

THE REPUBLIC OF UGANDA

**LOCAL GOVERNMENT FINANCE COMMISSION**

**HIGHLIGHTS ON NEGOTIATIONS ON SECTOR CONDITIONAL GRANTS FOR FY 2014/15**

**A paper presented at the Local Government BFP Consultative Workshops for FY 2014/15**

1. **Introduction**

Negotiations between local governments and sector ministries on the operations of sector conditional grants are a core requirement in the process of decentralization in Uganda.

Article 193(3) of the Constitution of the Republic of Uganda states that **“Conditional grants shall consist of moneys given to local governments to finance programmes agreed upon between the government and the local governments and shall be expended for purposes for which it was made in accordance with the conditions agreed upon’’.**

Therefore, Negotiations between local governments and sector ministries on the operations of sector conditional grants are a core requirement in the process of decentralization in Uganda.

Every year, Government provides grants to local governments through sector ministries to implement some decentralized services. These grants are accompanied by implementation guidelines which state the purpose and modalities of transfer. It is important that both parties get a common ground regarding each party’s obligations in implementing these programmes.

As part of the process to prepare for the FY 2014/15 budget implementation, the Local government Finance Commission organized, chaired and facilitated the Negotiations from 9th to 13th September 2013, which culminated into Agreements. Local governments were represented by the Uganda Local Government Negotiation and Advocacy Team (UNAT) and sector ministries by their respective sector managers

**2.0 Objectives**

The overall objective of the negotiations was to ensure that local governments and sector ministries agree on priority undertakings regarding the implementation of the conditional grant programmes in respective sectors for the FY 2014/15.

The specific objectives of these negotiations were to:

* Reach agreements between local governments and sector ministries on the content of sector guidelines to implement in conditional grants funded programmes.
* Clarify to all stakeholders what part of national sector policies local governments are mandated to implement
* Review the status of implementation of the previously signed agreements.
* Agree on priority undertakings for expenditure of the Conditional grants for FY 2014/2015

**3.0 Holding the Negotiations**

The sector ministries that participated are;

* Ministry of Water and Environment;
* Ministry of Health;
* Ministry of Agriculture Animal Industry and Fisheries;
* Ministry of Works and Transport;
* Ministry of Gender Labour and Social Development;
* Ministry of Education and Sports
* Ministry of Trade Industry and cooperatives

Each sector had a separate Negotiation meeting with UNAT. Each party had issues to be negotiated and these were prepared for each sector. The issues were agreed on by consensus after discussion of the purpose and implications on each party and agreements were signed by both parties, accordingly

These negotiations were witnessed by Ministries and Agencies that handle cross cutting issues i.e.; Ministry of Local Government, Ministry of Finance, Planning and Economic Development, Ministry of Public Service and National Planning Authority. These witnesses gave technical information on the issues that were brought forward for negotiation.

**4.0 Emerging Issues**

Some of the emerging issues that were discussed include;

1. **Levels of Funding**: There were concerns that the ratio of the moneys that go to LGs for service delivery compared to what remains with line ministries should be addressed. It was agreed that in future, data on the vertical sharing of financial resources should be tabled for discussion.
2. **Staffing and Salaries:** Staffing levels in LGs should be improved, LGs should be supported to fill the structures and appropriate staffing structures be put in place like the case of MAAIF. There should be an increase on the wage bill and government should increase salaries for civil servants across the board by FY 2014/2015.
3. **Capacity Building:** Sector ministries should give capacity building to LGs in identified areas e.g. procurement, contract management, technical back-up support, reporting and monitoring and service delivery
4. **Reporting**: Reporting is still weak and this has resulted to delayed submissions of work plans and MoU’s and that increasingly, funds are not being put to proper use which has resulted into increase in unit operating costs. The Respective Accounting Officers were requested to adhere to the guidelines issued for each of the sector grants and ensure proper and timely reporting, coordination and use of the funds.
5. **Housing infrastructure.** It was noted by the Ministry of Health that the function of building health centre and hospitals should not be a function of the Ministry of Health. They reported that because of that, a lot of housing work has turned out to be of poor quality. They recommended that construction of buildings should be allocated to the responsible ministry for Housing. Other ministries should only be handed finished work for occupation.
6. **Inadequate Transport and Operational facilities** especially for the Ministry of Health e.g. ambulances, medical equipment, power medical kits, transport and communication kits. This has also in the past been raised as a concern for CAOs, Deputy CAOs and Municipal Council Town Clerks.

**g Breakdown of the Road Equipment**

MoWT noted with concern that judging from the cases of breakdown of equipment being reported, it is clear that the guidelines issued were not being followed by some Local Governments for example using technicians and operators not trained by MoWT. In this case, It was agreed that

* Districts must use only trained technicians and operators to operate the road equipment.
* Districts must comply with the guidelines for using the road equipment.
* Districts and Municipalities which have not sent Technicians and Operators to be trained by MoWT should do so not later than December 2013 or provide reasons for failure to do so.

