

SECTION 3: BUDGET FORMULATION

3.0 Budgetary Planning by Local-Level Governments

Section 33 of the Organic Law gives Local-level Governments the power to establish Local-level Government committees as necessary to carry out the specified functions of Government among which planning is one. The planning function is so important that Section 33A (1) of the *Organic Law* provides for the establishment of “the Joint District Planning and Budget Priorities Committee or JDP&BPC” and specifies the Committee’s planning function in Section 33A (3).

The District Treasurer shall be an advisory member of the JDP&BPC.

The JDP&BPC is responsible for the overall District planning and setting budget priorities for the district. Therefore, planning by Local-level Governments must fall within the overall plan for the District. Any overall policy directions by the National Government or the Provincial Executive Council and the District Plan, as stipulated in the Medium Term Development Strategy (MTDS), a Local-level Government shall, in addition to its other functions, in relation to Local-level Government area, is responsible for -

- (a) preparing corporate plans and estimates; and
- (b) preparing a rolling five-year development plan taking into account the rolling five-year development plans for the wards as prepared by the elected ward members; and
- (c) preparing an annual plan taking into account the rolling five-year development plan.

3.1 The Role and Functions of the JDP & BPC

The Joint District Planning and Budget Priorities Committee shall, with the District Administrator as the Chief Executive Officer of the Committee, perform the following functions:

- Oversee, co-ordinate and make recommendations as to the overall district planning, including budget priorities, for consideration by the Provincial Government and the Local-level Government; and
- determine and control the budget allocation priorities for the Local-level Governments in the district; and
- approve the Local-level Government budgets for presentation to the Local-level Government Assembly and make recommendations concerning them; and
- draw up a rolling five-year development plan and annual estimates for the

district; and

- conduct annual reviews of the rolling five-year development plan; and
- take into consideration the MTDS.

Local-level Governments are therefore expected to plan, co-ordinate and draw their budgets within the priorities of their District development plans as determined by the Joint District Planning and Budget Priorities Committee. In all these processes the District Treasurer must provide an advisory role. This requirement is emphasised legally under Section: 38(1)(a) to (n), and (2) of the *Local-level Governments Administration Act*.

3.2 Budget and Rationale

The administrative functions of Local-level Governments and the requirements of Section 38 of the Local-level Government Act form the basis and rationale for planning and budgeting by Local-level Governments.

To assist Local-level Governments make appropriate estimates, the Chairman of each JDP&BPC is required to submit to the Head of the Local-level Government before 30th November in each year, estimates of the following: -

- (a) the expenditure for district administration; and
- (b) the expenditure for rural action programme; and
- (c) the expenditure for the urban-rehabilitation programme.

Based on the guidelines and information set out in Section 105A of the Organic Law, the budget of a Local-level Government shall therefore, comprise –

- (a) estimates of –
 - (i) finances proposed to be raised including the Organic Law Grants in revenue; and
 - (ii) expenditure proposed for administration; and
 - (iii) expenditure proposed for rural services; or
 - (iv) expenditure proposed for urban services.

The annual budget of a Local-level Government shall be in two parts:

- (a) Recurrent Budget
- (b) Development Budget

3.3 Recurrent Budget

The Recurrent Budget will cover expected administration expenses to be incurred by the Local-level Government. The recurrent budget expenditure is partly financed by the administrative support grants in accordance with

Section 92(1) to (4) of the *Organic Law* and partly by internal revenues raised by the Local-Level Government.

Sections 86 & 87 of the *Organic Law* provide for specific taxes and fees to be collected by Local-level Governments. Other taxes and fees available to Local-level Governments are covered under Sections 88 and 89 of the *Organic Law*. Projections for these Internal Revenues should be realistically estimated and with due care as to the realisation of the projected revenue. Failure to realise such revenue projections would create revenue shortfalls consequently affecting the spending capacity of the Local-level Governments.

