Are Public Financial Management Reforms working for Local Governments?

Overview

In its quest for increased efficiency in allocation, use and availability of resources, Government of Uganda (GoU) rolled out Public Finance Management (PFM) reforms to streamline government practices. The reforms aim to create a sound public finance management system that supports aggregate control, prioritization, accountability and efficiency in the management of public resources and the delivery of services critical to Uganda's development goals (*Ministry of Finance, Planning and Economic Development, 2013*).

The reforms are premised on the existence of supportive infrastructure for example connection to reliable power, existence of the Integrated Financial Management System (IFMS) and access to the Internet, which is not available in some local governments (LGs).

This policy brief examines the performance of these reforms in LGs.

Key Issues

Despite the enactment of a number of public finance management reforms, inefficiencies in the allocation and use of public funds in Uganda remain prevalent. This is manifested in a number of ways that include:

- Delays in fund disbursement.
- Low absorption capacity by some departments.
- Poor accountability and reporting for funds disbursed.

Introduction

Over the years, the Government has pursued a number of Public Financial Management reforms aimed at increasing compliance with rules and regulations, transparency in the use of public funds and reducing opportunities for corruption. Additionally the reforms were to bring about accountable use of public resources as a basis to improved service delivery.

The reforms included; the roll out of the Integrated Financial Managements System (IFMS), the Treasury Single Account (TSA), decentralisation of the government payroll, strengthening the legal framework, improving budget formulation, implementation and monitoring by using the Output Budgeting Tool (OBT), increasing budget transparency and public information through publication of quarterly releases in the media and use of the Ministry of Finance, Planning and Economic Development (MFPED) budget website, and facilitating the Straight Through Processing (STP) of salaries.

These reforms to be implemented across Central and Local Governments require support infrastructure like reliable Internet connectivity and power supply.

Status in Local Governments

IFMS Roll Out

The reforms commenced with the roll out of the IFMS-Tier 1 Oracle based Enterprise Resource Planning (ERP) solution to 12 LGs by October 2008. By the end of Q2 FY 2016/17, 73 LGs (47 %) were on Tier 1. The planned roll out is to have 133 LGs connected on the IFMS by FY 2017/18.

[1] Currently there are 156 Local Governments including municipalities.

This has improved management of government expenditure through the commitment control system that is supposed to ensure that entities do not spend beyond their appropriated budgets. In addition, the financial and management reports are generated instantly from the system.

However, the Budget Monitoring and Accountability Unit (BMAU) semi-annual monitoring findings (FY2016/17) indicated that the system was unstable. This was noted, in Hoima, Rukungiri and Adjumani districts.

Treasury Single Account (TSA)

This was to curb multiple bank accounts held by Ministries, Departments, Agencies and Local Governments. These presented a breeding ground for misappropriation of public funds due to inadequate supervision. Sometimes public funds would be idle but undetected in some accounts while the MFPED borrowed to finance other activities.

With the implementation of the TSA, a number of idle and dormant accounts in the Bank of Uganda and other commercial banks were closed. This has ensured that government banking arrangements are unified and transfers traceable. Redundancy of funds in LGs has been cleared and overall funds available for expenditure can be traced at a given time.

During the BMAU semi-annual monitoring (FY 2016/17), it was noted from Moroto, Kabale and Kotido districts that operate on the TSA reduced lead time of accessing funds. The warranting process took on average three working days to complete and enable funds to be accessed, compared to the seven days or more before TSA.

The timeframe provided for budget preparation and approval was strictly observed. The TSA calls for more vigilance in monitoring the rundown of balances for activities of the respective entity.

Integrated Payroll and Personnel System (IPPS)

In the FY 2014/15, Government commenced the roll out of the IPPS to all Votes. The objective of the reform was to improve the timeliness, quality, and accuracy of processing the payroll and payments of salaries, pensions and gratuity. Under this reform, the accounting officers take responsibility for review and approval of their Votes' salary payments before they are made. The Ministry of Public Service (MoPS) and that of Finance continue to fulfill vital support and monitoring roles under this system.

This entailed the set up, supply, and installation of local area networks (LAN) as well training human resources staff on use of the IPPS-IFMS interface for all LGs. Training of human resource officers on pension management and data migration was conducted for all LG votes. Currently salaries, gratuity and pensions payroll are processed and paid on IPPS for all LGs.

This has improved efficiency and effectiveness of management of the payroll in terms of identifying manpower gaps and staff to be retired. Payment of staff and pensioners is on time as required by law and this has enhanced motivation at work.

Output Based Budgeting Tool (OBT)

The OBT was introduced in the LGs in FY 2010/11 to assist in planning, budgeting and reporting of performance. With the OBT the budget was aligned to the national policy objectives, performance indicators, targets, previous performance and provisions for explanations for variances.

