work plans and budgets 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).
* Work plans and budgets must be consistent with the budget requirements set out in the Sector Grant and Budget Guidelines. 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).
* Departmental 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 II.
* Investments and services that will be implemented by Local Governments should be based on those set out in the annual work plans 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 Budget** sets out the Recurrent and Development revenues. The department revenue budget sets out the total recurrent and development allocation to the sector further 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 Work plan, 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 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 work plan 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 may 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).
* 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 budget requirements in the Sector Grant and Budget Guidelines.

### **General budgeting requirements**

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

1. Local Governments must budget adequately in order to fund the management and monitoring of service delivery, in line with the allocations specified in Sector Grant and Budget Guidelines.
2. Government funding from the development budget should be allocated to either;

Infrastructure investments and associated investment servicing costs or;

Capacity development using the output codes listed in the Grant Budget and Information Paper.

The recurrent budget should not be allocated to capacity development or capital purchases.

1. The Discretionary Equalisation Development Grants will be shared between HLG and LLGs using a standard formula for rural and urban areas.
2. Investment service costs shall be restricted to a maximum of the development budget for capital investments and shall be budgeted for against the respective capital output.
3. The Development grants may be used for capacity development, up to the specified limit and consistent with the activities listed in the LG capacity development plan.

## **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.

The draft budget estimates for wages should:

* Exclude allowances and pensions payments which are budgeted under non-wage items.
* Be based on a verified staff list, submitted to the MoPS and MoLG, which is consistent with the approved Local Government structures and includes planned recruitment.
* 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 that leave the employment of the Local Government. These areas are set out in a schedule provided by MoFPED accompanying the IPFs.
* Be consistent with sector guidance on the allocation of staff to HLGs, LLGs and service delivery units within the relevant vote functions and outputs.
* Provide staff to operationalise any new service delivery infrastructure being delivered in the new fiscal year.

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

Wage grants are to 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-related costs:

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

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

The Sector Grant and Budget Guidelines 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, file numbers and salary scales) is the basis for the salary budget in the Budget Framework Paper and subsequent Budget Estimates. Each Local Government will be required to verify that the staff list provided 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 the service delivery unit).

Local Governments have the responsibility to ensure that wage allocations in the staff list and recruitment plans are consistent with the total wage ceilings for the Local Government (i.e. the Unconditional and Conditional grant allocations).

## **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 service providers (e.g. schools) that are new or have expanded will need to be catered for in these allocations.

There must be a unified list of all service providers that will receive budget allocations. Releases will be made directly to these units by Straight Through Processing (STP). A single list is needed to ensure that the right units receive their allocations. The Sector Line Ministry will provide a draft list to the Local Governments after the Second Budget Call Circular. Each Local Government will be required to check that this list is accurate and comprehensive. In principle, there should be no school or health facility in the budget that is not on this list, and there should be no school or health facility that is on this list that is not in the budget. Both the Line Ministry and the Local Government will approve and sign off on the list of service providers before the Performance Contract is finalised. Failure to do so may result in delays to the signing of the Performance Contract, or the appointment of the Accounting Officer.

### **Sector Budgeting Requirements**

Sector Grant and Budget Guidelines 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 in April/May before Budget Estimates are approved by the HLG Council. Compliance will then be checked again before the Performance Contract is signed.

Outputs that will be delivered by Lower Local Governments are listed in the PBS/OBT as Lower Local Services (LLS). These are listed in the Sector Grant and Budget Guidelines for each sector. In budgeting for each output for Lower Local Services, Local Governments will use the transfer items listed in the PBS/OBT.

1. Lower Local Service (LLS) Outputs

| **Sector** | **Vote Function** | **Output** | **Output Name** |
| --- | --- | --- | --- |
| 01 | 81 | 51 | LLG Extension Services (LLS) |
| 04 | 81 | 51 | Community Access Road Maintenance (LLS) |
| 04 | 81 | 53 | Urban roads upgraded to Bitumen standard (LLS) |
| 04 | 81 | 54 | Urban paved roads Maintenance (LLS) |
| 04 | 81 | 56 | Urban unpaved roads Maintenance (LLS) |
| 04 | 81 | 57 | Bottle necks Clearance on Community Access Roads |
| 07 | 81 | 51 | Primary Schools Services UPE (LLS) |
| 07 | 82 | 51 | Secondary Capitation(USE)(LLS) |
| 08 | 81 | 53 | NGO Basic Healthcare Services (LLS) |
| 08 | 81 | 54 | Basic Healthcare Services (HCIV-HCII-LLS) |
| 08 | 81 | 55 | Standard Pit Latrine Construction (LLS.) |
| 08 | 81 | 56 | Hand Washing facility installation(LLS.) |
| 08 | 82 | 51 | District Hospital Services (LLS.) |
| 08 | 82 | 52 | NGO Hospital Services (LLS.) |
| 09 | 81 | 51 | Rehabilitation and Repairs to Rural Water Sources (LLS) |
| 10 | 81 | 51 | Community Development Services for LLGs (LLS) |
| 13 | 81 | 51 | LLG Administration |
| XX | XX | 59 | Multi sectoral Transfers to Lower Local Governments |

## **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.

Sector Grant and Budget Guidelines 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**

All outputs for capacity development will be budgeted at the HLG level – that is for the needs of both HLGs and LLGs. Activities should be consistent with the LG’s Comprehensive Capacity Building Plan.

