

# **General Guide to the Local Government Budget Process for District & LLG Councillors, NGOs, CBOs & Civil Society**

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# CONTENTS

<b>Section 1: Introduction</b>	<b>6</b>
<b>Section 2: Key elements of the Budget Process</b>	<b>6-7</b>
<b>Section 3 Budgeting</b>	
<b>3.1 Tools in Budgeting</b>	<b>7-8</b>
<b>3.2 Increased Decision Making Powers under the Fiscal Decentralisation Strategy</b>	<b>8-9</b>
<b>3.3 Flexibility Requires Prioritisation</b>	<b>9-10</b>
<b>3.4 No Budget, No Central Government Grants</b>	<b>10</b>
<b>3.5 More Autonomy means a greater focus on results</b>	<b>12</b>
<b>3.6 Implementing the Budget –Better performance will mean more central allocations</b>	<b>12</b>
<b>3.7 What is needed for a successful budgeting process?</b>	<b>12-13</b>
<b>Section 4: The budget process – 3 stages</b>	
<b>4.1 Stage 1 – Preparing for the budget process</b>	<b>13-16</b>
<b>4.2 Stage 2 – Preparing the BFP</b>	<b>16-20</b>
<b>4.3 Stage 3 – Finalisation and Approval of the Annual Workplans and Budget.</b>	<b>20-22</b>

## General Guide to the Local Government Budget Process

### LOCAL GOVERNMENT BUDGET CALENDAR

Timing	Activity/event	Responsibility Centre	Output
September	1. Local Governments Budget Committee agrees the rules, conditions & flexibility of the coming planning & budgetary process	LGBC	Agreement about the overall planning & budgetary framework before start of budget process
October	2. Holding of National Budget Conference	Ministry of Finance, Planning & Economic Development	National priorities, resources & inter sector allocations communicated to local governments
October	3. Holding of Regional Local Government Framework Paper Workshops	Ministry of Finance, Planning, & Economic Development, sector ministries	Recurrent and development grants ceilings communicated to local governments, alongside changes to sector policies and guidelines.
Early November	4. Executive Committee meets to determine intersectoral priorities as identified in previous DDP and to fix intersectoral allocation %	Executive Committee	Intersectoral priorities identified for potential budget reallocations & flexibility
Early November	5. Budget Desk prepares Local Government Budget Call and circulates it to Heads of Department and Lower Local Governments.	Local Government Budget Desk, Executive Committee	Draft activity & time schedule for the entire budget process, and indicative budget allocations for LLGs & HoDs, etc.
November	6. Sectors start preparing input to budget framework paper, reviewing performance and prioritising planning & budgeting for future programmes.	Heads of departments & lower local governments	Draft inputs to budget framework paper to be presented to sector committees and development plans to be considered by LLG councils.
November	7. a: LLGs identify investments and prepare draft development budgets and plans. b: Planning Unit compiles LLG development activities into DDP, and presents them to HODs who propose district level Sector investments which are compiled in sector BFPs. These include full and complete workplans	Planner District Technical Planning Committee	Draft District/Municipality Development Plan & detailed workplans and budgets for each an every activity LG intends to undertake, no matter how funded.

## General Guide to the Local Government Budget Process

	and budgets for all district level activity linked directly to DDP		
December	8. Draft Sector BFPs and development plans complete. Sector committees examine sector inputs to the budget framework paper	Sector committees	Sector priorities and draft workplans & budget estimates ready for compilation by the Budget Desk
December	9. Budget desk compiles/prepare draft budget framework paper, and the planning unit the development plan. The District Technical Planning Committee reviews them.	Budget Desk	Draft budget framework paper and development plan ready to be presented to Executive Committee
December	10. A meeting of the Executive Committee, Chairpersons of Sector Committees, HoDs is held to examine draft budget framework paper, and prioritise sector expenditures and programmes,	Executive Committee, Chairpersons of Sector Committees, HoDs	Draft budget framework paper and development plan ready for Budget Conference
December	11. Holding of Budget Conference	Full council, NGOs, Civil Society.	Budget input (i.e. priorities, re-allocations & preliminary budget estimates) ready for incorporation in draft budget by the Budget Desk
December	12. Budget Desk incorporates input from budget conference in budget framework paper and draft budget. Executive Committee approves budget framework paper & draft budget	Budget Desk Executive Committee	Final budget framework paper and draft budget ready to be presented to Finance- or Executive Committee Draft budget ready for submission to MoFPED
January to May	13. MoFPED & line ministries examine local government budget framework paper & draft budgets	Central Government	Revised grant ceilings & comments ready to be communicated to LGs
May	14. Budget Desk incorporates grant ceilings & comments received from MoFPED in annual workplan & draft budget	Budget Desk	Final draft budget and workplan ready to be presented to sector committees
Beginning of June	15. Sector committees review final annual workplan & budget	Sector Committees	Final input from sector committees to annual workplan & budget
Beginning of	16. Finance- or Executive	Finance- or Executive	Final draft budget (including

