

Telephone : 256 41 4707 000
: 256 41 4232 095
Fax : 256 41 4230 163
: 256 41 4343 023
: 256 41 4341 286
Email : finance@finance.go.ug
Website : www.finance.go.ug



Ministry of Finance, Planning &
Economic Development
Plot 2-12, Apollo Kaggwa Road
P.O. Box 8147
Kampala
Uganda

In any correspondence on

this subject please quote No. **BPD 86/107/02**

THE REPUBLIC OF UGANDA

25th May 2011

To All Accounting Officers (Central and Local Governments)

Re: FINALISATION OF BUDGET ESTIMATES FOR FINANCIAL YEAR 2011/12

A. INTRODUCTION

1. In the Budget Call Circular of 6th April 2011, I requested you to prepare and submit your detailed budget estimates for FY 2011/12 by **7th May 2011**. It has been noted that to date, most of the Accounting Officers have not adhered to the above deadline.
2. You should note that the budget for the FY 2011/12 will be laid before Parliament on **Wednesday, 8th June 2011**.
3. The purpose of this Circular is therefore to:
 - i.) communicate the final resource envelope and sector ceilings for the FY 2011/12;
 - ii.) request you to urgently submit your final detailed budget estimates for FY 2011/12 based on the revised MTEF ceilings as indicated in ***Annex I*** herewith attached **not later than Tuesday, 31st May 2011**. This will facilitate timely preparation of Vote on Account for the FY 2011/12 by **8th June 2011**.

B. THE BUDGET PRIORITIES FOR THE FY 2011/12

4. As indicated in the Budget Call Circular of 11th April 2011, the budget priorities for the FY2011/12 are as follows:
 - i. *Infrastructure Development focusing on Transport Infrastructure and Energy;*
 - ii. *Increasing Agricultural Production and Productivity;*
 - iii. *Human Capital Development with emphasis on Education, Health and Water.*
 - iv. *Improving business competitiveness and job Creation; and*

Mission

"To formulate sound economic policies, maximize revenue mobilization, ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development"

- v. *Improving the overall effectiveness of Government with special focus on addressing corruption, inefficiency, waste and improving the delivery of Public Services.*
5. **While this Ministry received requests for extra funding amounting to over Ushs. 4Trillion, the resource envelope for the FY 2011/12 is highly constrained and as such, the additional resources in the FY 2011/12 have ONLY been allocated to the above priority areas as indicated in Annex 2 attached. The allocations for the rest of the sectors have largely been maintained at the level of the MTEF ceilings for the FY 2010/11.**

Resource Envelope for FY 2011/12

6. **The Resource Envelope for the FY 2011/12 is US\$ 9,630.8bn (including Arrears but excluding Non-Resources Taxes).**
7. The exchange rates to be used against One United States Dollar for FY 2011/12 and the Medium Term are as follows:

FY 2011/12 - Ushs 2,442
FY 2012/13 - Ushs 2,593,
FY 2013/14 - Ushs 2,734
FY 2014/15 - US\$ 2,889
FY 2015/16 – Ushs 3,052.8

C. KEY POLICY AND OPERATIONAL ISSUES

8. Whilst most of the key policy and operational issues were communicated in the last Budget Call Circular of 11th April 2011, I wish to re-emphasize the following;

Budgeting for Salaries for the FY 2011/12

9. To address the problem of wage overruns, this Ministry, in conjunction with the Ministry of Public Service and Sector Ministries responsible for conditional grant salaries has consulted all the local government Accounting Officers to harmonise the wage requirements and ensure accurate budgeting for salaries for the FY 2011/12.
10. All Accounting Officers should therefore work closely with the Ministry of Public Service, to ensure that salaries for the FY 2011/12 for both central and local government Votes are adequately budgeted for. Specifically;
- i. All Accounting Officers must ensure that all the relevant staffing information required for budgeting for salaries is submitted to the Ministry of Public Service with a copy to this Ministry, for verification.

