

# **TRACKING OF THE EDUCATION BUDGET : MANUAL**

*(To help communities in tracking school budgets at the district level)*

**HRCP  
In collaboration with CEF**

*July 2005*

**Published by:** Human Rights Commission of Pakistan  
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**Title Design:** Visionaries, Lahore

**Printed by:** Green Wish Printers  
Railway Road, Lahore

*July 2005*

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## Abbreviations

ADB	.....	Asian Development Bank
ADP	.....	Annual Development Plan
BE	.....	Budget Estimates
BCC	.....	Budget Circular Call
CCB	.....	Citizen Community Board
CEF	.....	Commonwealth Education Fund
DG	.....	District Government
EDO	.....	Executive District Officer
DO	.....	District Officer
EFA	.....	Education for All
EMIS	.....	Education Management Information System
ESR	.....	Education Sector Reforms
FATA	.....	Federally Administered Tribal Area
FY	.....	Fiscal Year
GFR	.....	General Financial Rules
GST	.....	General Sales Tax
HRCP	.....	Human Rights Commission of Pakistan
IMF	.....	International Monetary Fund
LG	.....	Local Government
MPA	.....	Member of the Provincial Assembly
NFBE	.....	Non-Formal Basic Education
NFC	.....	National Finance Commission
NGO	.....	Non-Governmental Organization
OSR	.....	Own Source Revenue
PFC	.....	Provincial Finance Commission
PSDP	.....	Public Sector Development Programme
RE	.....	Revised Estimates

RS ..... Pakistani Rupee  
TMA ..... Tehsil Municipal Authority  
UET ..... University of Engineering and Technology  
WFP ..... World Food Programme

## Introduction

*(This manual is part of a series of publications issued in collaboration with the Commonwealth Education Fund (CEF). HRCP is working with CEF on priority area 2 of the project, focusing on enabling local communities to monitor government spending on education at all levels of governance. The initiative has two objectives: a) increase awareness in communities with regard to financing of education and its place in national planning; and b) to make government spending in education more responsive to the needs of the country. The purpose of this manual, with regard to the project, is to assist in developing technical skills and mechanisms to track budgetary allocations for primary education in Pakistan.)*

The manual has been designed with the help of Mr. Tanawwur Ali Hyder, a consultant working for the Human Rights Commission of Pakistan (HRCP). It describes the budgetary process in a manner that stakeholders can easily understand. Understanding the budgetary cycle will, on the one hand, prepare the stakeholders for tracking education budgets and on the other hand, sharpen their understanding and subsequent positioning on specific budget-related education issues. It has mainly been designed as a reference material for use by trainers who will be working at the community level.

The manual is designed to serve two purposes:

- To describe the budgetary process in the education sector to stakeholders at the federal, provincial and district levels. This will give relevant stakeholders information about budgetary allocations, funds available and priorities at each level of government.
- To empower stakeholders with the necessary skills for tracking the disbursement and utilization of funds from national to local school levels. The manual will help develop technical skills and mechanisms to track budget allocations and spending at national, provincial and local levels.

The budget manual discusses in detail the process of budgeting, budget terminology and transfer of funds from the federal to the provincial and district level with special reference to the education sector.



# Budget



# **BUDGET**

## **1.1. What is a Budget?**

**Budget** is a statement that shows the receipts and expenditures of an entity.

A government budget is the annual financial statement outlining the expected revenues and expenditures of the government for the coming year. It also reports on the actual expenditures and revenue of the year that ended.

**Budget for a period** is a statement that shows the receipts and expenditures for the specified period.

According to the Constitution of Pakistan:

‘Annual Budget Statement’ shall show separately (a) the sums required to meet expenditure described by the Constitution as expenditure charged upon the Federal Consolidated Fund; and (b) the sums required to meet other expenditure proposed to be made from the Federal Consolidated Fund and shall distinguish expenditure on revenue account from other expenditure. (Article 80)

According to the Provincial Budget Manuals and Local Government Budget Rules:

A budget is defined as ‘A statement of the estimated annual receipts and expenditure of the Federal Government ... prepared by the Finance Division and presented to the Legislature as required by Article 80 of the Constitution is referred to as the Annual Budget Statement’. This statement along with the book of Demands for Grants and Appropriations is generally known as the “Budget”. (GFR-Rule 62)

It also means the annual budget statement according to the Punjab Budget Manual.