## General Guide to the Local Government Budget Process

June	Committee examines final draft budget	Committee	annual work plan) ready to be read by council
Before the 15 <sup>th</sup> of June	17. Reading and approval of budget	Full council	Approved budget to be signed by chairperson and submitted to MoFPED/MoLG/LGFC & Auditor General

## 1. Introduction

This guide provides political decision makers (local government councillors and members of civil society) with practical tools to guide them through the steps of the local government planning and budgeting cycle.

This guide brings together the entire local government planning and budgeting process and integrates district development planning and the Local Government Budget Framework Paper into the overall local government budget cycle. The new elements of the Fiscal Decentralisation Strategy are also included.

## 2. Key Elements of the Budget Process

A local government budget is the detailed plan of how a local government plans to spend funds in line with its objectives, needs and priorities. Local governments have discretionary planning and budgeting powers, but their plans and budgets need to reflect priorities and objectives set out in national policies, plans and budgets. Consequently, the local government planning and budget cycle has to fit into the national planning and budgeting cycle. This starts in October and ends in June.

The overall Planning Framework for Uganda is the Poverty Eradication Action Plan (PEAP), which sets out government's national objectives and strategies for reducing poverty.

The Medium-Term Expenditure Framework, and the supporting National Budget Framework Paper process, is a three-year rolling budget system that constitutes the link between PEAP and the budget allocations for the implementation of the various programmes under the plan. Government ensures that these national priorities are reflected in Local Government budgets through the allocation and transfer of conditional grants to Local Governments. The highest priority programmes within the PEAP, and the national budget fall under the PAF.

The two main principles behind the local government planning and budgeting system are:

1. *Realistic Budgeting through an Integrated 3-Year Budgeting & Planning Framework:*

?? A three-year rolling (medium term) framework for planning and budgeting is used so that services and investments can be planned for and communicated well in advance.

?? The preparation of 3-year district/urban authority development plans, which is fully integrated with the budgeting process, identifies the specific programmes and projects that are to be carried out to address specific communities' local priorities and needs.

## General Guide to the Local Government Budget Process

?? Planning and budgeting must be carried out within expected revenues over the medium term, as this helps Local Government prioritise programmes and ensure that what is actually planned and budgeted for can be realistically achieved and afforded. This is done through the preparation of the LGBFP.

2. *Focusing on the Intended Results of Expenditures* – Setting objectives and targets and measuring performance.

?? Local Governments spend money in order to achieve objectives. By clearly stating the objectives of expenditure, and setting measurable targets, this enables local governments to deliver services and choose programmes and investments, which are better targeted towards local needs and priorities.

?? By linking the achievement of service delivery and investment performance targets to specific expenditures in the budget, Local Governments can assess the efficiency of their expenditure choices, identify problems and establish how funds can be better spent.

### 3.0 Budgeting

#### 3.1 Tools in Budgeting

The three main tools that enable integrated planning and budgeting are the:

1. The District/Urban Local Government Development Plan (DDP), which constitutes the overall, integrated, district/urban authority planning tool. It incorporates the plans of lower level local governments, and of sector departments. All activities to be undertaken by Local Government, whether funded by the centre, local revenue, unconditional grants or donors are included in the DDP. An activity that is not contained and identified in the DDP is not an authorised expenditure.

2. The Local Government Budget Framework Paper (BFP), which articulates a Local Government's 3-year budget strategy, and through integrating planning & budgeting helps ensure that budget decisions reflect a Local Government's longer term objectives. The BFP does so by setting out:

?? Previous financial year's revenue performance against revenue budget estimates and revenue projections for the next three years;

?? Sector performance in previous financial years (expenditure and service delivery) measured against set performance targets;

?? Indicative allocations and sector objectives and performance targets for the next three years.

?? Sector unfunded priorities and reallocations of funding.

?? Draft Annual Work Plan and Budget Estimates, setting out in detail the budgetary inputs, activities, and expected outputs and outcomes within the various sectors during the coming financial year.

## General Guide to the Local Government Budget Process

The Local Government Budget Framework Paper, if properly prepared and used, will provide councillors with the information required to make decisions that link-up inputs and activities with intended results or outcomes (goals set in the Poverty Eradication Action Plan).

3. The Budget, which alongside the annual workplan make the integrated annual performance and financial plan for the coming financial year, sets out:

?? The expected revenues available to the Local Governments in detail.

