The Republic of Uganda

LOCAL GOVERNMENT FINANCE COMMISSION

ISSUES PAPER

PRESENTED AT THE LOCAL GOVERNMENTS' BUDGET CONSULTATIVE WORKSHOPS FOR FY 2016/17

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1.0 Introduction

This policy paper has the objective of highlighting the following issues:

(i) Progress on the recommendations that emerged in the previous consultations
(ii) Issues that have emerged from the Analysis of Local Government Budgets for FY 2014/15
(iii) Emerging issues in Financing of Local governments
(iv) IPFs and Allocation; Effects of Consolidation of transfers and the new Allocation formulae.

2.0 Progress on the Recommendations that emerged in the previous Consultations

Two major issues were documented in the report for the previous consultations as concerns which required actions to be taken:

(a) Declining share of the National Budget allocated to the Local Governments

The matter is being handled as part of the reforms being undertaken. So far the Ministry of Finance is overseeing the reform in the grants transfers in terms of consolidation of grants to reduce the numbers and the review of the formulae to make them more effective in the delivery of services. On the other hand, the Local Government Finance Commission in collaboration with the Ministry of Finance, Planning and Economic Development under FINMAP III prgramme is overseeing the designing of a new Fiscal Decentralisation architecture and determining the share of Local Government Transfers in the National Budget.

The target of the reforms is to ensure adequacy of transfers, effective management and improvement in delivery of services in local governments.

It is planned that the reforms in grants allocation will feed into the FY 2016/17 while those for the new architecture and share if the national budget will be for FY 2017/18.

(b) Need for adequate consultations with Local Governments prior to Conditional Grant negotiations

The Commission and respective sectors appreciated the issue of the need to have adequate consultations prior to negotiations and at the same time noted that there is a tight schedule of budget formulation and execution schedules. There may be no adequate time dedicated specifically dedicated for consultations for negotiations. It is therefore proposed that for the negotiations for FY 2016/17 which are planned for early October 2015, some of the issues that need to be negotiated on should be raised during these consultations. In future, the issues which affect conditional grants funded programmes and service delivery must clearly be articulated in the quarterly progress reports. The same issues should be consolidated and submitted to the Uganda Local Government Association and urban Authorities Association of Uganda secretariats to be put on the agenda for negotiation per sector.

3.0 Issues that have emerged from the Analysis of Local Government Budgets for FY 2014/15

The Commission carries out on annual basis analysis of approved budgets of Local Governments to establish compliance with the legal requirements. Therefore, all district local governments and municipal councils are by law required to submit their annual approved budgets to LGFC.

For the FY 2014/15, the Commission received all the 133 Vote Holder LGs annual approved budgets in softcopies through MoFPED.

3.1 Findings during the analysis of LG budgets:

- All the 133 LGs submitted softcopies of budgets which neither bear the date of approval by the council nor the signature of the Accounting Officers and Chair persons of the LGs. This is very important for local governments to take note and not repeat it in future as the dates of approval and signature of Accounting Officers are legal requirements.
- Some cases of un-balanced budgets for some LGs still occur. For example for the FY 2014/15 LGs approved budgets, the following cases were identified: Kibaale, Kotido, Kyenjojo, and Sembabule district LGs. This is very important for credibility and realistic budgeting.
- The relevant sections of a majority (98%) of LGs approved budgets did not provide adequate information and explanations for the performance reported on both revenue and expenditure. Therefore, the explanations given do not provide policy makers with relevant information. In many cases, there is lack of consistence between the table and the narratives
- LGs create their own local revenue source names that are different from those in the GOU/MoFPED COAs and provided in the OBT
- Overall, some resources remained unspent despite the fact that concerns have been raised in terms of inadequate grant transfers to local governments. Unspent balances, even for unconditional grants and locally raised revenues exist for some LGs. The highest amount of unspent balances budgeted was for development programmes at over UShs 18bn (69% of total unspent balances).Total Recurrent programmes unspent balances was budgeted at around UShs 8bn (31% of total unspent balances)
- Some local governments did not allocate all the estimated revenues (especially for local revenues, LDG, UCG, etc.) and some over allocated hence creating budget deficits.

3.2 Recommendations and Way Forward

i. No local government submits an unbalanced budget
ii. All fields like the multi-sectoral transfers to LLGs are filled by all districts and the information to be filled in must be clear to the local governments to avoid distortions
iii. Lower local governments' outputs are captured at the higher local government budgets
iv. All revenue as estimated in summary tables is allocated to the different outputs in the budgets to avoid apparently un allocated revenues especially those funds which are shared with lower local governments
v. LGs should stop 'creating' their own local revenue source names that are different from those in the GOU/MoFPED COAs. The LGs should report local revenue sources under the COAs as given in the LGOBTs by MoFPED
vi. The causes of over and/or under performance for some sectors in both districts and municipalities should be identified and adequately explained in the LGs budgets in order to improve performance

vii. Constraints to absorption of funds by local governments should be clearly documented in the budgets to enable policy makers address them and to avoid the perennial problem of unspent balances

4.0 Negotiations on sector conditional grants for FY 2016/17

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

The constitutional provision requires annual negotiations between local governments and sector ministries managing conditional grant programmes to agree on the conditions and purposes (sector objectives) of the respective sector grants.