**Budget Estimate** relating to a financial year means, in relation to expenditure – the expenditure proposed for the year – and in relation to receipts – the receipts expected to be realized during the year.

Budget also means a statement of the estimated receipts and expenditures of the local government according to the Local Government Budget Rules 2003.

## **1.2. Budgets of different governments (and local government)**

Annual Budgets are presented each year by the following governments:

- Federal government presents the Federal budget
- Each of the four Provincial governments present the Provincial budget
- Each of the 99 District governments and the four City District governments<sup>1</sup> present the district government budget.
- Each of the 350 Tehsil Municipal Administrations, Town Municipal Administrations or Taluqa Municipal Administrations presents the Tehsil/ Town/ Taluqa Municipal Administration budget.
- Each of the more than 6,000 Union Administrations present the Union Administration budget

## **1.3. Laws and rules governing different budgets**

The budgets are prepared by different governments according to the system of budget preparation defined by specific rules as show below:

<b>Budget</b>	<b>Relevant Rules</b>
Federal Government	The ‘General Financial Rules (GFR) of the Central Government’ – Chapter V-Budget.
Provincial Governments	Provincial Budget Manual, e.g. for Punjab, the ‘Punjab Budget Manual’
District Governments City District Governments	Local Government Budget Rules, e.g. for Balochistan, the ‘Balochistan City/ District Government Budget Rules, 2003’.
Tehsil Municipal Administration Town Municipal Administration Taluka Municipal Administration	Local Government Budget Rules, e.g. for Balochistan, the ‘Balochistan Town/ Tehsil Municipal Administration Budget Rules, 2003’.
Union Administration	Local Government Budget Rules, e.g. for Balochistan, the ‘Balochistan Union Administration Budget Rules, 2003’.

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<sup>1</sup> Karachi, Lahore, Peshawar and Quetta City District Governments.

The budget of a provincial government discusses in detail the process of budgeting, budget terminology, annual budget statement, estimates of receipts, estimates of expenditures, consolidation of these estimates and presentation to the elected body, communication and distribution of grants, progress of receipts, control of expenditure, statement of excesses and surrenders, appropriation and finance and commercial accounts, etc.

#### 1.4. Budget period

- Budgets can be prepared for different periods – a month, a quarter, six months or a year.
- The annual budget is divided into monthly or quarterly periods so that its implementation can be monitored and the actual expenditure can be matched to the approved budget.
- A **Financial year** in Pakistan is defined as the period from July 1 of a year to June 30 of the following year. The process of budget formation starts as early as October.
- The budgets for the next financial year are usually presented, discussed and approved by the respective elected bodies in June of each year.

Budget Call circular	August – October
Budget Estimation	November – January
Detailed scrutiny by Controlling Officers	November - December
Detailed scrutiny by Finance Department	January – February
Formulation of Budget proposals by Finance Department	April
Federal/Provincial Cabinet approval	May/June
Budget in Federal/Provincial Assembly	June
Authentication of the schedule of approved expenditure by Parliament	June
Funds release by Finance department	July

#### 1.5. Approval of Annual Budgets

The elected bodies where the budgets for each level of government are presented, discussed and approved are:

Type of Budget	Elected Body
Federal Government	National Assembly
Provincial Governments	Four Provincial Assemblies
District Governments City District Governments	District councils
Tehsil Municipal Administration	Tehsil councils
Town Municipal Administration	Town councils
Taluka Municipal Administration	Taluka councils
Union Administration	Union councils

The first step in the formation of budget is the issuance of the Budget Call Circular (BCC) by the Ministry of Finance. It is issued to all the ministries, divisions and departments of the government. It explains the procedure for preparation of Budget estimates. A detailed timeline is also given in the BCC for completion of various stages of the Budget. Agencies are requested to submit a statement of:

- (i) Permanent expenditure on the current budget
- (ii) Projected expenditures on existing development projects
- (iii) Proposals for new expenditures, and
- (iv) Proposals for expenditure on new development projects.

