

REPUBLIC OF UGANDA

WATER SECTOR CONDITIONAL GRANT FY 2004-2005



This memorandum is made this..... day of2004

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF UGANDA, represented by the Ministry of Water, Lands and Environment (hereinafter referred to as “Central Government”)

AND

_____ **DISTRICT LOCAL GOVERNMENT**,
represented by the Chief Administrative Officer on the other part.
(Hereinafter referred to as “the District”)

WHEREAS Central Government is alleviating Poverty through the funding of the Implementation of the Poverty Eradication Action Plan and is providing funds to the District through the Poverty Action Fund for the implementation of core elements of the PEAP.

WHEREAS Central Government, through the Poverty Action Fund, is providing conditional grant funds to the District for the implementation of national sectoral policy (hereinafter referred to as “the Grant”),

WHEREAS Central Government has identified national sectoral policy requiring Local Government Implementation

WHEREAS Central Government has attempted to ensure that the budget ceilings provided accurately project the level of funding that will be available to the District in the FY 2004/05 Government of Uganda Budget.

AND

WHEREAS the District agrees to implement national sector policy as is identified by Central Government in accordance with this agreement

UNDERSTANDING

Central Government and the District agree to implement the local government budget process in accordance with the Grant in order to implement national sectoral policy.

Central Government and the District agree to implement this process in accordance with the provisions of the Grant.

VALIDITY OF LETTER OF UNDERSTANDING

This Letter of Understanding is valid from the date of signing until Central Government has both received the Verified Cumulative Annual Progress Report for the Grant and any unspent funds on the Bank Account for the Grant have been returned to Central Government in accordance with the

terms of the Grant.

Any modification to this Letter of Understanding shall be by mutual agreement of both parties.

For Central Government

For the District

Permanent Secretary,
Ministry of Water, Lands and
Environment

Chief Administrative Officer/Town Clerk,
District Local Government/Municipal
Council

In the Presence of:

In the Presence of:

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Section 1: Introduction

1.1 Background

The overall mechanism by which Government allocates its resources is the Medium Term Expenditure Framework (MTEF). The MTEF sets sector and Local Government (LG) spending ceilings within a rolling three-year framework (the first year being the Annual Budget). The level of expenditure is determined by the resource envelope, which takes into consideration the macroeconomic environment and the prospects for resource mobilisation.

The Government of Uganda has adopted the Fiscal Decentralisation Strategy (FDS) that applies to and is incorporated into all Conditional Grants (CG). Before FDS, there were many CGs, all of which had separate conditions attaching to them, as well as onerous conditions relating to reporting, bank accounts and the like. As well, the conditionalities in respect of those CGs were inconsistent with the laws of Uganda as they limited the flexibility of LGs to respond to local needs.

1.2 One Conditional Grant Only

For the FY 2004-2005 budget cycle and continuing, the system of CGs has been substantially streamlined in order to increase LG flexibility and to ensure that district level planning becomes the basis for all work plans and activities of LG.

There will be only one Conditional Grant to cover the implementation of all Line Ministry national sectoral policy. Within that CG, there are schedules for each Line Ministry national sectoral policy, which is to be implemented by LGs.

As far as possible there will be a limited number of sub-budget lines in order to ensure the maximum flexibility of each LG to budget funds to meet locally identified priorities in respect of the implementation of national sector policy.

However, because of the nature of some bilateral agreements that the Government has signed in the past, some of these sub-budget lines will simply take in existing programmes, projects and processes so that these agreements are not breached. In the future, all bi-lateral and multi-lateral agreements will be, as far as is practicable, FDS compliant.

These sub-budget lines will also clearly state whether the funds are PAF or non-PAF funds. It will continue to be the case that PAF funds may only be expended for PAF compliant purposes.

1.3 Releases

Recurrent funds will be released monthly and development funds released quarterly. Financial reporting is simplified so that there are monthly reports in a very simple one-page format. Requirements in respect of separate bank accounts are substantially eased.

1.4 Sector Guidelines

All Sector Guidelines (SGs) are contained within the Grant. They are the parameters within which a LG is free to act in order to deliver the implementation of national

sectoral policy and contain the standards and benchmarks against which activity must be undertaken.

1.5 All Local Government Activity in DDP

All LG activity, whether funded from the centre, district level donors, local revenue or any other source must be included in the District Development Plan (DDP) or there is no validity in any LG expenditure.

All budgeting and work plans must relate directly to the activities identified in the DDP. Local Government Budget Framework Papers will now fulfill their proper role in identifying, budgeting and work planning all activities in order that all activities that any LG intends to undertake is fully and transparently identified back to the DDP.

If there is no activity in a DDP that is the basis for a LG budget line or work plan, then the budget or work plan has no justification or validity.