?? The allocation of funds to different parts of the Local Government for the achievement of the activities and outputs set out in the Annual Workplan in detail.

The final annual work plan together with the budget is being presented to Council for approval. Once approved, the budget is a legal document by which the Council authorises the Local Government Administration to spend money on its behalf in order to carry out council programmes. The DDP, BFP, annual workplan and budget are all linked so that at any stage an activity can be identified in the DDP.

### 3.2 Increased Decision Making Powers under the Fiscal Decentralisation Strategy

To date Local Governments have actually had little power to allocate funds in line with their local needs and priorities, as the vast majority of funds transferred to Local Governments have been as conditional grants, with fixed amounts for specified purposes. The Fiscal Decentralisation Strategy changes this, and brings in increased flexibility, and better systems that enable Local Governments to decide on programmes and investments that are in line with Local Governments' needs and priorities.

The Local Government Budget is made up of a recurrent budget, and a capital development budget. The recurrent budget refers to the financial plan for the running of the day-to-day routine programmes within a government, such as health services, and education in primary schools. The capital development budget is the budget for investment activities, which tend to be one off, such as the building of schools and health-centres, and the training of teachers and nurses. The Fiscal Decentralisation Strategy has two systems, the Recurrent and Development Transfer Systems that streamlines the transfer of funds from the Central Government.

Local Governments have flexibility over the allocation of recurrent sector conditional grants between and within sectors. Initially, local governments will be allowed to reallocate up to a maximum of 10% of grant funds from one priority sector department to another, and from one sub-sector to another, within the

## **General Guide to the Local Government Budget Process**

recurrent budget. The total allocation for conditional grants will remain the same. Every year, the level of overall flexibility will be determined for each Local Government by the Local Government Budget Committee after the annual local government reviews. The flexibility can be increased or decreased by the LGBC.

Up to 5% of the non-wage sector grant within a sector can be allocated to fund activities in sector administration, which directly support the implementation of programmes, such as inspection, monitoring and support supervision. General administration and non-priority sectors/sub-sectors will not receive conditional grant funding, but will be funded from the unconditional grant, local revenue and any available donor resources.

In the development budget, the source of flexibility comes from the discretionary Local Development Grant, which Local Governments can allocate towards any investment, so long as it is identified in the DDP. Central government sector conditional grants for development expenditures, such as the Primary Schools' Facilities Grant, will be allocated to priority sub-sectors within the development budget. These allocations, unlike those for recurrent sector grants will be fixed. The Local Development Grant and sector grants will be fully integrated with current development planning systems. Local Governments at every level will be able to make better decisions which meet their needs and priorities, because they will be fully responsible for identifying and planning for investments in their areas via the DDP.

The Executive will provide lower local governments with Indicative Planning Figures for sector grants and the local development grants simultaneously, and on the basis of this Lower Local Governments will make decisions on which investment in which sector to undertake in the following financial year. These lower local government decisions will be compiled by the Budget Desk and then the decisions will be made on how to allocate the district/municipality share of the local and sector development grants.

Local Governments at each level will be required to make contributions from own revenue towards local investments. The recurrent implications of investment decisions in the development budget must be taken into account in the second year sector allocations of the medium term budget framework, and before a sector investment can be approved.

### **3.3 Flexibility Requires Prioritisation**

The FDS brings greater flexibility and autonomy for Local Governments in making decisions on the allocation of expenditures. Given the new flexibility in the budget process, the process of prioritisation becomes very important.