Keeping in view the past actual expenditures, current trends and future expectations, all the departments prepare estimates in minute details. These estimates are formulated separately for current, non-development and development expenditures. The budget is divided into two main sections, namely

- i. Revenue Budget
- ii. Capital Budget

and are discussed in the next chapter.

## **1.6 Chart of classification**

The **Chart of Classification** is issued by the Auditor-General of Pakistan with the approval of the President and

- (a) gives details of the receipts and expenditure on a functional basis,
- (b) groups these entries according to their economic character,
- (c) brings out the inter-relationships between the various sections of the economy, and
- (d) facilitates the processing of accounts.

### ***Receipts***

The receipts are classified by assigning a **Major Head**, a **Minor Head** or a **Detailed Receipt Head**.

e.g. 'Receipts from Civil Administration and other Functions' is a Major Classification, 'Social Services Receipts' is a Minor Classification and 'Education' is a Detailed Classification (it is divided into further sub-heads such as receipts from primary education, secondary education and university education, etc).

### ***Expenditure***

The expenditure is classified into two parts – **Functional Classification** and **Object Classification**.

- The *Functions* are divided into Major, Minor or Detailed Functions and an item of expenditure is assigned a Major, Minor or Detailed Function.

e.g. ‘Social Services’ is a Major Functional Classification, ‘Education’ is a Minor Functional Classification while Administration, Universities/Colleges, Professional Colleges, Secondary Education and primary education, etc’ are Detailed Functional Classifications.

- The *objects* are divided into Major, Minor or Detailed Objects and an item of expenditure, in addition to function, will bear identification as a Major, Minor or Detailed Object.

e.g. ‘Commodities and Services’ is a Major Expenditure Classification, ‘Utilities’ is a Minor Expenditure Classification while “Gas, Electricity and Water’ are Detailed Expenditure Classifications.

Basically under this scheme, each amount of expenditure will be classified in a way to show both the government’s functional responsibility and the object (or purpose) that the expenditure will serve.

e.g. 41400 (functional) and 53300 (object) classification stands for “Electricity expenditure (detailed object classification) included under ‘Utilities’ (minor object classification) which are a part of the ‘Commodities and Services’ (major object classification) for Secondary Education (detailed functional classification) which is a part of ‘Education’ (minor functional classification) included under ‘Social services (major functional classification)’”.

# Federal Budget



## **Federal budget**

### **2.1. Federal receipts**

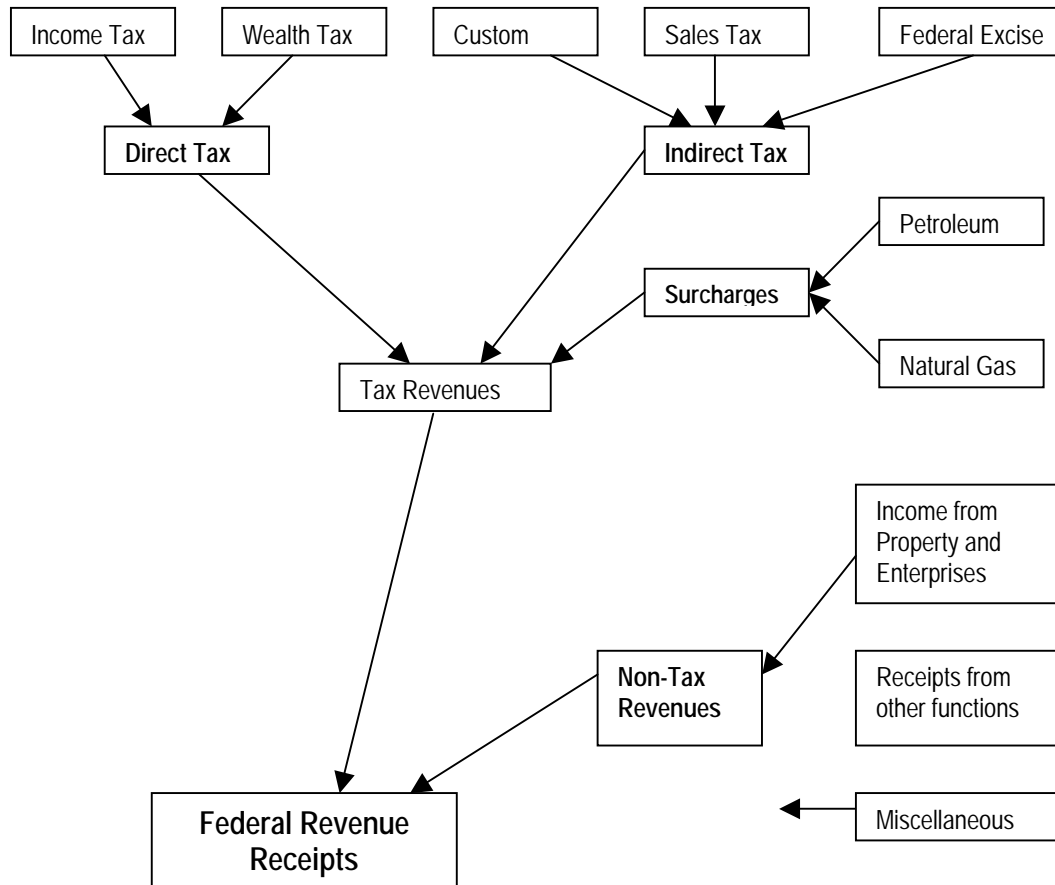
These include **Revenue Receipts** and **Capital Receipts**.