This requirement is consistent with LGDP II modalities, in that there must be a clear and transparent link between the DDP, LGBFP and the eventual budget, with respect to all LG activities. In return for receiving the Grant, LGs are required to include all activities that they will undertake in a financial year, however those activities are funded. This ensures transparency and effectiveness.

Any DDP, LGBFP or budget that does not adhere to these principles will be returned for amendment to ensure compliance. Any budget that is not based on and incorporates these principles will be returned for amendment to ensure compliance.

It is the statutory function of the Local Government Finance Commission to analyse all LGBPs and budgets for legal compliance and this task will be undertaken transparently and effectively.

1.6 Conditional Grants compliant with Law

Uganda leads the way in respect of most developing economies of the world in the process of decentralisation and the implementation of FDS modalities is the final step in transferring from the centre to LGs those powers and functions mandated by the Constitution and the Local Government Act.

The roles and responsibilities of LGs and the Line Ministries are now compliant with the laws and policies of Uganda. The freedoms that FDS modalities bring also carry responsibilities for LGs. The obligation of LGs to live up to their responsibilities is part of the design concepts of LGDP II, which the Ministry of Local Government will fully sensitise throughout the country.

1.7 Compliance with Local Government Budget Process

In order that ensure that LGs are able to use and take advantage of all available modalities and that Central Government has available to it the necessary and required information, LGs are required to comply with the terms of this CG and comply with the processes described and contained in the local government budgeting, planning and implementation manuals issued by Central Government, being –

All planning guidelines issued by the Ministry of Local Government

(including those that relate to LGDP II)
General Guide to the Budgeting Process
Budget Desk Planning Manual
Sector Budgeting Manual
General Guide to Budget Implementation
Technical Budget Implementation Manual
Sector Budget Implementation Manual
Formats for Budget Implementation

Section 2 –National Sector Policy for Local Government Implementation

Every sector in Central Government has identified that part of its National Sector Policy (NSP), which requires Local Government (LG) implementation in order that LGs are able to have clearly articulated to it the NSP, the implementation of which is being funded by the Grant.

This is the basis in respect of which LGs plan via their DDP to implement the NSP, using the CG funds. DDP identified activities, as far as they use CG funds for implementation, must relate directly to the implementation of this identified NSP.

The NSP for each sector appears in the schedule of the Grant that relates to that sector.

Section 3: Local Government Budget Process

3.1 FDS & LGDP II Concepts

Application of Fiscal Decentralisation Strategy and LGDP II design and implementation concepts. It is acknowledged by Central and Local Government that the provisions of the Fiscal Decentralisation Strategy and the LGDP II design and implementation concepts shall be applied to and incorporated in this conditional grant.

It is critical that Central and Local Government fully capture and internalise the contents and concepts of both FDS and LGDP II in order that the Grant is made fully operational. Budgets and work plans must use the respective modalities of these important processes. Of particular importance is that Central and Local Government use the technical manuals separately provided in respect of these areas in all respects.

3.2 District Development Plans

In every case, the District Development Plans (DDPs) are the commencement point of the budgeting process. When LGs are advised of their Indicative Budget Figures (IBF), they need to incorporate all of the activities that they intend to undertake for the following financial year in their DDP using the LLG based planning process to input into the DDP.

Every DDP is resource constrained. Therefore, the total of resources that a DDP shall use for the purpose of the creation of the DDP and the resultant LGBFP are –

- the total of the IBF,
- *contracted* (not expected) district level donor funds,

- local revenue, and
- equalisation grant (if any).

The local revenue figure to be used is –

- the actual local revenue from the last available set of final accounts – it is *not* to be an expected or budgeted amount as there have been serious abuses in the use of inflated local revenue budget figures to inflate emoluments, and
- the budgeted amounts to be raised from local revenue enhancement activities that are planned for in the DDP and appear in the LGBFP. All costs of local revenue enhancement activities must come from existing local revenue, unconditional or equalization grant.

If a LG does not consider that it has sufficient time to incorporate all activities into a DDP after the release of the IBF, that LG should use the previous years actual release figures in substitution for the IBFs to commence this planning at a time within which it believes it can complete the planning process.

Every DDP will use the processes contained in the Ministry of Local Government Guide to Participatory Planning for Higher and Lower Local Governments and the Guide to Local Government Planning.

In order to ensure harmonization and consistency, every DDP will use the format contained in the LGDP II Operational Manual to record and plan the DDP. This format attaches a number to each activity and sub-activity that is carried forward into the LGBFP and the work plans and the eventual budget. Every work plan and budget in the LGBFP and the Budget must be capable of being directly and immediately identified back to the development activity appearing in the DDP. This locks all activities and budgets to the DDP in a transparent and understandable manner. This will and must be complied with by all LGs.

DDPs must identify clearly LG priorities between sectors. The reason is that each LG has the flexibility in FY 2004-2005 in respect of non-wage recurrent only to reallocate up to 10% between sectors to meet under-funded or unfunded priorities in another sector. The amount of this flexibility each LG will use is to be identified in the DDP and the priorities to which this will be allocated must be stated clearly. The only exception is this that PAF funds can only be reallocated to PAF areas.

