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# **Budget Basics: What is a Budget and Why is it Important?**

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Do budgets matter?

## What is a budget?

- A budget is a plan for raising money and for spending the money that is expected to be available.
- A budget is a detailed plan (say for an individual, entity or a government) expressed in quantitative terms, explaining how resources are obtained and how they are put to use during a given period of time (usually a year).
- The budget should show how revenue will be raised (where will the money come from) and how the money will be spent (allocation) on planned activities for the coming years.
- The process of budget involves prioritization, strategizing, allocation of resources and providing a system of accountability and controls

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## Budget Outcomes

- A budget is way of planning how the people's money is to be spent on delivering services to the people.
- In a democracy, budgets are supposed to be made for the people and by the people
- Budgets are supposed to have three outcomes:
  1. Spending is planned: The amount which is agreed to in a budget must be affordable (termed as fiscal discipline)
  2. Provision of a basket of goods and services: while there are many competing needs for the resources which are available to a Gov't, goods & services must be provided in a carefully worked mix of options. The choices must reflect the priorities that government has set itself (termed as allocative efficiency (or effectiveness of spending)).
  3. How well the money is spent: The government must try to maximize how much value it gets for its money ( termed as operational efficiency)

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# Principles of good budgeting

1. Periodicity: Gov't should take stock of how much money it has, what its priorities are, & allocate the available money to its priorities
2. Authority: Money may only be spent on the authority of an institution that is not the spender, i.e. a district Council
3. Predictability: In order for spending agencies (sector & departments) to spend effectively & efficiently, they must be assured of fund flows as planned
4. Comprehensiveness: All spending activities should be included on budget.
5. Accuracy: Budget information should reflect reality.
6. Contestability: Having a fair situation where all the choices for any pot of funding can compete on an equal footing.

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# Principles of good budgeting-ctd

## 7. Accountability and Transparency

- These are the two most important principles, they are a check on compliance to the formal rules of the game.
- All the above are rules of deciding how the public's money is to be spent. However they are difficult to enforce.
- But these two are still not sufficient: it is only through participation that the check becomes operational, and the role for communities is very strong.

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# Who is responsible for enforcing good budget management?

- a. **Government (Central and Local)**
- b. **The Auditor General**
- c. **Parliament / Council**
- d. **Civil Society**
- e. **Electorate / Grassroots Community**

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## Local Gov't Budgeting

- The Local Gov't budget should show the funds available to Local Government, where they come from and the division of funds between functions and services.
- A budget provided annual estimates of revenue and expenditure
- The Local Gov't budget has two components:
  - a. A capital Budget is a financial plan of capital development projects, which the local gov't intends to do, continue or complete during a financial year.
  - b. A recurrent budget is a comprehensive detailed statement in which the local gov't shows how much it intends to spend on rendering of each service during a financial year.

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## Why do Gov'ts prepare budgets?

- Like house hold or family budgets, local gov'ts do not have enough money to carry out all the programmes that they want to do.
- So, they have to carefully plan ahead, an estimate of how much money will be available in the coming financial year.
- They prepare budgets in order to provide service to their people through allocating funds to priority areas that are important in improving the incomes and in raising the standards of living of the people.
- The budgets are supposed to be prepared to be prepared through a consultative process involving getting views from communities at village levels to the district. Local councilors and local government officials; L.Cs and Chiefs are supposed to contact people in get their priorities.