#### **2.1.1. Federal Revenue Receipts**

**Federal Revenue Receipts** include

- a) **Tax Revenue** and
- b) **Non-Tax Revenues**

The Revenue Budget presents current or day-to-day non-development expenditures. The current revenue derived through taxes, duties and other miscellaneous receipts is used to finance debt repayments, running of civil government, defence etc. If revenue receipts are greater than the current and non-development expenditures, the surplus amount is transferred to Capital Budget. If revenue receipts are less than the current expenditures, the government has to plug the gap through borrowings. The components making up the tax and non-tax Revenues are shown in the following figure:



**a) Tax Revenues**

The components are shown in the following table:

Major Classification	Minor Classification
Direct Taxes	<ul style="list-style-type: none"> <li>• Income Tax</li> <li>• Wealth Tax</li> </ul>
Indirect Taxes	<ul style="list-style-type: none"> <li>• Customs</li> <li>• Sales Tax</li> <li>• Federal Excise</li> </ul>
Surcharges	<ul style="list-style-type: none"> <li>• Petroleum</li> <li>• Natural Gas</li> </ul>

**b) Non-Tax Revenues**

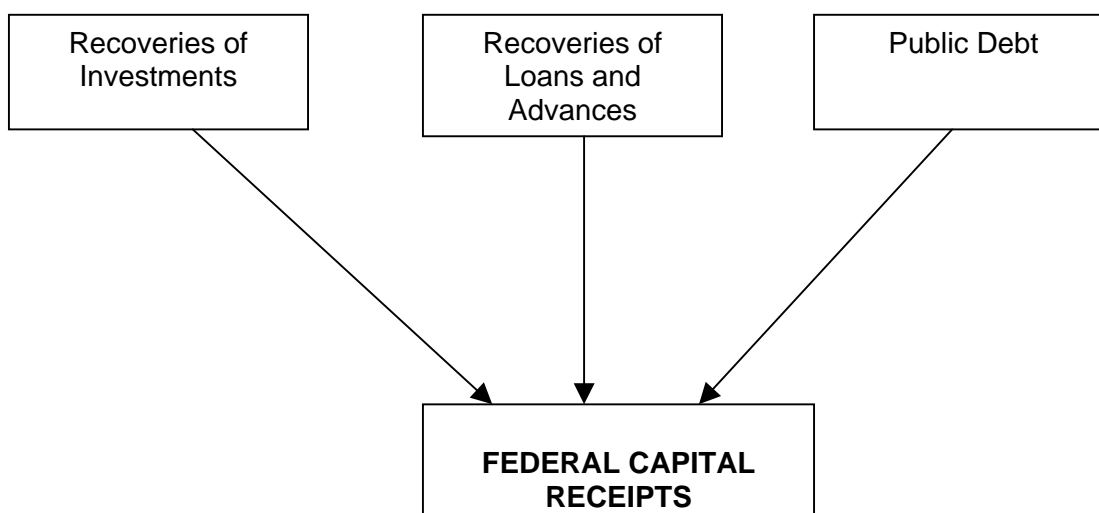
The components are shown in the following tables:

Major Classification	Minor Classification
Income from Property and Enterprises	<ul style="list-style-type: none"> <li>• Profits</li> <li>• Interest</li> </ul>

	<ul style="list-style-type: none"> <li>• Dividend</li> <li>• State Trading Schemes</li> </ul>
Receipts from Civil Administration and Other Functions	<ul style="list-style-type: none"> <li>• General Administration receipts</li> <li>• Law and Order Receipts (Justice, Law Courts, Police, Jails, etc)</li> <li>• Receipts from Community Services (Works and Services, broadcasting services, television services, etc)</li> <li>• Receipts from Social Services (Education, Health, etc. <b>Important</b> school fee for federal government facilities is included under this head)</li> <li>• Receipts from Economic Services (agriculture, fuel and power)</li> </ul>
Miscellaneous Receipts	<ul style="list-style-type: none"> <li>• Foreign Travel Tax</li> <li>• Passport Fee</li> <li>• Royalty on oil and gas</li> <li>• Airport Tax</li> </ul>

### **2.1.2. Federal Capital Receipts**

The Capital Budget is intended for development projects in the country. The capital expenditure is generally met from the revenue surplus, reserve funds and borrowings for specific or general purpose.



<b>Major Classification</b>	<b>Minor Classification</b>
Recoveries of Investments	<ul style="list-style-type: none"> <li>• Irrigation Receipts</li> <li>• State Trading Schemes</li> <li>• Investments Receipts</li> </ul>

Recoveries of Loans and Advances	<ul style="list-style-type: none"><li>• Recovery of loans from provinces</li><li>• From local bodies</li><li>• From financial institutions</li><li>• From government servants</li><li>• From private sectors</li><li>• Others</li></ul>
Public Debt	<ul style="list-style-type: none"><li>• Domestic Debt (permanent)</li><li>• Floating Debt</li><li>• Foreign Debt (Permanent)<ul style="list-style-type: none"><li>○ Project Aid (Loans and grants)</li><li>○ Commodity Aid (Loans and Grants)</li><li>○ Food Aid (Loans and Grants)</li><li>○ Other Aid</li><li>○ Grants (e.g. Oil Facility)</li></ul></li></ul>

## **2.2. Federal Consolidated Fund and Public Account**

Article 78 of the Constitution defines the **Federal Consolidated Fund** (Federal Divisible Pool) as:

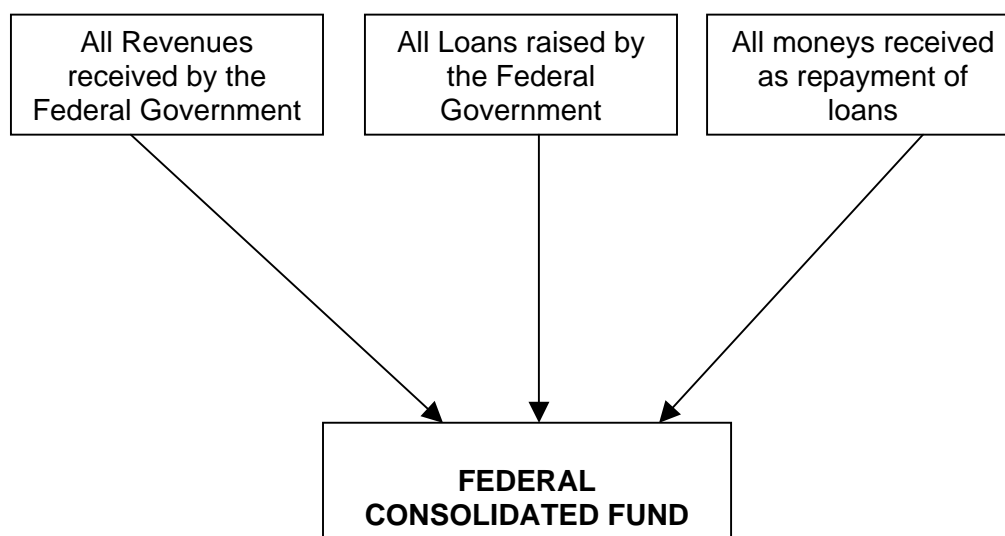
(1) All revenues received by the Federal Government, all loans raised by that Government and all moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as the Federal Consolidated Fund.