Therefore as part of the process to prepare for the FY 2016/17 budget process, the Local Government Finance Commission has planned to facilitate the negotiations from 12th to 16th October, 2015, which will culminate into agreements on the conditionalities for the utilization of conditional grants. The Local Governments will be represented by the Local Governments Negotiation and Advocacy Team (UNAT), a negotiating team that is composed of jointly selected members from LG Associations (ULGA and UAAU), and the Sector Ministries will be represented by their respective sector managers. All the seven sectors of Education and Sports; Health; Water and Environment; Works and Transport; Agriculture, Animal Industry and Fisheries; Trade and Industry and Cooperatives; and Gender, Labour and Social Development are preparing to participate in the negotiations

The agreed upon areas for these negotiations will among others include the following:

- National sectoral policies which local governments are required to implement.
- The fairness in sharing of sectoral funds between central government responsibilities and those assigned to local governments.
- The human resource requirements to be able to deliver effectively on service delivery requirements.
- Relevant modalities with respect to work plans, budgeting and reporting. These are of particular concern as they have direct impact on releases.

These agreements will be witnessed by representatives from cross cutting ministries and agencies. These include Ministry of Finance, Planning and economic development, Ministry of Local Government ,Ministry of Public Service, Office of the Prime Minister, and National Planning Authority.

After the negotiations, an advisory note highlighting the key policy recommendations on local government financing shall be given to Government for consideration.

However, as noted earlier, during these budget consultations, key issues that require to be negotiated upon should be documented and raised with relevant sector and also submitted to LG Associations.

5.0 Emerging Issues in Financing of Local governments

In the last consultations, it was explained that the declining share was because Government was implementing large infrastructure Energy and Transport projects which could not be matched with a corresponding increase in their budgets. However efforts were being made to increase the LG budgets in absolute terms. While there are efforts to increase grant transfers in absolute amounts, the Commission in consultation with stakeholders has noted sustainable financing of local governments must be addressed at both levels. Therefore, the local governments must do the following:

a) Implement the Local Economic Development (LED) initiatives including embracing Wealth Creation programmes. These will widen the local revenue bases in the medium term. Therefore, as part of the grants reform programme, the discretional development programmes should be focused both service delivery and LED initiatives.

b) Establish computerized local revenue databases for more robust resource mobilization strategy. This is being spearheaded by the LGFC with funding from GoU/FINMAP III and World Bank for 14 Municipal councils under USMID programme. The computerized system has been tested and can effectively produce positive results. The LGFC's initial observation since the start of rolling out the computerized system is that there is silent resistance from the concerned local government officials. The Commission is therefore requesting all local government officials to embrace the reform as it is an effort to implement section 80 (2) of the Local Government Act (CAP 243) and one of the tested strategies to mobilize local revenues. Non compliance may affect grant transfers in future.

c) Identify and document all legal provisions that need to be reformed to enhance the mobilization of revenues for local governments. These should be submitted to the Commission. The Commission so far in consultation with some stakeholders has already identified some provisions in various laws and has submitted them to the Law Reform Commission for action.

6.0 IPFs and Allocation; Effects of Consolidation of transfers and the new Allocation formulae

(a) Unconditional Grant

The Commission is in charge of allocating unconditional grant and equalization grant. Both of these grants are currently categorised as part of recurrent grants. Secondly, the non wage unconditional grant has been constituted by two components namely normal and former GT compensation where the portion going to lower local governments (65%) for districts and (50%) for municipal councils is derived.

On the other hand there are other grants which are administrative in nature like the IFMS, IPPS, etc. Secondly, there are also services of planning, financial management, auditing and council operations which are not properly funded in the sectoral based grant system.

The reform is therefore, intended not only to consolidate the funding hitherto under different budget lines but also to adequately focus on all those services that must be addressed under discretional funding to effectively support service delivery in local governments.

The allocation parameters have been discussed and generally agreed. The allocations will therefore be finalized after testing the parameters and weights including approval by the appropriate authorities.

Equalisation Grant

Government has been implementing three grants, all aimed at equalizing imbalances in service delivery. These are; the known equalization grant allocated by LGFC; the PRDP and LRDP which target conflict impact areas of the country. Therefore, in order to enhance the synergy of these grants, to address the service delivery imbalances caused by various factors, there was a need to consolidate all these under one funding line and named the discretional development equalization grant. Therefore, the consolidated grants will main the established objectives.

The allocation parameters have been discussed and generally agreed. The allocations will therefore be finalized after testing the parameters and weights including approval by the appropriate authorities.

7.0 Conclusion

The financing of local government is currently undergoing reforms to enhance adequacy, create orderliness and strengthen management for sustainable service delivery. Therefore, all stakeholders and particularly local governments are urged to provide sincere views and input when opportunity comes. With concerted efforts, together; we shall improve the financing of LGs for better service delivery.