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.

Sector Grant and Budget Guidelines will provide details of the proportion of the Discretionary Development Equalisation Grant and sector conditional grants which may be used to fund capacity development. No sector permits LGs to fund long-term training such as graduate and post-graduate degrees.

### **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;
* Identifying gaps in the Local Government performance assessment (conducted annually for the urban and district discretionary development grants); and
* 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 every Financial Year.

## 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.

Resources from the Discretionary Development Equalisation Grant will be shared between HLGs and LLGs using a standard formula, while Sector Development Grants will be allocated in line with the Sector Grant and Budget Guidelines.

1. Service Infrastructure Capital Outputs

| **Sector** | **Vote Function** | **Output** | **Output Name** |
| --- | --- | --- | --- |
| 01 | 82 | 80 | Valley dam construction |
| 01 | 82 | 81 | Cattle dip construction |
| 01 | 82 | 82 | Slaughter slab construction |
| 01 | 82 | 83 | Livestock market construction |
| 01 | 82 | 84 | Plant clinic/mini laboratory construction |
| 01 | 82 | 85 | Crop marketing facility construction |
| 01 | 83 | 80 | Construction and Rehabilitation of Markets |
| 01 | 83 | 81 | Construction and Rehabilitation of Bus Stands, Lorry Parks and other Economic Infrastructure |
| 04 | 81 | 80 | Rural roads construction and rehabilitation |
| 04 | 81 | 55 | Urban unpaved roads rehabilitation (other) |
| 04 | 81 | 83 | Bridge Construction |
| 04 | 82 | 81 | Construction of public Buildings |
| 04 | 82 | 82 | Rehabilitation of Public Buildings |
| 04 | 83 | 80 | Street lighting facilities constructed and rehabilitated |
| 04 | 83 | 81 | Construction and rehabilitation or urban drainage infrastructure |
| 04 | 83 | 82 | Construction and rehabilitation of solid waste collection and disposal facilities |
| 04 | 83 | 83 | Urban beautification infrastructure (parks, playgrounds, landscaping etc) |
| 07 | 81 | 80 | Classroom construction and rehabilitation |
| 07 | 81 | 81 | Latrine construction and rehabilitation |
| 07 | 81 | 82 | Teacher house construction and rehabilitation |
| 07 | 81 | 83 | Provision of furniture to primary schools |
| 07 | 82 | 80 | Classroom construction and rehabilitation |
| 07 | 82 | 81 | Administration block rehabilitation |
| 07 | 82 | 82 | Teacher house construction |
| 07 | 82 | 83 | Laboratories and science room construction |
| 08 | 81 | 80 | Health centre construction and rehabilitation |
| 08 | 81 | 81 | Staff houses construction and rehabilitation |
| 08 | 81 | 82 | Maternity ward construction and rehabilitation |
| 08 | 81 | 83 | OPD and other ward construction and rehabilitation |
| 08 | 81 | 84 | Theatre construction and rehabilitation |
| 08 | 81 | 85 | Specialist health equipment and machinery |
| 08 | 82 | 80 | Hospital construction and rehabilitation |
| 08 | 82 | 81 | Staff houses construction and rehabilitation |
| 08 | 82 | 82 | Maternity ward construction and rehabilitation |
| 08 | 82 | 83 | OPD and other ward construction and rehabilitation |
| 08 | 82 | 84 | Theatre construction and rehabilitation |
| 08 | 82 | 85 | Specialist health equipment and machinery |
| 09 | 81 | 80 | Construction of public latrines in RGCs |
| 09 | 81 | 81 | Spring protection |
| 09 | 81 | 82 | Shallow well construction |
| 09 | 81 | 83 | Borehole drilling and rehabilitation |
| 09 | 81 | 84 | Construction of piped water supply system |
| 09 | 81 | 85 | Construction of dams |
| 09 | 82 | 80 | Construction and Rehabilitation of Sewerage Facilities |
| XX | XX | 75 | Service Delivery Capital Investment - Other |
| XX | XX | 72 | Administrative Capital Investment |

### **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.

Sector Grant and Budget Guidelines 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 work plans, 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 implementation 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 Programme Budgeting System (PBS) 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 PBS 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 have 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 Sector Grant and Budget Guidelines, 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 with their respective item codes.

1. 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 Work Plans and Cash Plans**

The guidelines so far have focused on the process for determining what should be included in the Budget. However, the annual work plan 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. The Procurement Plan will use the templates are available from the Public Procurement Disposal of Public Assets Authority (PPDA), not the OBT/PBS. 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.