And **Public Account** as:

(2) All other moneys – (a) received by or on behalf of the Federal Government; or (b) received by or deposited with the Supreme Court or any other Court established under the authority of the Federation; shall be credited to the Public Account of the Federation.

The custody of the Federal Consolidated Fund, the payment of moneys into that fund, the withdrawal of moneys from it, the custody of other moneys received by or on behalf of the Federal Government, their payment into and withdrawal from the Public Account of the Federation and all other connected matters are regulated by Acts of Parliament.

### **2.3. What is included in the Federal Consolidated Fund (Federal Divisible Pool)?**



### **2.4. Share of the provinces in the Federal Divisible Pool**

According to Article 160 of the Constitution, the President of Pakistan (after an interval not exceeding five years) constitutes a **National Finance Commission (NFC)**, consisting of the Ministers of Finance of the Federal and Provincial governments and other persons appointed by the President after consultation with the governors of the provinces.

#### **2.4.1. NFC Award**

The NFC makes recommendations to the President on the following issues:

- i) Distribution between the Federation and the Provinces of the net proceeds of the following taxes:
  - a. Taxes on income including corporate taxes but not including taxes on incomes consisting of remuneration paid out of the Federal Consolidated Fund;
  - b. Taxes on sales and purchases of goods, imported, exported, produced, manufactured or consumed;
  - c. Export duties on cotton, and such other export duties as may be prescribed by the President;
  - d. Such excise duties as may be prescribed by the President;
  - e. Such other taxes as may be prescribed by the President.
- ii) Making of grant-in-aids by the Federal to the Provincial Governments;
- iii) The exercise by the Federal and the Provincial Governments of the borrowing powers conferred by the Constitution; and
- iv) Any other matter relating to finance referred to the Commission by the President.

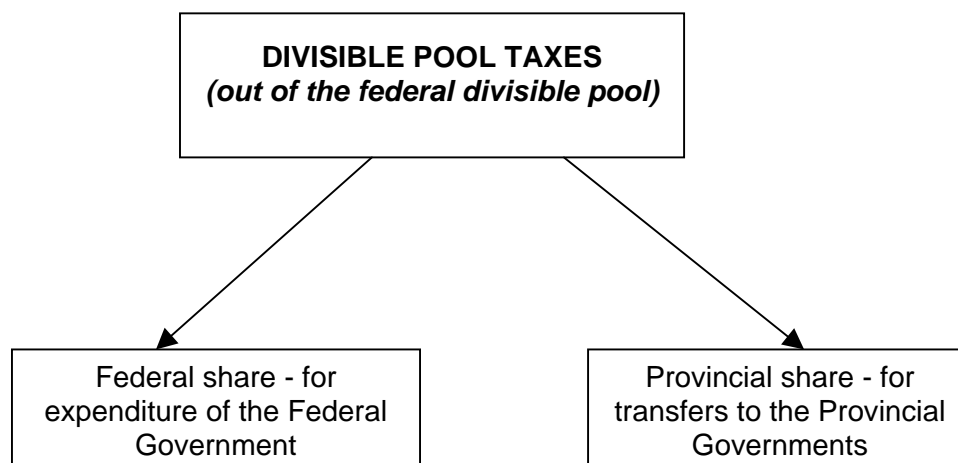
On the recommendations of the NFC, the President makes an order for the distribution of taxes (called the **Divisible Pool Taxes**) among the federation and the federating units.