## **General Guide to the Local Government Budget Process**

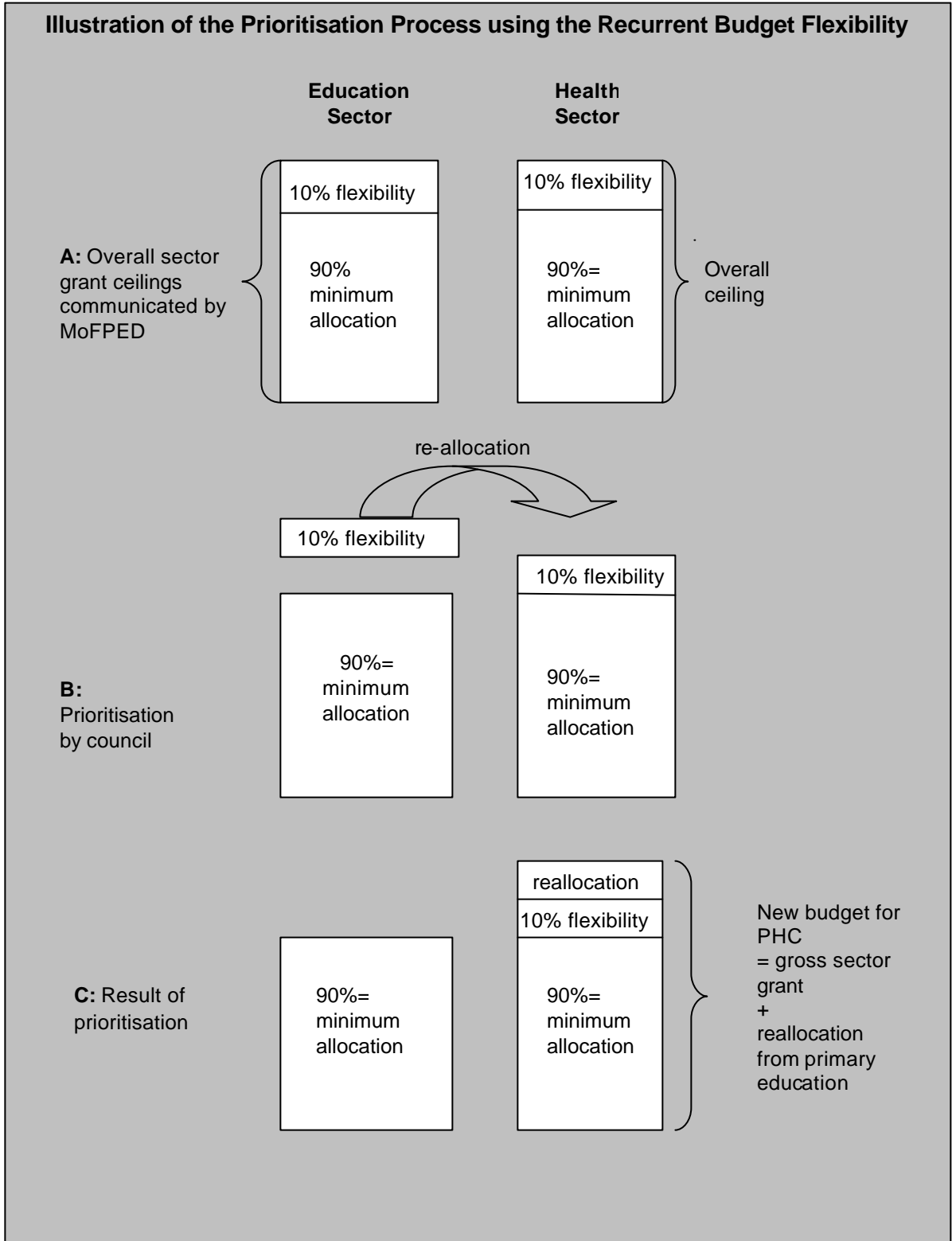
Local Councillors are ultimately responsible for the decisions made during the budgeting process and they therefore need to be fully engaged in the decision making process both within the sector committees, and council as a whole. Prioritisation is the process of identifying unfunded priorities and allocating resources to meet them in accordance with inter-sector priorities identified in the DDP.

Each Local Government is able to reallocate up to a maximum percentage fixed by the Local Government Budget Committee of the recurrent budget within and between sectors. Initially that percentage is 10%. The DEC will fix a flexibility percentage up to the maximum allowed.

To fund that flexibility, the budget call circular will deduct from each sectors indicative allocation a percentage of the total in line with the percentage fixed by the DEC. The total amounts deducted will be pooled together and will form the fund from which reallocations will occur to meet unfunded priorities.

### **3.4 No Budget, No Central Government Grants**

Section 83(4) of the Local Government Act requires that Local Governments pass a budget not later than the 15<sup>th</sup> June. The Finance & Planning Committee and the Executive Committee, together with the Budget Desk should take into account this time limit when arranging the budgeting process. The budget is central to the effective implementation of programmes, and the reading of and subsequent approval by council of the annual work-plan and budget will be a pre-condition for disbursement of central government funds via the recurrent and development transfer systems to Local Governments.



### **3.5 More autonomy means a greater focus on results**

The reasons for providing Local Governments with more flexibility in decision making is that it enhances their ability to generate poverty reducing results from their expenditures. The implementation of the Fiscal Decentralisation Strategy marks a shift in the traditional focus on expenditure control and compliance with government requirements and regulations - towards output and outcome performance evaluation. Councillors and central government agencies will have better tools to assess the extent to which Local Governments are performing against set medium-term targets and long-term objectives, many of which are set out in the Poverty Eradication Action Plan.

The test of a good budget is in its implementation – Local Governments must attempt to stick to budgeted expenditures and workplans. The shift in orientation towards planning and budgeting for outputs and outcomes and measuring performance against these does not imply that traditional financial accountability requirements are being relaxed. It merely means that traditional compliance control mechanisms are being supplemented by mechanisms to capture end-results, thus enabling the political leadership to inform the public about the progress in combating poverty over time and across the country.