In making expenditure estimates, the actual expenditure incurred in the previous year will provide good guidance to start the estimations for the ensuing budget year. The actual expenditure and appropriations in the past should be adjusted for any expected changes in the budget year. The amendments will include any provisions in the 5-year strategic plan in addition to any new expectations. For example if a reduction or increase in employees is expected in the budget year the salaries and wages figure will be amended to reflect these expectations.

3.4 Development Budget

The Development Budget covers estimates of investment on construction and infrastructure development and other development projects.

The Development Budget estimates are based on the 5-Year rolling Development Plan of the Local-level Governments. The estimates are to be funded from the following grants:

- Infrastructure Development Grants as per section 93(1) (a) of the *Organic Law*.
- Town and Urban Services Grants as per Section 94(1) (a) of the *Organic Law*.
- Local-level Governments and Village Services Grants as per Section 93(1)(b) of the *Organic Law*.
- Other support Grants according to Section 95 of the *Organic Law*.

3.5 Preparation of Annual Estimates

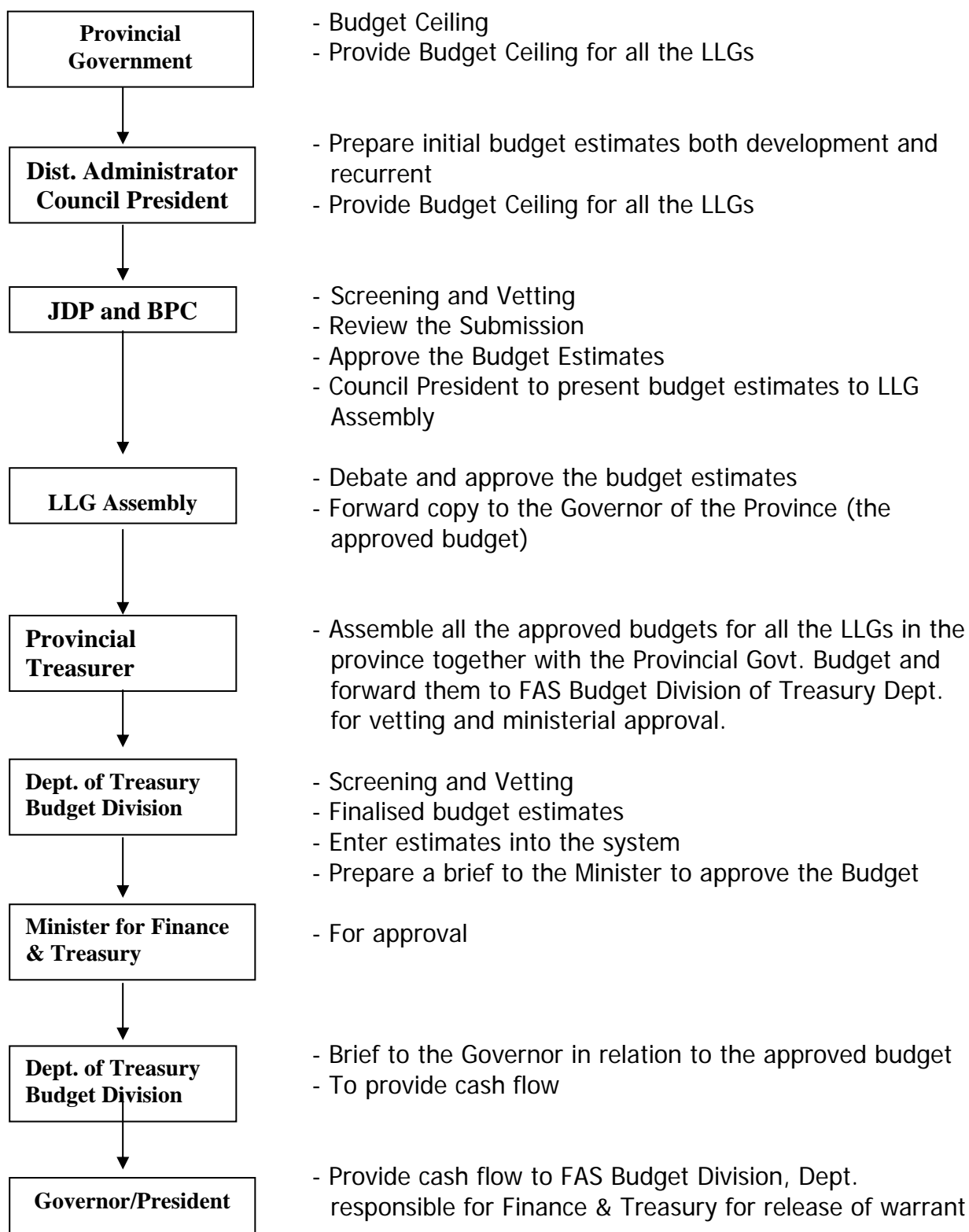
The allocation of ceilings will form the starting point for formulation of estimates for each function, project and activity. Previous years' budgets and actuals are useful guides in the formulation of estimates for the future year. Hence columns are provided in the forms to show the comparative figures for the two years immediately preceding the budget year.

