

ANALYSIS REPORT September 2016



# Tracking district budgeting and expenditure on rural water services in Kabarole and Lira districts

## Tracking District Budget Allocation & Expenditure

Planning and budgeting for life-cycle costs is an essential aspect for sustainability of WASH services. The lifecycle costs help us understand the different costs required to deliver and sustain services. Awareness of the real costs then makes planning easy based on the financing flows of the sector.

IRC conducts budget tracking studies to understand the financial flows, the district budget and expenditure on different categories of rural water activities and analyze changes in allocations across lifecycle costs categories.

### Why Budget Tracking

- To understand financial flows looking at the volumes available and how they change overtime
- To investigate how budgets are allocated and spent on different life cycle cost categories
- To compare budgets and expenditure to review budget utilization and uncover bottlenecks
- Gather evidence to inform resource allocation and balance investment and recurrent expenditure required to sustain services

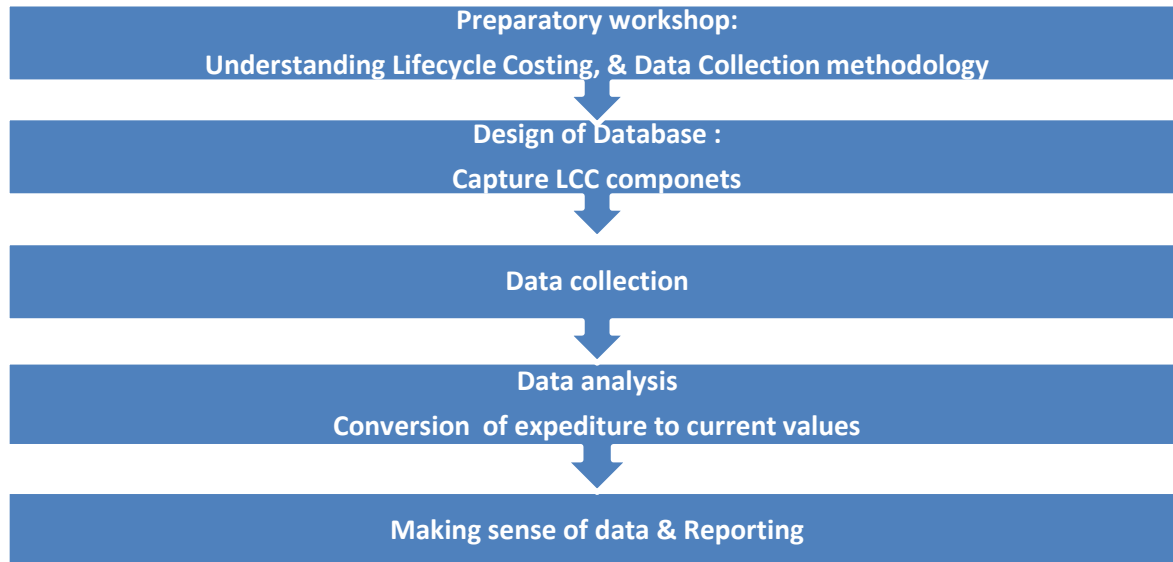
### Defining Lifecycle cost Categories

**Table 1: Cost components of water services (Fonseca et al., 2011)**

<b>Capital expenditure – hardware and software (CapEx)</b>	Expenditure on fixed assets such as physical infrastructure (for initial construction or system extension), and the accompanying ‘software’ such as capacity-building.
<b>Operating and minor maintenance expenditure (OpEx)</b>	Expenditure on labour and materials needed for routine maintenance which is needed to keep systems running, but does not include major repairs.
<b>Capital maintenance expenditure (CapManEx)</b>	Renewal, replacement and rehabilitation costs which go beyond routine maintenance.
<b>Expenditure on direct support (ExpDS)</b>	Costs of ongoing support to users and local stakeholders, for example on local government or district support staff.
<b>Expenditure on indirect support (ExpIDS)</b>	Costs of higher-level support, such as government planning, policymaking and regulation.
<b>Cost of capital (CoC)</b>	Costs of servicing capital such as repayment of loans