### **3.6 Implementing the Budget - Better Performance will mean more central allocations**

A Local Government administration will be required to report on both expenditure and output performance against the annual work-plan and budget, both to council and to central government. Councillors need to ensure that their administrations adhere to their budgets and workplans, and scrutinise the achievement of results.

Central Government will also monitor this, and measure sector performance as new element of the national assessment process of local governments, which will now take place in September. Good performing local governments will be rewarded both in terms of increased Local Development Grant and Sector Grant Allocations, as well as in increased flexibility in the recurrent budget.

### **3.7 What is needed for a successful budgeting process?**

The budget process is where some of the most important political activities occur and decisions are made during the year. The process involves consultations and negotiations between the council and various relevant parties, compilation of planning and budgeting inputs from lower levels of local government, preparation of the budget framework paper, public hearings, the prioritisation process and eventually reading and approval of next years budget

## **General Guide to the Local Government Budget Process**

However, the budget process can be organised in many ways and may vary slightly from one local authority to another and from one year to another. Notwithstanding these variations, which are often due to different financial and political conditions, a democratic, participatory and transparent budgeting process is, however, based on the same principles.

In order to prepare a proper budget, three preconditions should be met:

- ?? The preparation process has to be consultative and participatory in order to ensure ownership to both the process and the approved budget;
- ?? A systematic process of prioritisation of programmes and expenditures, which is based on informed choices, must take place.
- ?? Planned outputs, activities, and expenditure allocations in the annual work plan and budget estimates must be realistic, and achievable.

Therefore the following criteria for a successful budgeting process should be applied:

- ?? The full council must be at the centre of the process so as to avoid monopolised and biased prioritisation and expenditure choices;
- ?? Sufficient time must be reserved for participation and dialogue between relevant stakeholders and for public hearings;
- ?? Councillors must be provided with well-arranged and accessible budget material that gives a clear financial overview of past financial and output performance and the current and anticipated financial position of the council;
- ?? Clear linkages between plans and budget, including recurrent cost implications of capital investments and development projects;
- ?? Possible scenarios and the consequences of different choices have been provided as a basis for political discussion and decision-making.

### **4 The budget process – 3 Stages**

This section goes step by step through the local government budget preparation process, highlighting major events, and the roles of stakeholders in each stage. Please refer to the Local Government Budget Calendar at the start of this volume.

#### **4.1 Stage 1: Preparing for the Budget Process**

Planning and budgeting takes time and a well arranged planning and budgeting process secures that the politicians have enough time for consultations the communities in their constituencies and other relevant stakeholders; enough time to make themselves acquainted with the budget material and to decide on their priorities. The Budget Desk also should be given due time to the compilation of planning and budgetary inputs, preparation of the Budget Framework Paper and preparation of draft and final budget.

## General Guide to the Local Government Budget Process

Quite a number of stakeholders need to be actively involved and consulted and numerous activities have to be carried out before the budget is ready for presentation to the council. The planning and budgeting process involves lower levels of local governments, NGOs, sector ministries, the Local Government Budget Committee and the Ministry of Finance, Planning and Economic Development. All stakeholders have a voice and all levels have been assigned specific functions and responsibilities during the process.

The budget process needs to be well planned in advance, with a clear timetable of events, and, crucially, funding made available for the holding of these events. Involvement of the full council in the decision-making is costly, however it helps in ensuring more balanced and widely owned decisions being made.

### **Step 1: Meeting of the Local Government Budget Committee.**

Before the start of the planning and budgeting process, the Local Government Budget Committee (chaired by the Local Government Finance Commission and composed of representatives from Ministry of Finance, Planning and Economic Development, key sector ministries, Ministry of Local Government, ACFO, ATC, ACAO, ULAA and UAAU), which is responsible for coordinating the LG budget process nationally, will meet in *September* to review local government performance in the previous financial year and agree upon modalities and conditions for the planning and budgeting process, including – among other things - the flexibility for reallocations between and within sectors.

#### **The Local Government Budgets Committee (LGBC)**

The LGBC is be responsible for:

- The negotiation and agreement of allocation formulae and grant conditions between sector ministries and local governments.
- The identification of issues for inclusion in the National Budget Framework Paper from analysis of Local Government BFPs
- Advice on the acceptance/rejection of amendments to conditional grant allocations within the RTBs.
- Overseeing the performance of the Comprehensive Local Government Assessments.

If the Local Council has any issues that they wish to be considered by the Budget Committee it should write to their respective LG associations and the Chair of the Local Government Budget Committee within the Local Government Finance Commission.