For example in the budget forms for the year 2001, the 1999 budget figures, actual expenditure for 1999 and the year 2000 budget figures will be shown in

the appropriate columns.

There are standard forms to be used for preparing the estimates for each vote administered by the Local-level Government. These forms are distributed by the Department responsible for Financial Management.

The estimates must be prepared in conformity with expenditure and staff ceilings set by the Local-level Government or the Department of Personnel Management. These estimates should be submitted, with explanatory notes, to the Local-level Government Assembly for approval and submitted to the Minister for final approval in accordance with Section 141 of the *Organic Law*.

Flow Chart for Budget Formulation

3.6 Completion Of Budget Forms

There are several forms available at the Budgets Division of the Department responsible for financial management, designed for use by Government Departments and Agencies including Local-level Governments in preparing Budget estimates. The forms must be legibly completed correctly and submitted in the original size and should not be reduced.

There are 28 different types of forms falling into two categories as below.

(A) Summary Forms

(B) Detail Forms for different items of expenditure

Summary Forms

Title Form No.

Annual Management Report	AMR
• Summary Statement of Operating Agency's Expenditure: -	
- Program Budgeting Operating Agencies	DFP-A1
- Programme Budgeting – Narrative Statement	DFP-A3
- Activity/Project Estimates of Expenditure by Items	DFP-D
- Activity/Project Reimbursable Expenditure	DFP-E
• Revenue and Trust Account Estimates	DFP-B

Detail Forms

These forms are numbered from **DFP-1** to **DFP-22** and cover the various expenditure items. For Example, DFP-1 is for Salaries - Item 111 DFP-2 is for Wages - Item 112

Selecting the relevant Forms.

It is important for each Local-level Government office to select and use only the applicable forms because some of the forms may not be relevant to their situation.

Local-level Governments under programme budgeting must base their estimates on programmes and use all, the summary forms for the purpose.

Local-level Governments under traditional budgeting should base their estimates on functions and activities **will not use** summary forms **DFP-A1 & DFP-A3**.

All Local-level Governments will use the Detail forms DFP-1 to DFP-22 that are relevant to their organisation depending on the types of expenditures to be incurred.

Completing the Forms.

Step 1 is to complete the summary form DFP-AMR – Annual Management Report.

The purpose of this form is to provide a descriptive account of the tasks and work plan for the Local-level Government.

The required resources and work programmes for each objective are stated in column 2.

Workload data and target dates for the expected outcomes are stated in column 3.

Progress of the expected outcomes against planned goals and target dates and the progressive costs in comparison with the original estimates will be shown in column 4.

For each Local-level Government one AMR is required in the summary. There is no need to complete separate AMR forms for each programme or function.

Step 2 is to complete all the **relevant forms** selected from the list of detail forms numbered from **DFP-1 to DFP 22** depending on the item of expenditure for each activity/project.