3.3 Linkage between LGBFP & DDP

The Local Government Budget Framework Paper (LGBFP) budgets all funding sources for the local governments in accordance with the DDP, reviews individual sector performance, specifies objectives and outputs to be achieved in those sectors over the medium term, given the resource constraints and creates the detailed and specifically costed work plans to implement the DDP.

The quality of these work plans is important. There are no other work plans that will be created by a LG and each separate activity will have a specific budget. For instance, it will not be sufficient for a Veterinary Services Budget to simply have a short budget for all of the activities to be undertaken under that heading. Instead, every single activity under Veterinary Services will have a very specific budget and work plan within the LGBFP in accordance with the DDP.

The LGBFP is the tool for integrated planning and budgeting. The LGBFP identifies what a LG wants to achieve in a given sector within all funding sources (including PAF), and identifies in detail the specific activities to be carried out within a sector in a financial year in a district/municipal council. These are the only work plans that are created and are activity based and linked to the activity identified in the DDP.

All LGBP work plans and budgets shall be in accordance with the formats contained in the manuals already specified. This is critical in order to allow for national level analysis to be undertaken for the efficient planning and utilization of resources.

3.4 Budgeting for Local Revenue Enhancement Activities

Ensuring that processes are in place for all LG to enhance their local revenue collections and increase their financial autonomy is an important government policy. Substantial resources are being devoted by the government to ensure that the resources are available to assist LGs to enhance local revenue collections.

All LGs are required to include in their DDPs, LGBFPs and eventual budgets, activities that are designed to enhance local revenue collections. These activities shall, as far as is reasonably practicable and relevant to each LG, be designed on the basis of and incorporate the substance the Local Government Finance Commission Inventory of Best Practices in Revenue Mobilisation and Generation and all supporting documents.

The financial inputs for local revenue enhancement activities can come only from unconditional grant, equalisation grant or existing local revenue. As with all other activities appearing in the DDP, these activities are resource constrained. Selection, budgeting and work planning for local revenue enhancement activities are therefore critical and required activities.

All revenue receipt increases budgeted as a result of local revenue enhancement activities must be also budgeted back into the DDP, LGBFP and the eventual budget. LGs are advised not to budget this increase in revenue against critical activities (such as the provision of cofinancing) as failure to achieve budgeted increased revenue receipts would then adversely affect critical activities.

3.5 Continuity of Work plans from Year to Year

The work plans for next financial year should be a natural progression from those prepared for this financial year, and take into account the lessons learnt in implementation this financial year. This means that over time, work plans will become increasingly more realistic and easier to implement.

IMPORTANT: If an activity in the current financial year work plan is delayed and will not be completed during the financial year then it must be planned for in the following financial year and be catered for within the following financial year's budget ceiling. This is especially important in the following circumstances:
development activities where the implementing agency has already signed a contractual commitment (e.g. classroom construction, borehole drilling)

payment of retention.- contracts involving construction often includes a proportion of the contract sum to be paid at a certain period (e.g. 6 months) after works are completed.

Work plans are, however, based on the activities identified in a DDP. As a DDP is a 3-year rolling plan based on resource constraints, work plans should be a natural progression.

3.6 Submission of LGBFP & DDP

All LGs will submit their LGBFPs and DDPs within the time constraints advised at the LGBFP Workshops. MoFPED will circulate those LGBFPs and DDPs through all sector ministries. The ministries will then examine the LGBFPs for the activities and work plans that each LG intends to undertake to implement NSP.

Provided that the activities and work plans are within sector guidelines, no further action is needed in respect of them. If they are not within sector guidelines or are not of sufficient detail or precision to identify the activity and work plan properly, they may be returned to a LG for further attention.

A ministry cannot direct how a LG will implement NSP if the LG is within the sector guidelines, however, a line ministry may wish to mentor a LG in respect of approaches that may be more efficient or effective. Even if that occurs, the decision is that of the LG alone. It is expected however that all parties will cooperatively deal with matters that relate to implementation of NSP.

The Local Government Finance Commission has the statutory obligation to ensure that all budgets, LGBFPs and DDPs are compliant with the law.

3.7 Alterations in Annual Work plans over the Financial Year

On signing the letter of understanding, LGs is committed to implementing the work plans developed. LGs should endeavour to stick to the work plans. The following alterations to work plans are allowed (provided that they are consistent with the DDP and the LGBFP):

Minor Changes in activities *within* a work plan which result in a shift in resources of less than 10% of the annual activity budget within the grant, *or* result from an *increase* in the annual activity budget of less than 10%.

In the event of differing circumstances and priorities, local governments can reallocate up to 10% of funds within a specific conditional grant to different activities without seeking the approval of the relevant line ministry.