The Federal Government transfers

- **Share in the divisible pool taxes,**
- **Straight transfers,** and
- **Constitutional subvention**

to the provincial governments.

#### **2.4.2.        *Sharing of Divisible Pool Taxes***



#### **2.4.3 *Basis of allocation of share from Divisible Pool Taxes***

- Through the ‘Distribution of Revenues and Grants-in-Aid (Amendment) Order 2002’, the President of Pakistan has fixed the share of the Federation at 62.5 percent and the share of the Provinces at 32.5 percent of the Divisible Pool Taxes (same as NFC 1997).
- The shares of the provinces, on the basis of the 1998 population census, with effect from July 1, 2002, was revised to
  - Punjab :        57.36%
  - Sindh :         23.71%
  - NWFP :        13.82%
  - Balochistan:   05.11%
- The share of the provinces in the Divisible Pool Taxes decreased from 65 percent in 1964 to 37.5 percent in 1997 (a total decrease of 42.31 percent), whereas the share of the Federation increased from 35 percent in 1964 to 62.5 percent in 1997 (a total increase of 79 percent).

- The Federal Government was not deducting collection charges (from the divisible pool taxes) prior to the NFC Award, 1990. In the NFC Award, 1990, it was decided to deduct these charges at the rate of 6.35 percent and the amount was reduced in the NFC Award, 1997 to five percent (on Income Tax these charges were six percent).

#### ***2.4.4 Distribution of Divisible Pool Taxes***

The changes in the shares of the Federation and the Provinces during various NFC Awards are shown in the following table:

NFC Award	Fed. Govt. Share	Share of Provinces	Deduction of Collection Charges	Share of Provinces			
				Punjab	Sindh	NWFP	Balochistan
1964	35%	65%	----	56.50%	23.50%	15.50%	4.50%
1970	20%	80%	----	56.50%	23.50%	15.50%	4.50%
1974-75	20%	80%	----	60.25%	23.50%	13.39%	3.86%
1983 (Presidential Order)	20%	80%	----	57.97%	23.34%	13.39%	5.30%
1990	20%	80%	6.35%	57.88%	23.28%	13.54%	5.30%
1997	62.5%	37.5%	5.00% (Income Tax 6%)	57.88%	23.28%	13.54%	5.30%

*Source: White Paper on the Budget 2003-04, Government of the Punjab*

*Punjab expected a share of Rs.101.166 billion and Balochistan Rs.9.012 billion from the federal divisible taxes according to the budget estimates for 2003-04.*

#### ***2.4.5 Straight Transfers***

- The provinces are entitled to receive net proceeds on Federal Excise Duty on natural gas, Royalty on natural gas, Net Profit on bulk generation of hydro power and Royalty on crude oil.
- Article 161 of the Constitution states that

(1) Notwithstanding the provisions of Article 78 the net proceeds of the federal duty of excise on natural gas levied at well-head and collected by the Federal Government, and of the royalty collected by the Federal Government, shall not form part of the Federal Consolidated Fund and shall be paid to the province in which the well-head of natural gas is situated.

(2) The net profits earned by the federal Government, or any undertaking establishment, administered by the Federal Government from the bulk generation of power at a hydro-electric station shall be paid to the province in which the hydro-electric station is situated.

*Explanation:* For the purpose of this clause ‘Net Profits’ shall be computed by deducting from the revenues accruing from the bulk supply of power from the bus-bars of a hydro-electric station at a rate to be determined by the council of common interests, the operating expenses of the station, which shall include any sum payable as taxes, duties, interest or return on investment, and depreciations and element of obsolescence, and over-heads, and provision for reserves.