Step 3 is to complete form DFP-D (Consolidation of expenditure under each Project/Activity). The purpose of this form is to show in total (consolidated) expenditure estimates for each activity/project.

Figures are transferred from the detail forms DFP-1 to DFP-22 to columns 3 and 6 of DFP-D.

Expenditure for the next four years, columns 8 to 11, should be projected on the basis of available information for medium term planning.

Costs of operations and maintenance of facilities, staff requirements, travel expenses etc. should be projected as recurrent expenditure. Reasons for significant increases in comparison to the previous year should be documented.

Step 4 is to complete the Form DFP-E. (Reimbursable Expenditure)

The purpose of this form is to provide definite information on the availability of resources from concessional loans and aid agreements with donor countries to provide or make funds available to be used on projects.

In the case of concessional loans, the donor countries generally meet all the costs incurred overseas and a part of the local costs. The Government is expected to meet the balance of the local costs.

Information to determine the amount of available reimbursable expenditure for the budget year and for the future year projections will be available from the Project Manager.

If there are co-financiers for a project, separate forms should be completed for each financier.

Step 5 is to complete Form DFP-A1, DFP-A2 and DFP-A3.

Form DFP-A1 (Programme Budgeting)

1. Write the Name and Number of the Local-level Government in the space provided.
2. Fill the comparative Table under the respective headings for the years stated.
3. Transfer Activity/Project details comprised in a programme from Form DFP-D to columns 1 to 8. Add the numbers filled in columns 3 to 8 and show the totals against the related programme. Add the programme totals to get the main programme total.
4. Add the main programme totals and enter in "All programmes grand total".
5. Transfer the "reimbursable expenditure total" from the Form DFP-E.
6. If all the main programmes cannot be covered in one form, use additional forms to include all main programmes.

Form DFP-A3 (Programme Budgeting – Narrative Statement)

Note: (a) Local-level Governments whose budgets are programme based should complete this form.

(b) This form is required to be completed for each programme.

- 1 Programme Objectives: - State what is expected to be produced as a result of the programme effort. Programme objectives are usually a summarised presentation of the activities and project objectives under the programme. It is a statement of the broad aims of the programme.
- 2 Programme Description: - Explain the activities and projects, which are grouped within the programme. The programme description differs from the programme objectives in that it indicates how the programme is undertaken rather than why.
- 3 All other columns are self-explanatory.

Preparation of Cash Flow Statements

Local-level Governments will prepare the following cash flow statements:

- Recurrent Budget- grants inflows (as revenue) and the anticipated expenditure for the year.
- Development Budget- grants inflows (as revenues) and the anticipated expenditure for the year.

3.7 Budget Approval – Local-Level Government Assembly

After completing the initial estimates the District Administrator will present the estimates to the JDP & BPC (Joint District Planning & Budget Priority **Committee**) for review and approval.

The JDP & BPC will carefully review the submission using the predetermined priorities of the district. The Committee will also check the expenditure figures to ensure that the estimates do not exceed the maximum spending target figures established for each Local-level Government.

After the estimates are approved by the JDP & BPC, the chairman of the committee will return the estimates to the head of the Local-level Government who in turn will table the Budget estimates to the Local-level Government Assembly for debate and approval.

After the Local-level Government Assembly considers and passes the Budget a copy of the approved Budget should be forwarded to the Provincial Administrator who will submit it to the Governor of the Province.

The Provincial Treasurer will assemble the approved estimates of all the Local-level Governments in the province and forward it along with the Provincial estimates to the First Assistant Secretary, Budgets Division, of the Department responsible for Financial Management for vetting and Ministerial approval.

3.8 SCREENING, SUBMISSION, VETTING, AND APPROVAL OF ESTIMATES

3.8.1 Screening and Submission process

During screening stages, the District Treasurer must check that estimates comply with provisions of the Organic Law, the Public Finances (Management) Act 1995, and that the amounts in the Chart of Accounts are arithmetically accurate and consistent with amounts allowable in grants.