- ii. While allocating the wage bill, the Ministry of Public Service should ensure that each individual vote budget allocations for the FY 2011/12 has adequately provided for the following:
 - a) All the staff in-post.
 - b) Any likely reactivations of the hitherto deleted staff from the payroll;
 - c) All staff who have been recruited but awaiting to access the payroll; and
 - iii. All Accounting Officers should note that with exception of the categories indicated above, no funds have been provided for additional recruitment and salary enhancement in the FY 2011/12.
 - iv. **Any recruitment already approved by the Ministry of Public Service but staff have not yet been recruited, should be reviewed in line with the available resources.**
 - v. **Accounting Officers will be held personally responsible for any wage overruns in the course of the FY 2011/12 and disciplinary measures will be instituted, including but not limited to cancellation of appointments.**
 - vi. **Any salary shortfalls will be funded from the non-wage budgets provisions of the respective Votes.**
11. **The Ministry of Public Service should finalise and submit the detailed wage allocations indicating the wage requirement broken down by the categories of staff outlined in paragraph 10 (ii) above, for every Vote, by Tuesday 31st May 2011.**

Budgeting for Pension and Gratuity for the FY 2011/12

12. **This FY 2010/11 has experienced substantial budget shortfalls on Pension and Gratuity payments. To ensure that adequate resources are provided in the FY 2011/12 budget, the Ministry of Public Service should submit details of final Pension and Gratuity requirements for the FY 2011/12, by category, by 31st May 2011.**
13. Local Governments have continued to raise the issue of lack of guidance on budgeting for Pension and Gratuity for the decentralized staff. As a result, some of the pensioners have remained unpaid, which will ultimately lead to accumulation of pension arrears. **The Ministry of Public Service is therefore requested to urgently issue policy guidelines for payment of local government pensions, before finalization of the budget estimates for the FY 2011/12.**

Decentralized Funds Appropriated for under Central Government Ministries

14. Effective next FY 2011/12, Government will decentralise the budgeting for all the funds captured under the 500 - 850 line in the MTEF. Such funds include, Health

Training, Secondary School Capitation Grant, Tertiary Wage allocations etc. the funds must be budgeted for and transferred directly to local governments. Accordingly, the Ministries responsible for each Conditional Grant should:

- i. submit the detailed grant allocation by local government and the allocation criteria by 31st May 2011;
- ii. prepare and issue the appropriate operational guidelines for these grants by 30th June 2011.

Direct Transfer of Funds to Town Councils and Schools under Universal Secondary Education (USE)

15. Effective next FY 2011/12, Government will start transferring funds directly to Secondary Schools and Town Councils. To enable smooth implementation of this Government policy;
 - i. The Ministries of Local Government and of Education and Sports, should submit the detailed allocations of the various grants, by School and Town Council and the criteria for allocation of the funds;
 - ii. The local government Accounting Officers should provide detailed bank account information of each USE school and Town Council to the Ministry of Local Government and Ministry of Education and Sports for verification and onward submission to the Accountant General;
 - iii. This Ministry will issue the relevant operational guidelines for transfer of the funds to the schools and Town Councils before the beginning of the FY 2011/12. A copy of the draft guidelines is attached as Annex 3.
16. The sector Ministries will still be responsible for providing the quarterly release advice on the Conditional Grants, before the funds are transferred to the Schools/Town Councils. The Local Government Accounting Officers will also still be responsible for monitoring and accountability of the funds transferred to Schools/Town Councils.

Budgeting for Tax Expenditure

Budgeting for Value Added Tax (VAT)

17. Accounting Officers should note that tax expenditure should have the first call on the counterpart funding resources and must be fully estimated and budgeted for by all spending agencies, within the MTEF provisions, where applicable.