In the event of an increase in the annual activity budget allocation for a grant of less than 10%, local governments can change/add new activities without seeking approval of the relevant line ministry.

The local government must however, formally write to the line ministry (copied to MFPEd) informing it of all the changes in work plans

Once successive changes in activities have resulted in a cumulative shift in resources of more than 10% within the annual budget of a conditional grant, local governments must write to confirm the acceptability of these changes before further changes in the work plans can be enacted. If no response has been received in

writing from the line ministry within 30 days from the date of receipt of the request by the respective line ministries, a local government will go ahead and effect the changes.

Major Changes in activities *within* a work plan which result in a shift in resources of more than 10% of the annual activity budget of a conditional grant, *or* result from an *increase* in the annual activity budget of greater than 10%.

Any changes in activities within a work plan that require a reallocation of resources greater than 10% within a specific grant will require authorisation from the respective sectoral ministries before they can be implemented. Only major shifts in local government priorities due to external factors (e.g. epidemics, drought) will result in alterations being approved.

Any new activities/ changes in activities resulting from an increase in the budget of greater than 10% of the annual activity budget will require authorisation from the respective sectoral ministries before they can be implemented.

In such cases, local governments must write to the respective line ministry (copied to MFPEP) requesting authorisation to alter activities in the work plan. If no response has been received in writing from the line ministry within 30 days from the date of receipt of the request by the respective line ministries, local governments may commence implementation of the changed activities.

If the line ministry finds the changes unacceptable it must give reasons for the same and suggest viable alternatives.

3.8 The Planning Cycle

The Planning Cycle runs from October to June.

Phase 1 – Preparation of LGBFP

The planning process starts in October with the Central LGBFP workshop at which the planning process is outlined. At the first regional LGBFP workshop in October/November, the Local Government Indicative Budget Ceilings are presented. Local Governments should amend their DDPs accordingly and then prepare the first Drafts of their LGBFP by the end of December. The second regional LGBFP workshop will be held towards the end of January, at which the draft LGBFPs are examined in detail, and recommendations for their improvement will be made. The LGBFPs should then be finalised by the beginning of February in time for the inter ministerial consultations at the center.

Central LGBFP workshop	Presentation of Local Government Budget Ceilings	October (Early)
First LGBFP regional workshop	Discussion of LGBFPs Discussion of Sector Guidelines	Late October/early November
Preparation of Draft LGBFP	Local governments will then amend their DDPs and prepare the first draft of the LGBFP. Review of progress in sectors Identification of priorities Identification of appropriate	December

	strategies	
OUTPUT 1 Second LFBFP Workshop	Submission of preliminary draft of the LGBFP. Analysis of draft LGBFPs Recommendations for improvement	December (End) January (Mid)
Finalisation of BFP	The Local Government will finalise its LGBFP.	
OUTPUT 2	Submission of final LGBFP.	February (Early)

Phase 2 – Line Ministry Analysis of LGBFPs & Mentoring

Line Ministries will analyse the DDP & LGBFP for compliance with NSP, relevance, detail and accuracy of work plans. They may engage in mentoring LGs.

Phase 3 – Alterations in the Budget

In the event that final budgets differ from the budget ceilings given to local governments on which the work plans were based, then local governments should make alterations accordingly and submit amendments to the plan.

Reading of the Budget	Reading of the budget - final budget allocations.	Mid June
Changes in the Budget	In the event that allocations change at the time of the budget, local governments should make alterations to their activity work plans, or incorporate additional activities.	

Section 4: Reporting

Local Governments will be required to report every month on progress. These reports are actual for the month and cumulative for the year.

The reporting is simple and consolidated in accordance with the manuals already identified. Detailed financial records must be kept in any event in accordance with the Local Government Financial and Accounting Regulations. This includes the preparation of Monthly Accountability Statements.

Local Governments must also note the requirements with respect to internal planning, budgeting and commitment controls required by all LGs in accordance with the identified manuals.

Section 5: Release of Funds

5.1 Conditions and Timetable for Release of Funds

Release of funds will be automatic.

Monthly reports must be delivered on time. Failure to deliver the reports will result in the automatic suspension of all further releases until the reports are delivered.

Monthly reports will be analysed by each LM for compliance with work plans. Funds will be released without deduction for funds still held on account. Failure to comply with work plans will automatically result in MoFPED suspending all further releases.

5.2 Local Government Finance & Accounting Regulations

Failure to also comply with the Local Government Financial and Accounting Regulations will result in automatic suspension of all releases until the defects are remedied.

Misuse or abuse of funds will result in the automatic suspension of all releases until the abuse or misuse is cured.

5.3 Late/Incomplete Reports

If reports are submitted late or are incomplete, the next release due will be automatically stopped until the reports are delivered and complete. The release will then occur at the commencement of the next month after the reports were delivered.

There is no excuse for an incomplete report as the modalities have been substantially streamlined.