In order to improve alignment with national policy objectives and results, government is transitioning to Programme Based System (PBS) which will enable the linkage between inputs, outputs and outcomes. All local governments are expected to be enrolled on the system in FY

2017/18. This will greatly improve their planning towards achievement of outcomes in given timelines.

Consolidation of grants to the LGs

The merging of grants under sectors into wages, non-wage and development was to minimise the number of operations and administration. It was hoped that this could afford more discretion in the allocation of funds to the hither-to neglected activities such as monitoring and evaluation, inspection, repairs and maintenance.

The allocation formula developed to support this reform however appears to have led to a reduction of funds for a number of activities that were previously implemented in various sectors such as water, education and health.

The merging of these grants has so far not achieved efficiency as local governments take long to receive the advice slips explaining the breakdown of the lump sum funds transferred to the TSA and transfers to Lower Local Governments(LLGs) and service delivery centres. For example in Yumbe district Q1 FY 2016/17, unconditional grants were thought to be in excess by Ug shs 26million, and these were remitted to the consolidated fund. However, it was later found that the remitted funds were meant for pension arrears which had not been clarified.

Increased Budget Transparency

As part of the reforms the funds released to LGs are currently published in newspapers (*The New Vision, The Daily Monitor* and *Red Pepper*) on a quarterly basis which has largely increased budget transparency. The local government executives, councils and general public are able to demand for services for example at the health facilities and schools which has enhanced accountability.

There is the MFPED Budget Website (www.budget.go.ug) where comments are received from the public about service delivery in their LGs. However, follow up upon public request is poor.

This reform creates pressure on the LG staff especially when the publications are made before the funds reach the LG accounts or approval of warrants. This has been the case ever since the roll out of this reform. Publications for the Q1 FY2016/17 Q1 were done in July but the LGs of Serere, Abim, Rukungiri and Isingiro received funds in Q2 (October). Service providers were already demanding for their payments.

Direct transfer of funds to service delivery units

Since the FY 2013/14, the MFPED has been transferring funds directly to town councils, and schools. This measure was intended to reduce delays in fund transfers as well as misappropriation by some accounting officers. This measure was extended to Health Centres in FY 2014/15.

However the recipients of these transfers are not providing accountability to the Chief Administrative Officers (CAOs). Secondly, information from the MFPED about release of these funds reaches the CAOs offices late, which impacts negatively on the monitoring and accountability of funds, according to the accounting officers in Yumbe and Hoima districts.

Remaining Challenges

1) High cost of updating the payroll and effecting salary payments for LGs not connected to the IPPS and IFMS. For these LGs, updating the payroll and effecting salary payment is done at MoPS and MFPED, respectively. This requires staff travelling to Kampala to carry out these functions, which are additional costs to the districts in terms of staff time and travel expenses.

2) Network failures, inadequate computers and limited office space thus slowing down the process at peak periods. The LGs on IFMS Tier 2 noted that the system is always unstable and this affects the absorption and implementation of activities.

3) The sweep back[2] of funds at the yearend affects funds collected under local revenue for which warrants have to be raised and approved by the Accountant General. This loss of local revenue and warranting process discourages the local revenue collection efforts. For example in Arua district, the local revenue for FY 2015/16 was swept and not returned.

4) High maintenance costs. A number of LGs are not connected to the national grid, making it very costly to run generators for months to have the system running. The West Nile region is the most affected.

Conclusions

The reforms are yielding positive outcomes notably improved budget planning, execution, accountability and reporting and expanded service delivery. The TSA, OBT, IPPS and IFMS have led to effective and efficient financial management practices. These include reduction in the cost of stationery and bank charges, early payment of salaries, faster generation of financial statements, quick bank reconciliations, quick access to funds released and timeliness of budget preparation and approval.

Therefore, despite the challenges encountered such as system failures, poor Internet connectivity and high operational costs involved, the reforms are on track to enhancing service delivery.

Recommendations

- The MFPED Budget Policy and Evaluation Department (BPED) in collaboration with the Accountant General should urgently streamline the warranting and invoicing processes to ensure prompt and accurate release of funds to LGs, and related allocation information to minimize the frequent travels.

- Government should invest in infrastructure and rapid roll out of IFMS, improve Internet services that can serve all LGs and central government in order to maintain a system that is consistently run. This should curb persistent network failures.

- The MFPED should have a training programme to continuously build capacity of the human resources at local and central government to have these reforms fully operational.

- The BPED should promptly update the budget website with budget information e.g detailing breakdown of funds released and other budget related communication as an alternative measure to faster access of information.

References

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[2] System programmed transfer of funds on holding accounts to the Consolidated Fund.

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