Value Added Tax (VAT) Exempt Areas

18. However, in line with the second Schedule, paragraph (aa) of the VAT Act 2009 (Amended), the items below are exempted from VAT and should therefore not be budget for:

- | | |
|------------------------------------|---|
| i) Supply of Specialized Vehicles; | vi) Civil works related to Hydro-Electric |
| ii) Plant and Machinery, | Power, Roads and Bridges' construction; |
| iii) Feasibility Studies; | vii) Public Water Works; |
| iv) Engineering Designs; | viii) Agriculture; and |
| v) Consultancy Services; | ix) Education and health sectors |

Non resource taxes

19. Non-Resource taxes such as import duties where Government is obliged to pay taxes through agreements should be estimated and the requisite resources incorporated into the work plans. Tax obligations for the Local Governments should also be channeled through the responsible Sector Ministries.

Budgeting for Utilities

20. It has been noted that some institutions have continued to under-budget for utilities especially water and electricity leading to accumulation of arrears as indicated in the attached copy of the letter (**Annex 4**) from National Water and Sewerage Corporation. **All accounting Officers should therefore adequately budget for utilities for the FY 2011/12.**
21. **In addition, National Water and Sewerage Corporation and UMEME should borrow the experience of UTL and revive the previous arrangements to introduce the pre-paid system. Utility Companies should also note that non-payment of bills is squarely a responsibility of the Accounting Officers and this matter should be followed up with them directly.**
22. **Starting from next FY 2011/12, utility bills will be paid using the Straight Through Processing (STP). Accounting Officers will therefore be required to submit monthly bills to Accountant General to effect the payments.**

Creation of New Programmes and Vote Functions

23. In the past, finalization of the budget has always been delayed by last minute requests to create new programmes, vote functions and performance indicators in the Output Budgeting Tool (OBT) database. **Given the time constraints, no changes will be made in the current OBT after 31st May 2011.**

Preparation of Ministerial Policy Statements (MPS) and the Public Investment Plan (PIP)

24. This Ministry has already guided on the format and steps for preparation of the MPS and the PIP using the Output Oriented Tool (OBT). **To avoid any delays, the MPS and the PIP for the FY 2011/12 should be prepared concurrently with the detailed budget estimates for the FY 2011/12. Your project profiles should also be attached as an annex to the Ministerial Policy Statement submitted to Parliament.**

- | | |
|------------------------------------|---|
| i) Supply of Specialized Vehicles; | vi) Civil works related to Hydro-Electric |
| ii) Plant and Machinery, | Power, Roads and Bridges' construction; |
| iii) Feasibility Studies; | vii) Public Water Works; |
| iv) Engineering Designs; | viii) Agriculture; and |
| v) Consultancy Services; | ix) Education and health sectors |

Non resource taxes

19. Non-Resource taxes such as import duties where Government is obliged to pay taxes through agreements should be estimated and the requisite resources incorporated into the work plans. Tax obligations for the Local Governments should also be channeled through the responsible Sector Ministries.

Budgeting for Utilities

20. It has been noted that some institutions have continued to under-budget for utilities especially water and electricity leading to accumulation of arrears as indicated in the attached copy of the letter (**Annex 4**) from National Water and Sewerage Corporation. **All accounting Officers should therefore adequately budget for utilities for the FY 2011/12.**
21. **In addition, National Water and Sewerage Corporation and UMEME should borrow the experience of UTL and revive the previous arrangements to introduce the pre-paid system. Utility Companies should also note that non-payment of bills is squarely a responsibility of the Accounting Officers and this matter should be followed up with them directly.**
22. **Starting from next FY 2011/12, utility bills will be paid using the Straight Through Processing (STP). Accounting Officers will therefore be required to submit monthly bills to Accountant General to effect the payments.**

Creation of New Programmes and Vote Functions

23. In the past, finalization of the budget has always been delayed by last minute requests to create new programmes, vote functions and performance indicators in the Output Budgeting Tool (OBT) database. **Given the time constraints, no changes will be made in the current OBT after 31st May 2011.**

Preparation of Ministerial Policy Statements (MPS) and the Public Investment Plan (PIP)