5.4 Banking of Funds

All conditional grant funds must be first deposited in the Government Grants Collection Account and then the requirements of the relevant manuals complied with by each LG.

Generally, the funds for each conditional grant then must be transferred from the Government Grants Collection Account into the account for that sector.

All bank accounts and other financial activities of Local Government shall in any event be managed in compliance with the all of the laws and subordinate legislation in force in the Republic of Uganda in respect of the management, utilisation, application and reporting in respect of the financial activities of Local Government.

It must be noted that these banking and accounting requirements only apply to central transfers that are not the subject of specific agree by the Government that contain other modalities. The Ministry of Finance, Planning and Economic Development will publish a list of all funding sources that have different requirements that must be adhered to, for instance, Local Development Grant Funds, NAADS funds and the like.

5.5 The Close of the Financial Year

All funds transferred from the Central Government in the form the Grant that remain un-spent after the close of the Financial Year shall be refunded to the Central Government for adjustment to the credit of the Exchequer Account. This applies to all funds, even if funds are committed under contract. The committed activity should be budgeted for within the ceiling for the next FY as indicated previously.

However, it should be noted that if a local government has commitments to be cleared within the month of July, an authority of the Permanent Secretary/Secretary to the Treasury must be sought to retain and utilise the funds for the purpose for which it was voted, clearly indicating the contractual commitment with proper documentation pertaining to the amount involved **BEFORE 15TH JUNE**. The local government that fails to obtain such an authority IN WRITING must return all unspent funds to the Treasury.

Final Progress Reports - After the close of the financial year, the monthly report for June should be prepared and submitted by the last working day of July.

In addition with the normal submission, the following must be submitted by the same date a cheque returning any unspent balances left on account to the Treasury addressed to the Commissioner/Treasury Officer of Accounts. If this is not complied with **NO FURTHER RELEASES WILL BE MADE**.

5.6 Re-budgeting for Contract Commitments

In some cases a local government may enter into a contract, which overruns into the following financial year. A local government must make projections on the likely outstanding contract commitments at the end of the financial year and these should be incorporated in the next financial year's work plan & budget, ceiling.

IMPORTANT: The returning funds to the Treasury **UNILATERALLY APPLIES** to all conditional grant funds remaining on account at the end of the financial year, **WHETHER THERE ARE OUTSTANDING CONTRACT COMMITMENTS OR NOT**. *Large Scale Commitments* - If a local government has engaged a contractor in a large-scale contract that is expected to overrun, and outstanding commitments cannot be accommodated in the following year's budget allocation, then the local government should request the respective line ministry to increase its budget allocation for the following financial year accordingly.

This will only apply to contracts for specific development activities, which are stipulated in the respective sector grant guidelines. The application to the Line Ministry must provide:

evidence of the outstanding contract commitment,
an explanation for the delay in implementation.

The application should be made more than one month before the close of the financial year.

NB: This provision applies to large-scale development contracts only, e.g.: Construction of Health Centre IV, Piped Water Supply Systems for Rural Growth Centres. This does not apply to contracts relating to small-scale infrastructure contracts (e.g. classrooms, boreholes) or recurrent contracts (e.g. procurement of drugs)

Section 6: Mandatory Public Notices

Local government will post mandatory public notices for every conditional grant each month, once funds have been received. These notices should be in the form of work

programmes, detailing activities to be carried out, their cost and funds released and be posted in public places.

Section 7: Monitoring & Audit Arrangements

7.1 Local Government

The local government is required to carry out periodic monitoring visits for all conditional grants. Monitoring is an activity that must appear in the DDP and the budgeted work plans. In general monitoring, visits should involve the verification of progress as reported in monthly reports and should review programme implementation and identify deficiencies in implementation in the programme

7.2 Central Government

The following activities will be carried out by central government to monitor the implementation of NSP by LG in line with work plans, and Government Financial Regulations.

The Treasury Inspectorate of Ministry of Finance, Planning & Economic Development will carry out quarterly monitoring visits looking at financial flows and value for money;

Line ministries will carry out monitoring, spot-checking, follow-up and mentoring visits as it thinks necessary to adequately monitor the implementation of NSP.

The Auditor General will carry out half yearly value for money audits; and Other actors including Inspectorate Department, Ministry of Local Government, and Inspector General of Government may undertake mentoring and audit activities within their mandates.

The monitoring and audit arrangements, as well as Line Ministry mentoring, spot-checking and follow-up are in addition to all of the review and monitoring mechanisms under LGDP II.

Section 8: Standards

8.1 Standards Rationale

In order to ensure that activities within national sectoral policy are carried out in a nationally uniform manner, each sector has set standards for various activities. These standards may contain required processes, whether planning or otherwise, in order that an activity is properly planned or prioritised. These standards appear in the relevant sectoral schedules.