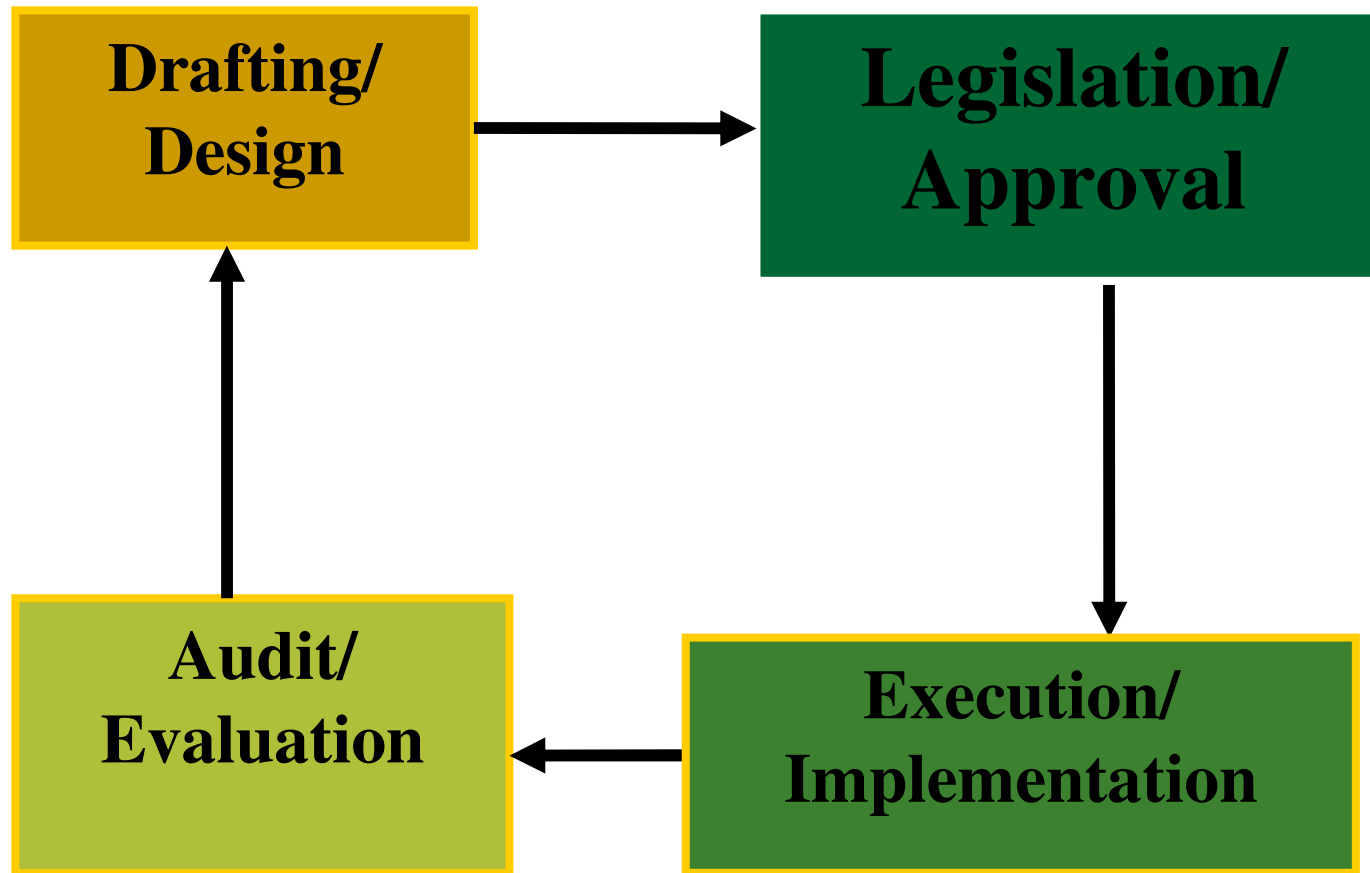
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## How do Local Gov'ts prepare the budget?