24. This Ministry has already guided on the format and steps for preparation of the MPS and the PIP using the Output Oriented Tool (OBT). **To avoid any delays, the MPS and the PIP for the FY 2011/12 should be prepared concurrently with the detailed budget estimates for the FY 2011/12. Your project profiles should also be attached as an annex to the Ministerial Policy Statement submitted to Parliament.**

25. Following adequate consultations, Accounting Officers should ensure that all the projects in the PIP are properly aligned to the NDP, closed projects exit the PIP and projects whose activities are largely recurrent, are transferred to the recurrent budget. **Whereas the savings realized from the closed projects will remain within the respective Ministry/Vote budget, they should only be allocated to the strategic priorities of the NDP.**

Budgeting for Donor Funding

26. The budget has been experiencing inconsistencies in the donor numbers, leading to supplementary expenditures and difficulty in performance reporting and accountability. After the successful piloting of the integration of donor projects in the Integrated Financial Management System (IFMS), the system will further be rolled out to other Central Government projects starting with Health, Water and Environment, Works and Transport. **Annex 5 attached indicates the donor numbers for the FY 2011/12 as captured by this Ministry. You should confirm these numbers and budget estimates for the FY 2011/12.**

D. IMPROVING EFFICIENCY OF THE BUDGET

27. As part of the Government policy to strengthen efficiency and effectiveness in budgeting and delivery of public services, Government has decided to reduce expenditure on all non-essential consumptive items in order to free resources to finance critical frontline service delivery activities.
28. **As a result, budget allocations to the item for Advertisement have been cut by 50% across the board.**
29. Accounting Officers should therefore utilise other cost effective means of advertising such as electronic/internet based advertising, whereby only small newspaper captions should be published and details put on the Official Websites of the various Government institutions. **The Ministry of ICT is requested to accelerate the implementation of e-Government in support of this Government policy.**
30. Furthermore, effective FY 2011/12, a 30% budget cut has been effected on the budget allocations to the items listed below, for a number of Ministries (**Annexes 6a & 6b attached**).
- | | |
|--------------------------------------|--|
| i. Workshops and Seminars; | vi. Welfare and Entertainment; |
| ii. Travel Inland and Travel Abroad; | vii. Books, Periodicals and News Papers; |
| iii. Allowances; | viii. Special Meals; |
| iv. Fuel and Vehicle Maintenance; | ix. Purchase of Furniture |
| v. Printing and Stationery; | |

31. However, due to the nature of their functions, institutions under the following areas have been protected from the 30% budget cut;
- | | |
|---------------------|---|
| i). Statutory | iv). Missions Abroad and Diplomacy; |
| ii). The Presidency | v). Social Services and Infrastructure; and |
| iii). Security; | vi). Local Governments. |
32. In addition, it has been noted that a significant proportion of the budgets for the above protected areas is also spent on largely consumptive activities as indicated in **Annex 7 attached. Therefore, the concerned Accounting Officers should reallocate these resources to the most critical service delivery activities under their sectors such as;**
- i. Under the Education sector, focus should be put on construction of more teachers' houses, latrine and classrooms;
 - ii. In the Energy sector, priority should be given to activities which increase power generation and distribution;
 - iii. In Agriculture sector, allocation of resources should focus on provision of agricultural input, agro-processing, disease control among others; and
 - iv. The Health Sector should prioritise funding for activities that will improve the key healthcare delivery indicators such as maternal mortality rate, infant mortality, human resource for health, drug availability, health infrastructure e.t.c.
33. **While finalizing the budget estimates for the FY 2011/12, Accounting Officers of the Votes affected by the budget cuts, must ensure that allocations to Advertisement and to General Supply of Goods and Services do not exceed 50% and 10% of the FY 2010/11 allocations respectively.**

Preparation of Work Plans and Procurement Plans

34. You should ensure that your final budget estimates, work-plans and procurement plans for the FY 2011/12 are all properly linked as these will form the basis for finalizing the performance contracts for the FY 2011/12. The quarterly work plans should also be realistic reflecting the timing for quarterly funding requirement, for delivery of the various outputs in every quarter.