1. **Establishment of Rural and Urban Roads Authority**

The meeting was informed that the Ministry is in the process of establishing the Uganda Rural and Urban Roads Authority (URURA).

Local Governments noted with concern that the URURA is taking over the mandate of the Local Governments and relegating them to handle community access roads. MoWT should conduct another deeper engagement with the Local Governments on the URURA establishment to ascertain the functions that this Authority. MOWT should invite the MOLG, UNAT members and LGFC so that this matter is discussed at length by October 2013.

1. **Trade Licensing**

The Bill amending the Trade Licensing Act has undergone the first reading in Parliament. What is in contention however is the fact that the consultations on development of the Schedules to the Trade licensing Act which are already being implemented by Local Governments did not involve wide consultations with Local Governments.

It was recommended that the Trade Licensing Regulations should be revised in consultation with the Local Governments because local governments are better placed to assess and set the rates that should be paid in their respective jurisdictions.

It was also recommended that the Trade Licensing rates should be reviewed regularly in response to the prevailing economic circumstances

**4.1 Specific Obligations of the LGFC**

The LGFC was given some responsibilities. Mostly it was tasked to liaise with some sector ministries in the areas below;

1. **Ministry of Health**
2. **Inadequately Trained Health Workers**

The personnel numbers at the lower health facilities remain low due to , the limited wage bill . Furthermore the MoH would like to improve the salaries of the health workers across the board but this has not yet been fruitful.

It was agreed that MoH should submit to LGFC, MOFPED and the Local Governments Associations (ULGA and UAAU), the current staffing structure in each of the health facilities, indicating the staff in post, vacant posts, staff on the payroll and those not on the payroll.

1. **Ministry of Education and Sports**
2. **Funding for the Education sector**

Local governments noted with concern the stagnation of UPE grant funding even when the stock of education facilities is increasing and more staff recruited and this largely affects service delivery. MoES acknowledged the stagnation of the grant, but informed the meeting that it submitted a paper to MoFPED seeking for an increment; however this appears in the Education Sector Budget as one of the underfunded priorities.

It was agreed that MoES shall share a copy of the submission made to MoFPED on the UPE Grant, with the Local Government Associations (ULGA & UAAU), and the Local Government Finance Commission (LGFC) by close of business

1. **Schools Inspection Grant:**

It was noted that the guidelines stipulate that Local Governments should use 10% of the grant for maintenance of vehicles and motorcycles. But given the fact that there are old vehicles/motorcycles, the rate of breakdown is high due to the poor infrastructure. Given the above circumstances 10% is insufficient to maintain or repair two motorcycles hence putting inspection at a standstill.

On its part MoES expressed concern over the fact that the Local Governments have not provided it the necessary support to fund activities funded by this Grant. The Ministry argued that most local governments have failed to submit quarterly inspection workplans, quarterly inspection narrative reports. Those who submit, only provide financial reports. In the circumstances, it is difficult to lobby for an increase of the grant and yet the Ministry does not have evidence of how the available funds are being utilized.

It was agreed that MoES shall share a copy of the School Inspection Guidelines and the list of all the Local Governments which have not submitted inspection reports and work plans with MoFPED, MoLG, LGFC, and the Local Governments Associations (ULGA and UAAU), and by 16th September 2013 for follow up purposes.

1. **Ministry of Gender, Labour and Social Development**
2. **Funding for Community Based services sector**

It was noted that the MGLSD has engaged the MoFPED, Parliament Committee on Budget as well as Gender, Labour and Social Development for increased funding to Community Based Services. However it has not been successful.

It was also noted that the MGLSD plans to continue engaging the same stakeholders for increased funding.

It was agreed that the MGLSD shall share with LGFC, ULGA, UAAU and other stakeholders the Communications with MoFPED.

1. **Ministry Of Agriculture Animal Industry and Fisheries**
2. **Fisheries activities in LGs:**

LGs noted that there has been non recognition of fisheries inspectors at landing sites which handle fish for exports by the Ministry .

Local Governments have continued to express concern over the fact that since MAAIF took over the licensing of boats mandate from the Local Governments, it has been impossible for Local Governments to raise revenue from this area and yet in accordance with the Local Governments Act Cap 243, boat licence is one of the listed sources of local revenue for Local Government.

On the other hand the Ministry maintained that the regulatory function is vested in MAAIF under the Fish Act Cap 197, and accordingly it recentralized the issuance of license and collection of fees therefore from.

It was noted that in view of the existence of a contradiction between the two laws, namely the Fish Act Cap 197 and the Local Governments Act Cap 243, the matter should be referred to the Solicitor General for Consideration and determination of which of the two laws should take precedence over the other.