On completion of screening, the District Administrator, acting as a coordinating officer, will present budget estimates to the JDP&BPC for approval. The JDP&BPC will consider this submission using the predetermined priorities of the district, as a benchmark

After JDP&BPC gives approval, the JDP& PBC Chairman returns the approved budget estimates to the Head of the Local-level Government. A copy of approved budget estimates is also sent to the Provincial Administrator to be given to the Governor of the Province.

The Governor is required to lay the estimates before the Joint Provincial Planning and Budget Priority Committee for examination and endorsement.

It is important to note, that the JDP & BPC refers budget estimates to the Joint Provincial Planning & Budget Priorities Committee (JPP&BPC) for ratification. The JPP&BPC may not alter, amend or modify budget estimates referred to the committee for consideration.

It is the responsibility of the Provincial Treasurer, working in close consultation with the Provincial Administrator, to recheck budget estimates and include these estimates into the Provincial Budget.

Prior to referring the Provincial Budget to the Minister for Finance for vetting and approval, budget estimates should be submitted to the Provincial Government for incorporation into the Provincial Assembly budget.

Before being presented to the Provincial Assembly, it is a requirement under the Public Finances (Management) Act, Section 65A - that the approved LLG budget estimate be presented to the Minister for Finance for final approval.

3.8.2 Vetting and Ministerial Approval

Once the estimates are endorsed by the Provincial Assembly, it is referred to the Provincial Administrator to seek Ministerial approval as per Section 65A (2) of the Public Finances (Management) Act.

Vetting processes continue to take place during preparing and consolidating budget estimates by the Local-level Government and at the time budget estimates are referred to the Provincial Treasury for incorporation into the Provincial Budget. The final step in this vetting process is the referral of budget estimates to the Minister for Finance for review, endorsement and approval.

If the estimates meet normal requirements, the Minister will endorse and return them to the Provincial Assembly for inclusion in the Provincial Budget, which will be enacted, into law.

3.8.3 Creation of Expenditure Votes

After the Minister approves the budget, the Provincial Treasurer will create the Chart of Accounts in the PGAS system.

3.9 CHART OF ACCOUNTS STRUCTURE

3.9.1 Legal Interpretation

Local-level Governments must exercise proper management of public moneys and keep proper accounts and records of financial transactions to satisfy provisions of Sections 102, 112 and 114 of the Organic Law. Local-level Governments must also submit audited financial statements in accordance with Section 71 of the Public Finances (Management) Act 1995.

These financial reporting requirements must comply with financial instructions, directions and general administrative arrangements made by Department responsible for financial management for the maintenance of proper books and records of the Local-level Governments.

3.10 Responsibility for the Chart of Accounts

The preparation of the Chart of Accounts and its accuracy is principally the responsibility of the Provincial Treasurer acting upon financial instructions issued by the Department responsible for financial management.

3.11 Maintenance of LLG Chart of Accounts in the PGAS Database

Provincial Treasury shall maintain a separate Chart of Accounts for Local-level Governments.

3.12 Chart for National Revenue Grants-Related Expenditure

The Chart of Accounts for LLGs in the PGAS database is to provide for grants paid to LLGs and also for recording LLG revenues collected in the Provinces.

3.13 Charts of Accounts - Expenditure Codes Structure:

Division	Division	Division	
Indicator	District	District	LLG
Grant No	Function	Activity Project	Activity Project
Item	Item	Item	Donor Code

Legend:

Division = a 3 - digits Provincial code for national accounts in the National database (e.g. 281).

Indicator = a 1- digit index for the nature of expenditure:1 for

Recurrent Expenditure and 2 for Development (Project of PIP) Expenditure.

District = a 2 - digits District/Electorate index (e.g. 01 for district one; 02 for two etc.).

LLG = a 1- digit Local-level Government index (e.g. 2, 3 etc. for LLG two and three respectively).