### **Step 2: Holding of National Budget Conference.**

In *October* the Ministry of Finance, Planning and Economic Development holds the National Budget Conference. The purpose of this event is to discuss and communicate national priorities, overall sector budget ceilings, and local government sector allocations. The National Budget Conference is one of the key

## General Guide to the Local Government Budget Process

events at the start of the local governments' planning and budgeting process, and districts and municipalities should make sure that key players in the budget process attend this workshop (i.e. the chairperson, the Secretary to the Planning and Finance Committee, the CAO and the chairperson of the Budget Desk).

### **Step 3: Holding of Regional Local Government Framework Paper Workshops.**

In *late October* the Ministry of Finance, Planning and Economic Development conducts Regional Local Government Framework Paper Workshops primarily for members of the Local Government Budget Desk, heads of departments and key politicians. These workshops are of critical importance to local governments since they inform individual local governments about the budget ceilings for both

#### **The Local Government Budget Call:**

The Budget Desk is to issue Local Government Budget Call in November/December to accommodate & kick-start the development planning and budgeting process. It will contain the following information:

##### *Activities, events and timing of the Budget Process*

- ?? Timing of activities and dates of submission for contributions to budget documents
- ?? Who is responsibility for each submission

##### *Resource Projections and Indicative Sector Ceilings*

- ?? Overall medium term revenue projections for the local governments and indicative sector allocations
- ?? Indicative sector budget ceilings and minimum grant allocations for the recurrent budget
- ?? Indicative planning figures for sector and local development grants for lower local governments

##### *Formats and Technical Procedures for Preparing Budget Submissions*

- ?? Technical instructions for department heads on planning and budget submissions
- ?? Standard formats to be applied for development plans and workplans
- ?? Formats for submission of budget estimates
- ?? Formats for presenting un-funded priorities and possible areas for cuts.

recurrent and development grants. The Finance and Planning Committee or the Executive Committee, as the case may be, will make sure that the political leadership – if it did not attend – is kept properly informed about the budgeting guidelines and grant allocations communicated by Ministry of Finance, Planning and Economic Development in the workshop.

### **Step 4: Issuing of Local Government Budget Call.**

Within one week of the Regional Local Government Framework Paper Workshop in *early November*, the Budget Desk should prepare

a Local Government Budget Call and circulate it to all stakeholders involved in the budget preparation<sup>1</sup>.

The budget call sets out the timing of events in the budget process and what is expected of key stakeholders involved. The budget call also specifies the maximum percentage flexibility fixed by the DEC to be applied for intrasector and intersector reallocations in accordance with FDS modalities.

## General Guide to the Local Government Budget Process

It also sets out resource projections and indicative sector recurrent and development allocations for heads of departments and lower local governments, based on medium term allocations agreed in the previous budget framework paper. These allocations will be decreased by the percentage stated by the DEC as the applicable flexibility percentage for recurrent reallocations. These deductions will be totalled by sector and aggregate and form the pool to meet the costs of unfunded priorities prioritised later in the budget process. The standard formats for performance reviews, expenditure allocations and development and recurrent workplans, including activities and preliminary costing, to be carried out by sector departments, should be included.

The notice will also contain the decision of the DEC in respect of those areas which the local government has determined are priority areas for reallocation of funds in accordance with FDS modalities. This is to act as a guide to the sectors in preparing and identifying unfunded priorities for later consideration in respect of the reallocation of the pool of funds available.

The notice will also be submitted to lower-level governments, who are to contribute to both to recurrent service delivery budgets, and prepare their development plans. The officers in lower local government responsible for co-ordinating development projects will ensure that villages, divisions and wards start planning of development projects to be incorporated into district/urban councils' development plan.

The Budget Call also articulate the role of the District Technical Planning Committee, which will compile and co-ordinate sector plans from lower level local governments and draft the district/urban authority development plan.

### **4.2 Stage 2: Preparing the Local Government Budget Framework Paper**

The process of preparing the budget framework Paper is, perhaps, the most crucial stage of the budget process, as it is during this time that the widest consultations on the Local Government's budget strategy takes place, and prioritisation of expenditures and programmes are made. The process of sector prioritisation and setting of performance targets, alongside the lower local government planning process helps inform the prioritisation process carried out by Council in the Budget Conference.

#### **Step 5: *Preparing Sector and LLG inputs for the Development Plans***

##### **Step 5a: *LLG identify investments & prepare development plans***

Lower Local Governments review performance against their previously planned and identify the activities they wish to carry out under sector development grants

## General Guide to the Local Government Budget Process

over the medium term and compile development plans. This involves allocating their share of the discretionary local development grant to sector investments.