8.2 Budgeting for recurrent expenses of all activities

Local Government must budget for the full recurrent costs (including staff deployment) of all development investments. This means that all development investments, whether continuing or planned, however funded, must have its complete recurrent costs budgeted for in the LGBFP. This is a first priority of all budgeting.

This requires each LG to make proper and appropriate recurrent provision in respect of all operational and maintenance costs, including allowance for appropriate and necessary repairs and maintenance of all assets and infrastructure.

8.3 Performance Indicators

In order to ensure national standardization of performance indicators within each sector, the performance indicators to be used for all planning and reporting purposes appear in the relevant sectoral schedule.

9.0 Non-compliance Responses

9.1 Principle

Non-compliance responses are discretionary and may be applied in any order at any time, but must be applied in accordance with the principle that as far as possible responses will be taken so as to respect the independence and autonomy of local governments, while recognizing the need of Central Government to achieve the transparent and orderly implementation of national policy.

<i>Non-compliance which attract responses</i>	<i>Responses</i>
1. Failure to comply with local government budget process.	Central Government will mentor and advise the district on how to comply with the local government budget process. Central Government provides necessary technical assistance.
2. Lack of action by district to comply with local government budget process after Central Government has mentored and advised on compliance	MoFPED will make no releases to the district until the district has complied with the local government budget process.
3. Failure to develop any or any sufficient DDP in accordance with local government budget process	Central Government will mentor and advise the district on how to develop a sufficient DDP with the local government budget process. Central Government provides necessary technical assistance.
4. Lack of action by district to develop any or any sufficient DDP after Central Government has mentored and advised on how to develop a sufficient DDP	MoFPED will make no releases to the district until the district has developed a sufficient DDP.
5. Insufficient work plans or budgets in accordance with local government budget process	Central Government will mentor and advise the district on how to develop a sufficient DDP with the local government budget process. Central Government provides necessary technical assistance.
6. Lack of action by district to develop full and sufficient work plans or	MoFPED will make no releases to the district until the district has developed

	budgets after Central Government has mentored and advised on how to develop a sufficient work plans or budgets.	sufficient work plans or budgets.
7.	Failure to deliver a full and sufficient LGBFP within timeframes required by local government budget process	Central Government will mentor and advise the district on how to comply with the timeframes required by the local government budget process. Central Government provides necessary technical assistance.
8.	Lack of action by a district to deliver a full and sufficient LGBFP within the timeframes required by the local government budget process after Central Government has mentored and advised on how to comply.	MoFPED will make no releases to the district until the district has delivered a full and sufficient LGBFP within the timeframes required by the local government budget process
9.	Failure or refusal to comply at any time with terms of letter of understanding.	Central Government mentors and advises the district on compliance. Written warning. MoFPED reduces or suspends further releases until compliance is attained. Termination or suspension of employment of responsible officer at request of MoFPED.
10.	Holding money on account meant for disbursement	Central Government mentors and advises the district on compliance with requirement to disburse funds. Written warning. MoFPED reduces or suspends further releases until disbursement made. Termination or suspension of employment of responsible officer at request of MoFPED.
11.	Failure to account for or keep full and proper records of all funds at any level.	Written warning. MoFPED reduces or suspends further releases. Arrest and prosecute. Termination or suspension of employment of responsible officer at request of MoFPED.
12.	Failure to provide full and complete reports within timeframes.	a. Central Government mentors and advises the district on compliance with requirement to provide full and complete reports. b. Written warning. MoFPED reduces or suspends further releases. Arrest and prosecute. Termination or suspension of

	employment of responsible officer at request of MoFPED.
13. District encounters problems in implementation, monitoring evaluation, management or supervision.	Central Government mentors and advises on resolving implementation monitoring evaluation, management or supervision problems. Central Government provides necessary technical assistance.
14. Lack of action by district to improve implementation, monitoring evaluation, management or supervision on basis of advice provided or to accept technical assistance.	Written warning. MoFPED reduces or suspends further releases until district takes action to implement advice or accept technical assistance. Termination or suspension of employment of responsible officer at request of MoFPED.
15. Low value for money (Negligible outputs or achievements relative to actual spending.	Central Government mentors and advises on improving value for money. Central Government provides necessary technical assistance.
16. Lack of action by district to improve value for money on basis of advice provided or to accept technical assistance.	Written warning. MoFPED reduces or suspends further releases until district takes action to implement advice or accept technical assistance. Termination or suspension of employment of responsible officer at request of MoFPED.
17. Low accountability of funds.	Written warning. MoFPED reduces or suspends further releases until district takes action to implement advice or accept technical assistance. Central Government to report to IGG and other accountability institutions. Central Government to report to local council, MPs. Central Government to publicise by notices in newspapers, radio or other means the low accountability. Termination or suspension of employment of responsible officer at request of MoFPED.
18. Low utilisation of funds	Central Government mentors and advises on improving utilisation of funds. Central Government provides necessary technical assistance.
19. Lack of action by district to improve	Written warning.