- Most L.Gov'ts prepare budgets from January to June of any financial year.
- The preparation of the budget is done through a series of meetings and events usually called the [budget cycle](#).
- The [Budget cycle](#) includes stages in making decisions about the budget, implementing and assessing those decisions.
- The Budget cycle involves four stages:
  1. [Drafting/ Design](#) by technocrats
  2. [Legislation/ Approval](#) by councilors
  3. [Execution/ Implementation](#) by sectors e.g. education
  4. [Audit / Evaluation](#) by auditors
- **See Figure 3.1: Local Government Budget Cycle**

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## Stages of the Budget Cycle



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## Stages of the Budget Cycle-ctd

- 1. Drafting phase (Jan-June):** Done by the Executive Committee and technocrats; Propose policy and activities; council reviews the proposals and priorities; costing of the priorities is made; executive reviews the costs before presenting to the council.
- 2. Legislative phase (June-July):** Done by the Councilors; Chairperson presents the budget to the council; standing committee scrutinizes the budget proposals and make recommendations to the council; council debates and approves the budget; Chairperson signs the approved budget after which the budget is published.
- 3. Implementation (July-June):** The Budget is executed by the relevant sectors and agencies in line with approved work plans and programme.

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## Stages of the Budget Cycle-ctd

- 4. Evaluation / Auditing (Continuous):** The budget is evaluated every quarter against approved work plans and programme.
- Communities can monitor budget implementation and service delivery: are funds spend effectively and efficiently, on purposes for which they were intended, reasons for under/overspending, waste of funds, does spending lead to service delivery?)
  - Gov'ts does **auditing of** whether actual spending was in line with the approved budget: are funds spend on authorized items: control for over/under-spending, fraud, theft etc.
- **Question: At each stage of the budget cycle what can you do to influence the budget? Discuss in groups!**
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## How do L.Gov't Budgets feed into the National Budget?

- Districts are given Indicative Planning Figures (IPFs) relative to their budget performance of the previous year and absorptive capacity by the centre (Ministry of Finance).
  - The Performance Indicators should be in line with PEAP priorities.
  - The district then develops a District Development Plan-, which is supposed to be derived through a consultative process from community, parish and sub county.
  - The sub counties develop development plans, which are incorporated into the district development plan, this feeds into the district budget framework papers.
  - The Sub County Development Plan is derived from the Parish Development Plans.
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# What is the role of the community in the budget process?

- In Uganda, as citizen you have a right to participate in budget meetings at parish, sub county and district levels. You should therefore:
  - a. Keep yourself informed about the budget process at the Local Government level. Attend meetings called to discuss the budget and other development activities that affect you and your community
  - b. Insist that local government officials report to you regularly on how your money is being used.
  - c. Insist that information on all funds sent from Central Government and locally generated are displayed in public notice boards or in public places at both the district and sub-county levels.
  - d. Demand for better service delivery from local leaders through monitoring the implementation of programmes

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## Source of revenue for Local Governments

**Local Gov'ts sources of revenues include:**

*a) Local Revenues*

- ❑ **Graduated Tax?**; Property taxes; Market dues; Trading licenses; Permits; fines; fees etc

*b) Central Government Transfers*

- ❑ Un-conditional grants. These are used without conditions but priority is given to payment of running cost such as salaries
- ❑ Conditional grants. Meant to implement specific programmes. They form the biggest part of the transfers. A L. Gov't has no right to use them for any purposes other than those agreed with the Central Government.
- ❑ Equalization grants. Funds which are sent to L.Gov'ts that are unable to fund most of their programmes. They act to top-up on the funds they receive every year.

*c) Donor funds*

- ❑ They are usually donations from external funders. They are governed by specific guidelines and conditions as agreed upon by the funder and the district.

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# Central Gov't Grants to Local Governments

## Conditional Grants

1. Referral Hospitals
2. NGO Hospitals
3. Health Training Schools
4. Tertiary Institutions Salaries
5. Secondary Education
6. Primary Teachers' Salaries
7. Secondary Teachers' Salaries
8. District Hospitals
9. Primary Health (Wage)
10. Feeder Roads
11. Primary Health
12. Universal Primary Education

13. Poverty Action
14. Statutory Boards & Commissions
15. Agric workers' salary
16. Agric Extension

## Development Grants

1. Rural Water & Sanitation
2. LGDP
3. School Construction Grant (SG F)
4. Primary Health

## Un Conditional Grant (Districts)