### **Step 5b:** *Preparing sector development plans and development budget<sup>2</sup>*

The planning unit compiles the LLG plans, and combined LLG sector allocations are distributed to sectors. Departments then review the planned LLG sector investment decisions, and allocate the district share of sector grant allocations and LDG allocations. They then prepare the sector element of the development plan. They also identify and prioritise any unfunded sector investments, in line with the Budget Call identification of priority areas.

Once the development plan and budget proposals have been prepared, departments complete the draft sector budget framework paper in accordance with the DDP. Sectors must ensure that they take care of the recurrent implications of investments being made in the current FY, and also for planned investments in the budget year in year 2 of the medium term allocations.

**Step 5c.** Each sectors must incorporate into the DDP all activities, whether recurrent or development, of the local government, whether funded by central government, local revenue, unconditional funds or donors. This requires an analysis of the National Sector Policy by the sector and the planning of those activities that each sector decides are those that it will undertake in order to implement the NSP.

### **Step 6:** *Sector Departments prepare input for Local Government Budget Framework Paper*

Once they receive the budget call Heads of Department should form small working groups to prepare the sector input for the Budget Framework Paper. Sectors review performance against previous workplans, and budget against expenditure. They then prioritise expenditures within the indicative budget ceilings providing to them, justifying allocations in terms of medium term objectives (which must appear in the DDP), past performance and expected outputs. Allocations within the sector budgets should be linked to the achievement of service delivery targets. Departments propose reallocations of conditional grants between the sub-sectors within the sector in line with local priorities as determined by the Budget Call, however it must be ensured allocations to budget lines must not go below the minimum levels prescribed in the LG Budget Call.

To facilitate the prioritisation process, sector committees will identify expenditure areas from where reallocations to other priority areas can be made

## General Guide to the Local Government Budget Process

### **Step 7:** *Sector committees review sector input to the budget framework paper and development plan*

In *December* the sector committees review sector input to the budget framework paper, and development plan including past sector performance, preliminary sector allocations, unfunded priorities.

The output from the sector committee meetings will be submitted to the Budget Desk for incorporation in the draft budget framework paper.

### **Step 8:** *Compilation of the draft Budget Framework Paper, and Spending Options Table*

The Budget Desk then compiles the draft budget framework paper, and the planning unit then completes the compilation of the draft District Development Plan. Also, crucially to the prioritisation process, the Budget Desk also compiles a table of spending options for the recurrent budget and capital development budget. This table listed the identified unfunded priorities to accord with the priority areas identified by the DEC in the Budget Call and the available pool of funds to meet those priorities. These are then submitted to the Technical Planning Committee, at which they are discussed.

The committee, assisted by the Budget Desk, will undertake a technical examination of the contributions from the standing committees. The technical examination aims to ensure that budget proposals are realistic and consistent with councils' policies, the available resources and national policies.

### **Step 9:** *In December, the Executive Committee, Chairpersons of Sector Committees, and Heads of Department review the draft budget framework paper and development plan.*

A meeting of the Executive, Chairpersons of Sector Committees and Heads of Department is then convened to review and discuss the draft BFP and DDP, and prioritise sector expenditures. The meeting reviews the ranking of the unfunded priorities proposed by sector committees in the BFP and takes preliminary decisions on what should and should not be funded from the available pool of funds. This includes agreement on which sector investments to be funded using the district share of the Local Development Grant.

On the basis of the contributions from the chairpersons of standing committees and the executive, and with technical consideration of the estimates, the Budget Desk prepares the draft of the annual & medium-term revenue and expenditure

## General Guide to the Local Government Budget Process

budget to be included in the budget framework paper<sup>3</sup>. Upon endorsement of the draft budget framework paper by the Executive Committee time has come for the annual local government budget conference, which has been institutionalised in local governments throughout the country as part and parcel of the local government budget cycle.

### **Step 10: Holding of Budget Conference**

In *late December* the Budget Conference takes place. The Budget Conference, which will normally be structured in accordance with the structure of the budget framework paper, aims to:

- ~~///~~ Inform the full council and other participants about the previous years financial performance (revenues as well as expenditures);
- ~~///~~ Inform the full council about the previous years achievements and shortcomings (based on an assessment of outputs and outcomes achieved against resources spent and activities carried out).
- ~~///~~ Present and discuss sector objectives, development programmes & projects and associated budget implications.
- ~~///~~ Review the prioritised interventions including proposed re-allocations across sectors and within budget lines.
- ~~///~~ Reach consensus about objectives, priorities and budget allocations in order for the Budget Desk to prepare a final draft budget framework paper, including a tentative annual and medium-term revenue and expenditure budget.