<p>low utilisation of funds after Central Government has mentored and advised on improvements.</p>	<p>MoFPED reduces or suspends further releases until district takes action to implement advice or accept technical assistance.</p>
<p>20. Failure or refusal to cooperate with reasonable Central Government monitoring and evaluation activities</p>	<p>Central Government mentors and advises the district on cooperation with reasonable Central Government monitoring and evaluation activities Written warning. MoFPED reduces or suspends further releases until district takes action to cooperate with reasonable Central Government monitoring and evaluation activities. Termination or suspension of employment of responsible officer at request of MoFPED.</p>
<p>21. Misuse, misapplication, diversion or unlawful use of funds</p>	<p>Central Government reports matter to police. Arrest and prosecution. Termination or suspension of employment of responsible officer at request of MoFPED. District to refund all funds the subject of misuse, misapplication, diversion or unlawful use.</p>
<p>22. Failure to comply with any planning, implementation, construction or other central guidelines.</p>	<p>Central Government reports matter to police . Arrest and prosecution. Termination or suspension of employment of responsible officer at request of MoFPED.</p>
<p>24 False or misleading claims or statements in respect of matters relevant to the conditional grant</p>	<p>Central Government reports matter to police. Arrest and prosecution. Termination or suspension of employment of responsible officer at request of MoFPED.</p>

SECTORAL SCHEDULE

Ministry of Water, Lands & Environment

1. Sector Policy

The constitutional and legal framework vest the following responsibilities in Central Government under the Water Sector –

- National Standards
- National Water Policy
- Making national plans for the provision of water services and co-ordinating plans made by Local Governments
- Monitor and Co-ordinate Government Initiatives and Policies as they apply to the Local Governments
- Co-ordinate and Advise Persons and Organisations in Relation to Projects Involving Directly Relations with Local Governments
- Assist in the Provision of Technical Assistance to Local Governments
- Inspection, Monitoring and Technical Advice, Support Supervision and Training

The MoWLE NSP that LG are required to budget to implement are –

- A. National Water Policy 1999
- B. National Gender Policy and the Water Sector Gender Strategy
- C. Rural Water Supply and Sanitation Strategic Investment Plan 2000-2015 & Rural Water and Sanitation Operation Plan 2002-2007.
- D. National Health Policy 1999 and Ministry of Health Sector Strategic Plan (as amended from time to time)(in so far as it relates to matters within the mandate of MoWLE).

2.0 Roles of MoWLE and Local Governments

2.1 MoWLE Functions

The key central function of MoWLE, following various institutional and macro-economic reforms undertaken in the country (including public service reform, privatization, divestiture, liberalization, decentralization, the enactment of the 1995 Constitution, the Local Governments Act, 1997, the institution of the Poverty Eradication Action Plan (PEAP);

- the formulation and review of national policies, plans, legislation, standards and programmes relating to the sector;
- making technical inputs and providing supervision in the areas relating to the sector;
- providing specialist advice, training and building capacity in the areas relating to the sector, as may be required by the local governments;
- designing, developing and maintaining a national information base on the sector;
- co-coordinating, facilitating, monitoring and supervising, national sector projects and programmes, the performance of local governments and sector output,
- mobilising financial and technical assistance for the development of the sector; and
- accounting to Parliament for the performance of the sector;

2.2 District Decentralised Functions

- Human resources management and development;
- Recurrent and development budget;
- District statistical services;
- District project identification;
- District planning;
- Local government development planning;
- Maintenance of community infrastructure.

3.0 Water Sector Conditional Grant and Transfer Policy

3.1 Recurrent and Development Transfers - budget and sub-budget lines

The following budget and sub-budget lines are required -

- a. Development – Budget line
Sub-budget lines –
 - District Water Supply Budget.
 - Other donor projects
- b. Recurrent – Budget Line
Sub-budget lines –
 - District Water Supply Salaries – recurrent wage
 - District Water Supply – recurrent non-wage

3.2 Implications for LG Staffing and Structure

District Water Offices have implications on LG staffing and structures, but there are no financial implications as these DWO are fully financed on a project basis from central transfers.

4.0 Sector Standards

4.1 Standards, Rationale and Specifications

In order to ensure that activities of the health national sector policy are carried out in a nationally uniform manner, the Rural Water Supply and Sanitation Strategic Investment Plan 2000-2015 & Rural Water and Sanitation Operation Plan 2002-2007 which are currently applicable in the sector will be applied in the implementation of the national sector policy and the standards shall be derived from it.

4.2 Budgeting for Rehabilitation, Point Sources, Gravity Flow Schemes, etc

All budgeting for rehabilitation, point sources, rural growth centers, gravity flow schemes, valley tanks/dams, other sources, sanitation investment and district M&E shall accord with all relevant technical standards issued by MoWLE from time to time.