## Methodology

The districts' budget tracking exercise is conducted in five main phases



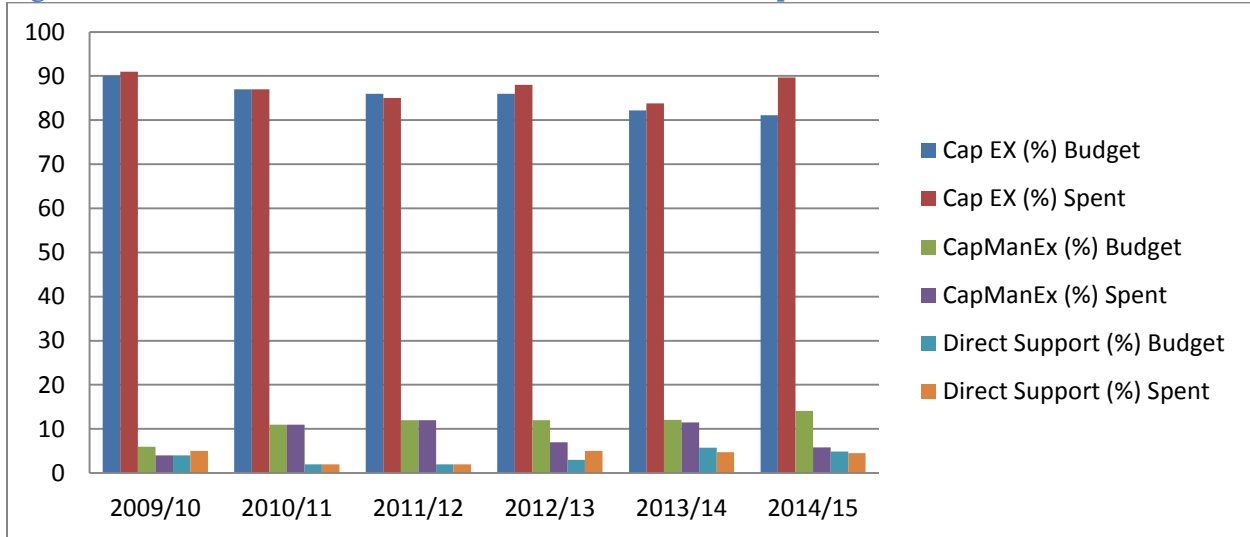
## Outputs from Budget Tracking Process

The outputs presented are based on budget tracking exercises done by IRC Uganda for the periods 2009/10 – 2012/13 and 2013/14 – 2014/15 for Lira and Kabarole districts.

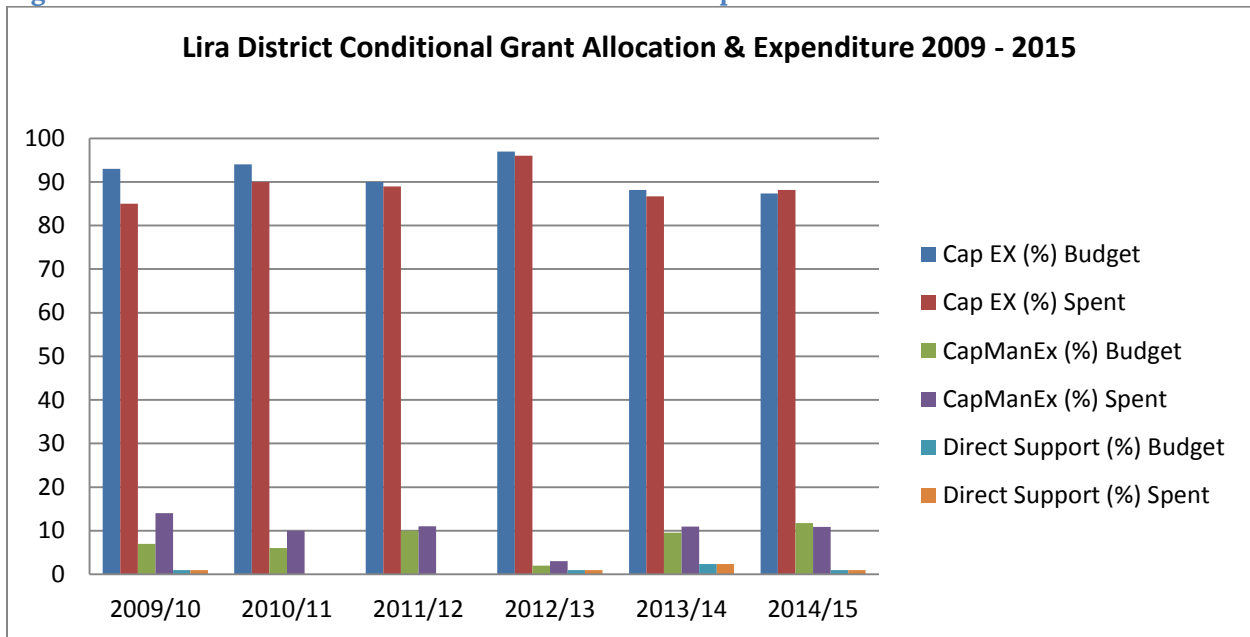
### Comparing Budget allocations with actual expenditure