Supplementary Expenditures and Budgeting for Critical Activities

35. Effective next FY 2011/12, supplementary expenditure will only be limited to emergencies. You should thus ensure that activities susceptible to supplementary expenditures are adequately budgeted for within the available resources.

E. LOCAL GOVERNMENT ISSUES

Local Government Indicative Planning Figures (IPFs)

36. Sector Ministries responsible for the local government Conditional Grants were required to submit the local government planning figures for the FY 2011/12 **by 30th April 2011**. It has however been noted that, most of the sectors have not submitted this information. Delayed communication of the local government planning figures will ultimately delay the finalization of the local government detailed budget estimates, procurement plans and annual work-plans. **While submitting their detailed budget estimates, the concerned sector Ministries must attach the local government IPFs for the FY 2011/12 and the allocation criteria, otherwise the sector Ministry budget estimates will be rejected.**

Local Government Performance Contract Form Bs

37. Whereas most local governments have now embraced the preparation of work-plans under the Output Oriented Budgeting (OOB), we have noted a problem on the quality of the workplans. For example, in some local governments, all the revenue sources are not captured, there is absence of well defined outputs and where outputs are indicated, the geographical locations are not indicated.
38. Local Government Accounting Officers should note that, the workplans provide the basis for preparation of the Performance Contracts and commitment on the outputs to be attained using the resources that have been allocated to every local government. **Therefore, the work-plans for the FY 2011/12, should properly indicate well defined outputs, realistic quarterly programming of activities and costings.**

Detailed Local Government Budget Estimates the FY 2011/12

39. With effect from the FY 2011/12, all local governments are required to prepare detailed/itemised budget estimates using the OBT database. This Ministry, in conjunction with other stakeholders has provided the necessary technical support to all local governments. **Local government Accounting Officers should also study the guidance in the Budget Call Circular of 11th April 2011, to ensure that funds are put under proper budget items.**

Unconditional Grant

40. To address the current concerns over the inadequacy of the Unconditional Grant to cover the wage obligations under some local governments, it was agreed to separate the Unconditional Grant between wage and non-wage items. **The Local Government Finance Commission in consultation with Ministry of Public Service should therefore submit the Unconditional Grant allocation and the allocation criteria**

for both urban and district local governments, for the two items (Wage and Non-wage) for the FY 2011/12, not later than 31st May 2011.

F. CONCLUSION AND SUBMISSION OF ESTIMATES

41. The Central Government detailed budget estimates, project profiles, work-plans and procurement plans for the FY 2011/12 for all Votes (Central and Local Government) must be entered directly into the OBT database.
42. Central Government Accounting Officers must ensure that their detailed budget estimates are submitted in both hard and soft (OBT database) copies to the Permanent Secretary/Secretary to the Treasury, Ministry of Finance, Planning and Economic Development, for the attention of the Director Budget not **later than Tuesday 31st May 2011. However, Local Government Accounting Officers should only submit a soft copy of their detailed budget estimates for the FY 2011/12 to this Ministry.**

Thanks for your usual co-operation.



C.M. Kassami

PERMANENT SECRETARY/SECRETARY TO THE TREASURY

- c.c. Hon. Minister of Finance, Planning and Economic Development
- c.c. The Chairperson/Parliamentary Budget Committee
- c.c. The Head of Public Service and Secretary to Cabinet
- c.c. The Deputy Head of Public Service and Secretary for Administrative Reform
- c.c. The Permanent Secretary/Ministry of Public Service
- c.c. The Permanent Secretary/Office of the Prime Minister
- c.c. The Permanent Secretary/Ministry of Local Government
- c.c. Auditor General/Auditor General's Office
- c.c. The Executive Director/National Water and Sewerage Corporation
- c.c. The Executive Director/UMEME
- c.c. The Director/Parliamentary Budget Office