4.3 District Water Offices

All districts shall establish and budget to meet the operational costs of a fully functional District Water Office that integrates technical, planning and hygiene education and social aspects. The DWO shall report to the Technical/Works Services Committee.

The following qualified staff are required in each DWO (minimum degree holders plus 3 years relevant experience) –

- 1 Senior Engineer/Senior Water Officer.
- 1 Engineer/Hydro-geologist/Hydrologist
- 1 Borehole maintenance Supervisor
- 1 Hygiene Education/Sanitation Officer
- 1 Technical officer (minimum Diploma in civil/water engineering) in each county for planning, supervision, of construction and overseeing maintenance of installed water supplies.

This conditional grant may be used to hire required staff on project terms, noting that within 3 years, these functions and staff are to be absorbed within the local government structure and payroll.

Up to 2% of the total recurrent component of this conditional grant may be budgeted and allocated by the DWO for the following purposes –

- effectively plan, supervise and monitor water sector activities on an integrated and district wide basis in accordance with the RWSS Strategic investment Plan and the Rural Water Sanitation Operation Plan,
- report and account for resources in a timely manner.

Local Government shall, as far as reasonably practicable, cooperate and interact with the Technical Support Units established by MoWLE in order to maximize increases in district capacity.

4.4 District Water and Sanitation Committees

All districts shall establish and budget to meet the operational costs of a fully functional District Water and Sanitation Committee.

The DWSC functions are–

- co-ordinate water and sanitation development activities,
- approve all workplans and budgets,
- oversee the implementation of sector activities,
- carry out sector specific reporting and monitoring,
- review quarterly progress reports.

The DWSC shall be comprised of the following –

- Chairperson of local government (as Chair of committee)
- Secretaries of district committees responsible for water and women,
- District Engineer,
- Representatives of DWO, DDHS, DEO, CDO, NGO and CBO representatives.

4.5 District/Lower Local Government Allocations

As a national standard, 50% of all grant funds must be allocated by local government to lower local government to allow LLG to make informed investment decisions in respect of low-cost technology options to be planned and managed at LLG level.

4.6 Water Sector National Standard Objectives

As a national standard, all workplans/budgets in the water sector shall be in line with the following national objectives–

- Local priorities - all activities based on local government priorities identified in the DDP with specific activities individually identified, quantified, costed and a timeframe attached.
- Establish a clear sector planning and management capacity to effectively plan, supervise and monitor water sector activities, report and account for resources in a timely manner.
- Effective utilization and improved sustainability of water and sanitation facilities as a prime objective.
- Increase access to safe water and sanitation facilities.
- Promote the hygienic use of water and sanitation facilities.

4.7 Co-financing Local Government & Communities

It is noted that in FY 2004-2005 that there is no local government based co financing required in respect of district level developments.

The principles of Community Based Maintenance Systems are adopted. For rural water supplies –

- Users are fully responsible for the operation and maintenance costs of facilities. This is to operate in line with the principles identified in the RWSS Strategic Investment Plan 2000-2015. District level budgets will make appropriate allowance for this, as well as the required activity of initiating agreements with communities with respect to payment of these costs, the collection of them and the proper administration of the funds collected in accordance with the relevant laws in force in Uganda,
- The private sector will be the appropriate provider of all technical services in respect of operation and maintenance, and
- The role of local government is to monitor, regulate and facilitate this process.

4.8 Operation and maintenance of Urban Water Supply and Sewerage Systems

Funds allocated for the operation and maintenance of urban water supply and sewerage systems are required to be based on workplans, which identify the following factors in respect of which the workplan was based –

- nature of the water supply tasks, including description of the town, population status, source of water (and alternatives), sanitation and hygiene status
- technical description of the machinery in place, including abstraction and other pumps (head, discharge and power utilization), treatment systems and capacities, inc rates of chemical utilization, main and storage sizes
- regime of operation, with analysis of operation costs based on operation periods, based on historical and forecast supply and demand and practical considerations such as full operation and maintenance costs
- tariff structure based on developed costs, covering existing arrangements as to methods of supply, current tariff structures, historical revenue collection, recurrent costs in full and an analysis of these inputs leading to the tariff structure. The function of the tariff structure must be to ready the system for non-use of conditional grant funds within a structured and reasonable time.

This will require the identification of intended future operating methods and current process to achieve that state.

All workplans will identify and fully cost intended activities to –

- improve revenue collection and
- improve operation of the system.

5.0 Performance Indicators

In order to ensure national standardisation of performance indicators within the water sector, the performance indicators (in so far as they are relevant to the activities appearing in the DDP in order to implement national sectoral policy) to be used for all planning and reporting purposes are;

- Evidence of participation of lower councils and communities,
- Timely completion of activities and reporting,
- Monitoring system in place,
- Timely accountability.
- Increased acceptable water coverage and institutional sanitation improvements.