The WASH Budget allocations at the district level can be compared to actual expenditure to find out budget utilization rates, and what gets prioritized by the districts at the time of actual spending, and expenditure on different life cycle costs. The data also provides opportunity for comparison of the actual expenditure with the District Conditional Grant guidelines. Figures 1 & 2 show the breakdown of the district Conditional Grant Allocation and expenditure for Kabarole and Lira districts respectively for the period 2009/10 – 2014/15.

**Figure 1: Kabarole District Conditional Grant Allocation & Expenditure 2009 - 2015**



**Figure 2: Lira District Conditional Grant Allocation & Expenditure 2009 - 2015**



For Kabarole Capital expenditure had the highest average allocation (85%) and expenditure (87%) while that for Lira was 90% and 91% respectively. The allocation and expenditure on Capital maintenance was 6% for both Kabarole and Lira. Direct support was 3% in Kabarole and 1% in Lira. Data for Kabarole shows gradual increase in the allocation and expenditure on Capital Maintenance from 6% in 2009/10 to 12% in 2011/12 and 14% in 2014/15. The gradual increase in the allocation shows how the district is paying more attention to

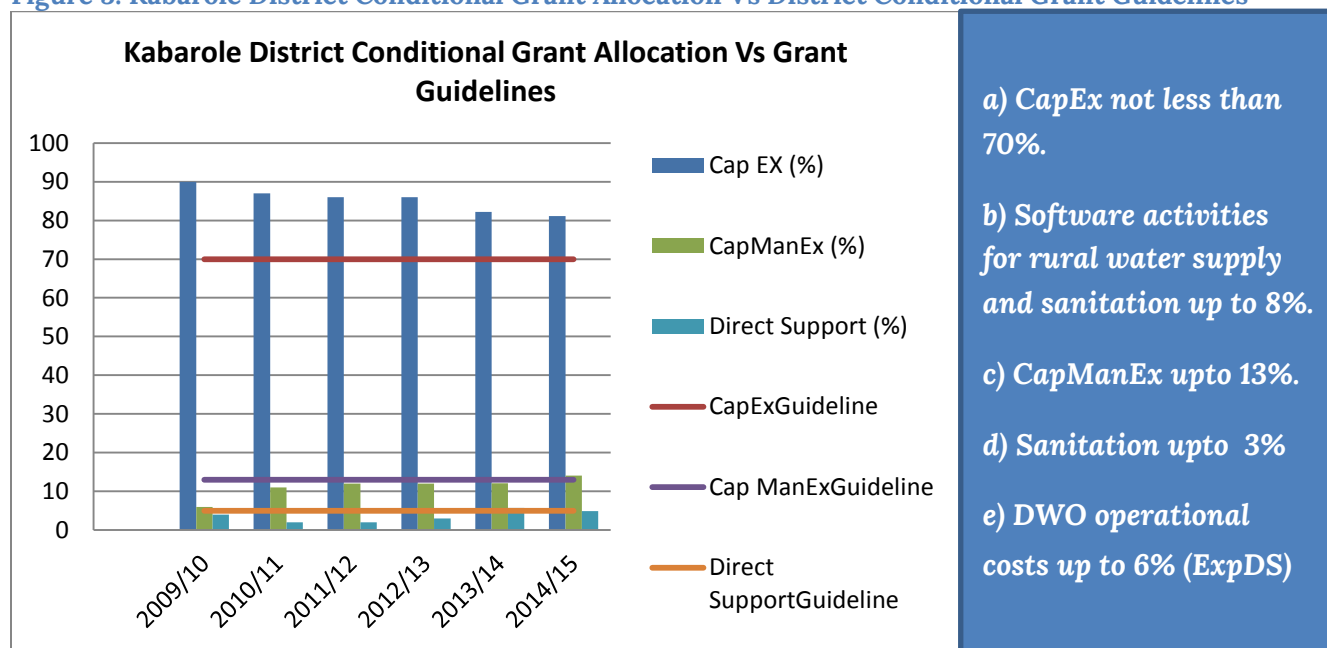
Capital Maintenance. This is attributed to efforts of MWE Technical support Unit 6 and other & CSOs working closely with the district on Post construction support issues.