It was agreed that the Local Government Finance Commission should refer this matter to the Solicitor General for legal interpretation by October 2013 and provide the necessary feedback to both parties.

**5.0 Obligations of the Parties**

**5.1 General Obligations of the Local Governments**

* The UNAT through their Constituent organizations (ULGA and UAAU) shall disseminate to their members the agreements and highlight the obligations of the local governments.
* Implement their programmes based on the guidelines issued by the Sector Ministries
* Ensure timely response to issues raised by the Sector Ministries.
* Provide timely and accurate data on their plans, achievements and status of water, environment and sanitation facilities
* Share the agreed positions with the Parliamentary Committee on Local Government and Public Service and the Office of the Prime Minister

**5.2 General Obligations of the Sectors**

* The Sector Ministries were given responsibility of preparing and disseminating the sector guidelines which will become effective at the commencement of the year for which the negotiation is targeting (FY 2012/2013)
* They also undertook to communicate through circulars addressed to the Chief Administrative Officers and Town Clerks, the issues agreed upon in the negotiations for local governments to implement in their respective sectors

**6.0 Mid Term Review**

There shall be a midterm review by the Joint Technical Committee (JTC) comprising of members drawn from Local Governments Finance Commission (Chair), Uganda Local Governments Association, Urban Authorities Association of Uganda, All Sector Ministries and Office of the Prime Minister:

Other members include ex-officio members to the Committee for purposes of providing technical guidance ie Ministry of Finance, Planning & Economic Development, Ministry of Local Government, Ministry of Public Service and National Planning Authority

**7.0 Challenges and Recommendations**

* 1. **Challenges**

1. **Unsatisfactory Implementation of the signed agreements**

A big number of provisions in the previously signed agreements were not implemented by both parties especially the sector ministries. This affected service delivery in LGs. It is time and resource consuming as same issues are brought again to the negotiations table in the next negotiations, which undermines their effectiveness. There are no specific sanctions to be instituted on defaulting parties which reduces the effectiveness of the negotiations process.

1. Failure by the Negotiating parties to share their issues papers on time.
2. The Negotiating parties did not share their issues papers on time to allow each party to prepare before the negotiations meetings.
3. Failure by Sector Ministries to send representatives at PS level
4. As noted in the past negotiations, none of the sectors was represented by a Permanent Secretary to show high level commitment to the negotiations and signed agreements.
5. Failure by Sector Ministries to share the revised guidelines
6. After the negotiations, sector guidelines are supposed to be revised where necessary and shared with the Secretariat/LGFC and the Local Governments. However, it has been noted that sector ministries have not been promptly sharing the revised guidelines with the Secretariat/LGFC and the Local Governments.
   1. **Recommendations**
7. The Midterm review should be undertaken on time to ensure that effective follow up is made on all parties to implement all their undertakings. All sectors are obliged to participate as per the signed agreements.
8. All parties should share their negotiation issues well before the negotiations to allow prior preparation by either party.
9. The Sector Ministries should share the revised guidelines with LGFC secretariat and Local Governments through their Associations of ULGA and UAAU within one month after the negotiations
10. In future, all sectors and cross cutting Ministries should ensure that they participate in the Negotiations and Permanent Secretaries, Commissioners and Directors should comprise the delegation.

In conclusion, Negotiations between Sector Ministries and LGs (UNAT) is a very important constitutional process that influences improved service delivery in LGs. It is affected by a number of challenges, which should be worked on by the responsible parties. Therefore, all parties should take this process very seriously and ensure that implementation of agreed undertakings by either party and other stakeholders is never compromised.

**STUDY ON THE REVIEW OF LOCAL GOVERNMENT FINANCING**

LGs are critical partners in ultimate service delivery and National development initiatives

There are evident and consistent service delivery gaps that threaten to derail the gains made under decentralisation by devolution.

The LGFC commissioned a study effective January 2012 with a view to identify strategies for sustainable LG financing, improvement of equity and harmonization of service delivery within the devolution concept. The following areas were reviewed;

* 1. **Review and evaluation of FDS**

Overall, the objectives of FDS remain relevant as long as commitment to decentralisation is by devolution.

Government should address the current operational challenges facing Fiscal Decentralisation Strategy (FDS) and continue with the FDS Key Principles of:

* Participation
* Increased Autonomy
* Discretion in allocation to local priorities
* Local Accountability
* Incentives for Local Revenues and Development

1. **Reviewing the Intergovernmental Fiscal Relations.**

**Key Findings**

Under this review, the focus was on the assessment of IGFR on the improvement of Local Government Financing.