Grant Type and Nos. = 1 digit code:

Administrative Support Grants [Section 91(1) (a) in accordance with Section 92 of the Organic Law]. The indicated numbers shall apply:

- 1 Provincial & Local-level Government Administration Grant [Section 92; calculated and applied as per Schedule 2).
- 2 Provincial and Local-level Staffing Grant (Section 92; calculated and applied as per Schedule 2).

Development Grants [Section 91(1) (b) in accordance with Section 93 of the Organic Law]:

- (A) District Infrastructure Development Grant (Section 93 at base of 100%; calculated and applied as per Schedule 3):
 - 3 District Social Services and Administrative Infrastructure Development Grant; (comprising 50% of base figure).
 - 3 District Land and Other Physical Infrastructure Development Grant; (comprising 50% of base Schedule 5).
- (B) Local-level Government & Village Services Grant (Section 93 at base of 100% calculated and applied as per Schedule 5):
 - 4 Local-level Village and Services Development Grant; of (Comprising 50% base figure).
 - 4 Local-level Land and Other Physical Infrastructure Development Grant; (Comprising 50% of base figure).
- (C) Town and Urban Services Grants [Section 91(1) (c) in accordance with Section 94 of the Organic Law at base figure of 100%; calculated and applied as per Schedule 4]:
 - 5 Town and Urban Social Service Infrastructure Development Grant; (comprising 50% of base figure).

- 5 Improvement to General City Services Grant; (comprising 50% of base figure).
- (D) Economic Grants [Section 91(1) (d) in accordance with Section 97 of the Organic Law; calculated and applied as per Schedule 6]
- 6 Derivation Grants
- 7 Special Support Grant (SSG) and Mining Agreements
- (E) Other Economic Support Grants
- 8 District Support Grants (Rural Action Programme)
- 9 Others: Loans, Aid, etc. through the National Government.

Function = 1 digit:

- 1 Administration
- 2 Health
- 3 Economics
- 4 Education
- 5 Law and Order
- 6 Infrastructure
- 7 Community Services
- 8 Reserved
- 9 Others

Activity = a 2 - digits code

Item = a 3 - digits standard expenditure item code: the 4th being a digit for donor code if any.

3.14 PGAS Provincial Database

The Expenditure Structure in the PGAS Provincial Database is the same as for the National database except that the Grant Type and Number are not applicable and not required.

It is recommended that 9" be used as the indicator of Grant Type for Local

level funds and sources where none of the indicators are used as 9". Also, remember, the Divisional Codes are 200 series and 700 series in the Chart of Accounts for National and Provincial expenditures, respectively.

3.15 Revenue Account Codes Structure:

National Revenue codes Structure in the provinces PGAS National Accounts database:

Rev-Head	Rev-Head	Rev-Head	Division	Division	Division
Sub – Head	Sub - Head				

Legend:

Rev - Head = Revenue heads [e.g. 113 (National Head) or 601 (provincial Head)]

Division = 3-digits Divisional /Provincial index [e.g. 283 (national database) or 783 (provincial database)]

Sub-Head = a 2-digits Sub-Head of Revenue (e.g. 01)

3.16 Local-level Government Internal Revenue Code PGAS.

Rev-Head	Rev-Head	Rev-Head	District	District	LLG
Sub-Head	Sub-Head				

Legend:

Dist. = a 2-digits District index (District code from where the revenue originates).

LLG = a 1-digit Local-level Government (where the revenue originates).

[The rest of the Legend is as above]

Consultation must be made with Budget Division, Public Accounts, Loans & Revenue Division and Public Accounts Division to ensure consistency and uniformity in the Chart of Accounts.

3.17 Local-level Government Internal Revenues and Expenditure.

Section 87 of the Organic Law provides for specific taxes and fees to be raised and collected by Local-level Governments. Other taxes and fees available to these levels of government are covered under Section 89 of the Organic Law.

Estimates of internal revenue for each Local-level Government should be made realistically and with due care as to the realisation of those projected revenues. Failure to realise such revenues will create shortfalls and consequently affect spending on planned projects, programs and activities.