MWE sector performance report 2010, showed that functionality of Kabarole declined from 82% to 72% despite the 5% increase in allocation for Capital maintenance. In the same year allocation expenditure on direct support (ongoing support to stakeholders and service providers) had dropped from 4% to 2%.

The data shows that increasing expenditure on Capital maintenance alone cannot guarantee increase in functionality. Ongoing Direct support from District Water Office to service providers is crucial to ensure that the required capacity to sustain water systems is available. In the period 2011/12 – 2013/14, there was gradual increase in direct support from 2% to 5%, and consistent allocation of 12% for capital maintenance. In the same period, functionality for Kabarole showed gradual increase from 80% to 82%. This increment cannot be solely attributed to the Capital maintenance and direct support allocations but shows that both costs are important and should be given adequate attention to guarantee functionality of water supply systems.

### Monitoring Adherence to District Conditional Grant Guidelines

Figure 3: Kabarole District Conditional Grant Allocation Vs District Conditional Grant Guidelines<sup>1</sup>



The budget allocations varied from the grant guidelines. Capital expenditure accounted for more 85% while Cap ManEx accounted for 6% and ExpDS 3%. The allocations for CapEx and ExpDS were only 1 half of the recommended ceiling. This was partly attributed to the

<sup>1</sup> These have since been changed effective financial year 2016/17

structure of the guidelines. The guidelines were clear on the ceiling for capital maintenance, and direct support expenditure but did not provide the ceiling for Capital Investment. The districts had room to spend not less than 70% of the conditional grant on investments. This explains why the Capital expenditure for Lira went upto 94% in 2010/11 and 97% in 2012/13, leaving less than 6% for Capital Maintenance and direct support.

### Review of District Conditional Grant Guidelines

In 2015, MWE started the process of review of 2012 Sectoral Specific Guidelines for the Water and Sanitation sector. The revised guidelines categorize the grant into two separate components; Development grant and Re-current costs.

Development Grant	Recurrent Costs
Construction of new facilities – 80%	Office Operations 14%
Rehabilitation - 15%	Coordination 16%
Investment Servicing Costs - 5%	Software 50%
	Sanitation 20%

The new guidelines are specific on the ceiling of Capital investment and introduce a new expenditure vote on coordination that was not catered for in the previous version. This means that districts will have more resources to invest in direct support (30% of the recurrent costs component) in addition to salaries for local government staff that are received as a separate grant. The percentage for rehabilitation was also increased from 13% to 15%. The districts will also have more funds to invest in WASH services.

### Conclusion

The analysis of the Kabarole and Lira district budgets and expenditure over the period 2009 – 2015 shows that districts are paying more attention to Capital maintenance and have gradually increased the budget allocation and expenditure over the last five years. In the revised guidelines, the allocation for capital maintenance expenditure was also increased by 2%. It is evident that increasing expenditure on Capital maintenance does not guarantee increase in functionality. Ongoing Direct support from District Water Office to service providers is crucial to ensure that the required capacity to operate water systems is available and that local stakeholders are well coordinated. The explicit allocation of resources for coordination shows that its high on the agenda and that it will be given more attention over the coming years.