The budget framework paper will guide the council through the process and concentrate on following activities:

- i) Review of previous years' past revenue performance & medium-term revenue projections (prepared by the Budget Desk and normally to be presented by the Chief Finance Officer)
- ii) Review of previous years expenditure and output performance & medium-term expenditure estimates
- iii) Presentation and deliberation of the development plan, including sub-council development plan inputs
- iv) Prioritisation and ranking of recurrent and development activities, including unfunded priorities, and potential areas for cuts
- v) Setting of medium-term objectives and performance targets based on resource input & activities (outlined in the annual work plan and included in the budget framework paper) against planned outputs and outcomes

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<sup>3</sup> This involves amending the allocations made in the budget call.

## General Guide to the Local Government Budget Process

- vi) Allocations according to priorities and development projects agreed upon based on available local revenues, donor funds and the 10% flexibility to reallocate across the sectors/sub-sectors and between budget lines.

The Budget Desk will on the basis of the output of the budget conference make a final draft of the budget framework paper and prepare the medium-term budget<sup>4</sup>.

**Step 11:** *Finalisation of budget framework paper to be submitted to Ministry of Finance, Planning and Economic Development*

After the Budget Conference, the Budget Desk prepares the budget framework paper and draft budget to be presented to the Executive Committee, who in turn – upon endorsement of the document – submits it to Ministry of Finance, Planning and Economic Development, by the deadline specified in the National Budget Call which will usually be the 31<sup>st</sup> December.

### 4.3 Stage 3: Finalisation and Approval the Annual Workplans and Budget

The third and final stage of the budget preparation process is the finalisation of the workplan and budget, and the presentation to and approval of the budget by council.

**Step 12:** *Ministry of Finance, Planning and Economic Development reviews local government budget framework papers and draft budgets and set final budget ceilings*

During the *January* the Ministry of Finance, Planning and Economic Development reviews local governments budget framework papers, checks that conditional grant reallocations are consistent with the minimum allocations, and reviews LGD allocations. Upon completion of the review, issues are incorporated into the LGBFP and amendments to grant allocations integrated into the MTEF. The National BFP is submitted to Cabinet, and once it has been passed, the local governments will receive final budget ceilings, thus enabling them finalising their annual workplan and budget estimates in *April or May*.

**Step 13:** *Budget Desk revises budget frame work paper and draft budget*

Once comments and final budget ceilings have been received from the Ministry of Finance, Planning and Economic Development in *May*, the Budget Desk informs heads of departments and sector committees, and lower local governments of changes to the grant ceilings for their final input to the process.

## General Guide to the Local Government Budget Process

### **Step 14:** *Sector committees review final draft annual workplan and budget*

By the beginning of *June* heads of departments will have finalised their workplans and the sector committees will then review the final draft workplans and draft budget estimates assisted by the Budget Desk. Similarly Lower Local Governments will have revised their development plans. The input from the sector committees serve as a final input to the meetings to be held in the Finance and Planning Committee and the Executive Committee respectively. The Executive Committee may, if need be, hold consultations with individual sector committees or the Finance and Planning Committee to clarify outstanding issues.

### **Step 15:** *The Executive Committee finalises annual workplan and budget*

In the beginning of *June* the Executive Committee, assisted by the Budget Desk, finalises the annual workplan and draft budget to be read in a council meeting to be held at the latest at the 15<sup>th</sup> June.

### **Step 16:** *Reading and approval of budget by council*

At the council meeting for the reading of the budget, which is to be held at the latest the 15<sup>th</sup> June the chairperson of the council (or the Secretary to the Finance & Planning Committee) will present the development plan, the annual workplan and budget to the council. The budget meeting gives all councillors the opportunity to debate the budget proposal, and the prioritisation of those activities to be incorporated in the budget. If possible any outstanding issues on the budget should be resolved and the budget should be approved at the meeting. The approved budget is legally binding and should be communicated to the public.

#### **Flexibility in Budget Formulation and not Implementation**

It is important to note that the flexibility in the recurrent and development budgets are provided at the time of budget formulation only. Once sector grant allocations have been amended and the LDG allocated, these allocations should remain fixed, and be adhered to during budget implementation. There will be no flexibility to reallocate conditional grants during the financial year.

If the council is unable to resolve the outstanding issues on the budget proposals at the budget debate, it should instead approve vote on account. The budget issues should then be resolved within 3 months and the budget subsequently approved.

The chairperson of the council shall sign the approved budget/vote on account on behalf of the council. A copy of the approved budget/vote on account shall be submitted to the full council, Ministry of Local Government, Ministry of Finance, Planning and Economic

Development and the Local Governments Finance Commission. This will trigger the disbursement of central government funds to the Local Government in the following financial year.

## **General Guide to the Local Government Budget Process**

The local government's which only approve vote on account at the time of the reading of the budget must ensure that the budget is approved within the 3 month statutory deadline, otherwise grant disbursements will be withheld from October.