

# CONCEPT BRIEF

## BUDGET POLICY AND EVALUATION DEPARTMENT

### REVISITING THE ROLE OF MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT IN THE WARRANTING PROCESS FOR LOCAL GOVERNMENTS

#### A.INTRODUCTION

1. Section 32 of the PFMA, 2015 provides that, any withdrawals from the Consolidated Fund can only be done through a warrant issued by the Minister, to the Accountant-General. The Minister's warrant is obtained after a grant of credit for a given financial year has been issued by the Auditor-General. The section further specifies the purpose of expenditure for which the warrant is drawn, all which must be explicitly communicated through official letters.
2. The Treasury Instructions 2017 prescribes the operational procedures for the warranting process on the budgeting and Accounting based Systems that come after issuance of the Minister's warrant for the respective Quarter and Financial Year. Therefore, effective FY 2016/17, this Ministry issued policy guidance to have all releases including those hitherto under the legacy system processed on the IFMS.
3. The above process entails the submission of Accounting Warrants by Local Government Accounting Officers using the Integrated Financial Management System (IFMS) for review by Budget Directorate and Accountant General upon which the warrants are either approved or rejected under each category of the expenditure limits by vote, grant and item based on the circular communicating the expenditure limits by PS/ST;
4. However, over time a number of challenges have constrained the implementation of Local Government budgets some of which still persist despite this Ministry's efforts to improve decentralized service delivery Systems. One of the major challenges to the absorption and performance of the annual budgets in Local Governments is the perpetual late commencement of budget execution owing to the cumbersome warranting processes;
5. This Ministry has continually come under scrutiny for delayed approval of Local Government warrants on the IFMS within the required 24 hours, even where such warrants have been submitted late. Worse still, our role in the warranting process has always been limited to checking for consistency of the warrants with the earlier issued cash limits, a process that can be automated with minimal risk once the right tools and Systems are in place;
6. The purpose of this paper therefore, is to propose a revision of the Ministry's role in the issuance of expenditure limits with a view of addressing delays in the release process where funds will be released to a given Vote to item level as opposed to the current process of Vote or Grant level with its associated challenges currently faced by Local Governments. The brief is structured into three sections; Introduction, warranting process, and lastly emerging issues and the proposed way forward in addressing the challenges.

## B. ASSUMPTIONS USED FOR ISSUING QUARTERLY LOCAL GOVERNMENT EXPENDITURE LIMITS

7. The Local Government expenditure limits are issued based on approved budget estimates, annual and quarterly work plans and cash flow projections for each Local Government vote by budget category of; ***Wage, Non-Wage, Development, Pension, Gratuity, Pension and Gratuity Arrears, Salary Arrears, and External Financing.***
8. Currently the Local Government quarterly expenditure limits are generated off the Online Transfer Information Management System (OTIMS) at Vote and Grant level and not at sub grant and item level because the OTIMS doesn't have item level details of the LG budgets.
9. Every quarter, the generated Vote and Grant level expenditure limits are then issued in a circular together with the Central Government Votes, usually within the first week of the first month of a given Quarter in a Financial Year and the limits are issued by Vote, sector, grant and expenditure category.
10. The expenditure limits are issued based the following underlying assumptions;
  - i) The automatic grant releases for ***Wage, Non-Wage, Pension, Gratuity, and External Financing are usually issued at 25% of the Budget every quarter*** populated through the Online Transfer Information Management System (OTIMS) based on the work plans;
  - ii) ***Pension, Gratuity and Salary Arrears are all releases 100% in the 1<sup>st</sup> Quarter of a given Financial Year;***
  - iii) For Local Revenues, an advance of 25% of Local Revenue budget in line with the work plans are released to Local Governments in Quarter One to enable them implement programmed activities as per your work plans. For the subsequent quarters, funds are released based on the local revenue performance and remittances to the Consolidated Fund;
  - iv) Releases for Schools capitation grant follow the term calendar and it is usually a third (1/3) of the budget provision while Health facilities get 25% of their allocations to those units in Local Government Budgets;
  - v) Funds for Production activities (NAADS/OWC) are released based on seasonality usually twice a year, implying this it's a 50% releases; and
  - vi) Development Grants are released in three quarters at a rate of 33.33%, implying that 100% of this grant is released by the Quarter Three (Q3) to eliminate unspent balances at the end of financial year;
11. ***Given that the above assumptions apply across all Local Government Votes, then the value addition for warranting is not significant.***