1. LGs expressed concern over the current grant system which is deemed not to be responsive to local needs and priorities. The overall mood is that it does not address the equity and service harmonization issues adequately.
2. It was noted that while Grants have grown in nominal terms, they have actually fallen in real terms. This has led to the following occurrences:

* New investments without financing for O&M
* Reduced financing for monitoring and support supervision
* Increased risk of failure to deliver value for money in local service delivery

1. Negotiations on conditional grants remains weak since amount of funds per grant are more or less already predetermined;

* Negotiations are limited to purpose and modalities
* Negotiations take place late in the budget cycle
* Participation by LGs at the sector level is minimal
* The process gives LGs less independence to spend on locally identified priorities within sectors

**Recommendations:**

1. Raise the Profile of Local Government Financing to Parliament and Cabinet
   * amend laws to require Cabinet / Parliament consideration on LG service delivery during budget cycle
   * Institute a clear policy on vertical sharing between Local Governments and Central Government of the nationally collected revenues.
2. Institute rules to require all financing for LG functions to be implemented within the grant system (NUSAF, CAIIP etc).
3. Increase Funding (*especially the Unconditional Grant*) for supervision and monitoring functions to increase value-for money
4. **Annual Planning and Budgeting**

**Key Findings**

1. The Harmonized P&B cycle is fairly adequate and a few improvements have been suggested.
2. Three challenges on the Planning and Budget Process need to be highlighted:

* Delays in providing guidelines to LGs at the start of the budget process
* LGs have limited funds to comprehensively engage in the participatory planning and budget process
* Delaying and adhoc changes in issuing of IPFs by sectors to LGs.

**Recommendations**

1. Guidelines and Budget call circular to LGs should be issues early in the planning process
   * + Begin the LG planning and budget process in August with national grant negotiations by 30th September. The District conference by 30th November.
2. Provide more funding for participatory budget process especially at Lower Local Governments

**4.0 Releases/ Reporting**

**Key Findings**

Quarterly Release system has increased predictability However there are still some challenges:

1. At the time of the study the release system was not responsive to the unique sector needs of education and agriculture
2. Releases do not reach to health centres / schools - most times a 3-4 weeks delay
3. Releases still made at the late and in the last quarter leading to unspent balances
4. Internal audit departments understaffed and underfunded - unable to conduct value for money audits
5. Councils are not adequately facilitated to provide oversight role on service delivery
6. Though gaps remain OBT has improved accountability
7. Implement reforms to match releases with sector needs and realities (particularly Agriculture & Education)
8. Expand direct payments to service delivery points and strengthen accountability
9. Improve the release system to reduce delays and review the law requiring LGs to return unspent balances. Unspent funds should be retained by LGs so as complete the working plans against which the funds were initially released for.
10. Improve staffing and funding for the Internal Audit Department
11. Improve capacity and facilitation of Councils to undertake oversight role.

**5. 0 Local Revenue Enhancement**

**Key Findings**

1. Revenue collection performance is generally below 50% of potential due to weak administrative capacity. There is presently a potential for LGs to raise above 300bn in the medium term
2. Since existing sources have not performed, introducing *wide-ranging new ones* may not create the desired effect in the short term
3. Legal framework that does not fully enable LGs to collect revenues, wide exemptions

There is still potential for new revenue sources like LST, LGHT to can enhance the significance of local revenues in LGs with improved revenue administration

**Recommendations**

1. Evolve administrative measures to improve efficiency of revenue management such as
   * change taxpayer attitudes, political activity
   * establish revenue management department at HLGs
2. Focus on improving existing revenue sources
3. Review the legal framework to enable more effective revenue realization
   * Review royalties act and guidelines
   * Streamline and minimize exemptions; property rates, LST, permits and user charges
   * New Revenue Sources are Proposed
   * Solid Waste Tax
   * Invest using Municipal Bonds

**6.0 Proposals for Closing the Financial Gap**

A financial gap of about Ugx 2.0 trillion was identified especially in the non-wage recurrent area. Taking into account priorities at both centre and LGs, the review recommended as follows:

1. Government to review policy on community contributions towards service costs
2. All grants should be revised on annual basis to account for general increase in prices and needs
3. Implement measures to improve Local revenues
4. Measures to improve efficiencies in budget executions and reduce wastage
5. Commission a study on Local Government Service standards against which transfers should be based
6. Creation of new districts should be specifically supported with commensurate financing
7. **Proposals for the Revised FDA**
8. The review noted that many reforms have taken place since the start of implementing decentralisation. The review therefore recommended for a revision of the Fiscal Decentralisation Policy. This would put in place a new Architecture.
9. Key objectives/aims of the Architecture.
   * Strengthen advocacy / promotion LG financing and service delivery at national level.
   * Strengthen coordination and control over FDA in the Government Establishment.
   * Strengthen LG capacity for supervision / monitoring of service delivery.
   * Increase local autonomy incl. improved LRR / UCG resource sharing