## C. CURRENT PROCESS ON WARRANTING FOR LOCAL GOVERNMENT VOTES

#### **a) Warrant Approval process**

12. Every quarter,, upon receipt of expenditure limits as communicated by this Ministry, the respective Local Government Accounting Officers prepare and submit on the IFMS Accounting warrants for all 10 categories of expenditure (*Wage, Non-Wage, Development, Pension, Gratuity, Pension and Gratuity Arrears, Salary Arrears, Local Revenue Recurrent, Local Revenue Development and External Financing*) at the same time to this Ministry for review as below;

- i). Budget Directorate on receipt of a given warrant, reviews the warrants submitted on the IFMS to check for their conformity to the budget feasibility and makes recommendations for either rejection/approval. Upon review, the warrants will then be approved (**first approval**) by Budget Directorate and then sent to the Accountant General for **second approval**;
- ii). On recommendation by Officers in Budget Directorate, for approval, the Accountant General approves the warrant and the Local Government Accounting Officers then goes ahead to enter the invoices and validates/approve payments on the IFMS upon confirmation of receipt of funds on the system;
- iii). If it's recommended for rejection, the warrant goes back directly to the Accounting Officer with reasons why the warrant was rejected; and
- iv). On receipt of invoices, the Accountant General instructs Bank of Uganda to effect payments.

#### **b) Challenges Noted with the current warranting processes**

13. In a bid to establish the underlying factors causing delayed submission and approval of accounting warrants, in the FY 2019/2020, the Office of the Accountant General conducted an assessment in 33 sampled Local Government Votes with a view to ascertain the challenges of warranting. The exercise revealed three key constraints to warranting in Local Governments including;

- i) Delays in distribution of funds due to non-functional Finance Committees in LGs;
- ii) Delayed submission of the warrants by Accounting Officers due to capacity gaps at Vote level affecting information flow and actual processing of warrants in time.
- iii) Limited delegation of warranting responsibilities by Chief Finance Officers and Accounting Officers; and
- iv) Power and network failures.

14. The submission of Warrants by Local Governments spans over a month after issuance of Cash Limits, which in addition to laxity in reviewing of submitted warrants by MOFPED on account of competing priorities, has led to increased turnaround time beyond the expected 48 hour time-frame and unnecessary delays to effective access and utilization of funds. This has been on account of failure to prioritize submission and review of as well as capacity gaps escalated by ICT and internet related challenges.

15. In addition, there are increased administrative and operating costs in Local Governments because some Votes travel long distances to access IFMS Centres in order to warrant and invoice for funds as not all LGs have IFMS sites, poor internet challenges at the various sites among others, causing further delays in releasing funds as well as submission of warrants.
16. Other than system related aspects, Information asymmetries before and after rejection of warrants or release of Funds have resulted in late submission and approval of warrants. This has been noted to arise from the fact that some Local Government Accounting Officers do not take the initiative to read all Expenditure limits circulars issued and therefore they are not aware of certain limits issued to them hence take long to process their warrants despite the timely upload by this Ministry.
17. The manual processes have encouraged avoidable human errors and interferences in the midst of competing for the Officers. In exceptional cases, relaying of detailed breakdowns for the sub Grants to the Accounting Officers may take more than a day and thus affect the warranting time for released Funds.
18. From the above, it is our envisaged position that the current systems and tools should be revisited to ensure that the approvals are controlled for by the systems. In so doing, we anticipate that the quarterly Local Government budgets shall commence much faster, since such limits shall be affected upon issuance.

#### D. PROPOSED INTERVENTIONS

##### Item level issuance of Cash Limits

19. In light of the above challenges and the underlying assumptions for issuance of the limits, we propose that the quarterly expenditure limits for Local Governments should be issued at item level using the PBS since it has the detailed budget allocations to item level and this is interfaced with IFMS. This will also include details for direct transfers to Education Institutions, Health Facilities and Lower Local Governments as well thus reducing on the business process for Local Government releases.

#### E. CONCLUSION

20. To realize the above desired, the PBS system has been configured for commencement of issuing and uploading of cash limits at item level for upload directly to IFMS effective **1st July 2021**.
21. After issuing the limits at item level through the automated system, the respective Local Government Accounting Officers will be expected to initiate the warrants on IFMS which will be validated by Accountant General's Office.
22. The purpose of this brief, therefore, is to:
  - i). Bring to your attention that, effective **1st July 2021**, expenditure limits for Local Governments will be issued at Vote and Item level to remove the unnecessary delays

due to warranting given that the Limits for LGs are based on a uniform assumptions that cut across all Votes;

- ii). Request for your indulgence to adopt the above proposal to guide the preparation of quarterly expenditure limits to Local Governments in FY 2021/22 which will be included in the Budget Execution Circular by PS/ST.