*Under these straight transfers in 2003-04 Punjab will get Rs.3.7 billion (mainly Gas Development Surcharge and Royalty on Crude Oil), Balochistan Rs.7.9 billion (mainly Excise Duty and Royalty on Gas and Gas Development Surcharge), NWFP Rs.6 billion as net profit on hydro power generation, and Sindh Rs.24 billion (mainly Excise Duty and Royalty on Gas).*

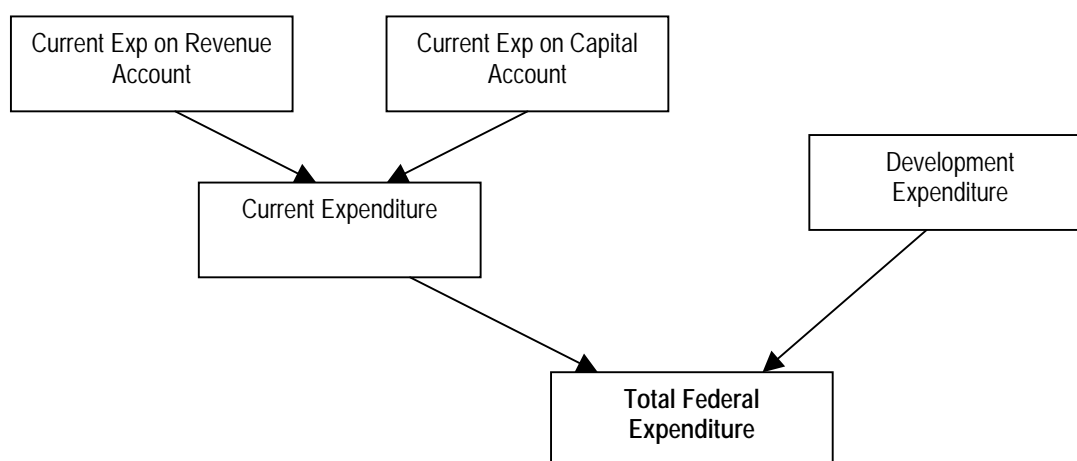
- Another important straight transfer is 2.5 percent GST which is transferred by the Federal to the Provincial governments for onward transfer to the Local governments against their shares in the Octroi and Zila tax grants.

### **2.4.6 Constitutional Subventions**

Balochistan and NWFP will get Rs.4.8 billion and Rs.3.9 billion respectively in 2003-04 (budget estimate) as **Constitutional Subventions** due to their backwardness.

## **2.5 Federal Expenditure**

The **total federal expenditure** includes the current and development expenditure of the Federal Government



### **2.5.1 Current Expenditure on Revenue Account**

<b>Major Function</b>	<b>Minor Function</b>
General Administration	<ul style="list-style-type: none"> <li>• Organs of State</li> <li>• Fiscal Administration</li> <li>• Economic Regulation</li> <li>• Foreign Affairs</li> <li>• Publicity and Information</li> </ul>

<b>Major Function</b>	<b>Minor Function</b>
	<ul style="list-style-type: none"><li>• Immigration and Passport</li></ul>
Defence	<ul style="list-style-type: none"><li>• Defence Administration</li><li>• Defence Services</li></ul>
Law and Order	<ul style="list-style-type: none"><li>• Justice Law Courts</li><li>• Police and Civil Armed Forces</li><li>• Jails and Detention Places</li><li>• Civil Defence</li></ul>
Community Services	<ul style="list-style-type: none"><li>• Works</li><li>• Public Health Services</li><li>• Broadcasting services</li><li>• Scientific and General Research</li></ul>
Social Services	<ul style="list-style-type: none"><li>• Education</li><li>• Health</li><li>• Population Planning</li><li>• Religious Affairs</li></ul>
Economic Services	<ul style="list-style-type: none"><li>• Agriculture and Food</li><li>• Irrigation</li><li>• Land Reclamation</li><li>• Fuel and Power</li><li>• Industries and Mineral Resources</li><li>• Transport and Communications</li></ul>
Subsidies	<ul style="list-style-type: none"><li>• Food</li><li>• Export</li><li>• Others</li></ul>
Debt Servicing, Investible Funds, Grants	<ul style="list-style-type: none"><li>• Interest on domestic permanent and floating debt</li><li>• Interest on Foreign loans, IMF drawings, Euro Bonds, etc.</li><li>• Special grants to provinces, Octroi and Zila Tax Grants, Railways, others</li></ul>

*(These Minor Functions are mentioned as an example and the table does not show the entire list under each major functional classification.)*

### **2.5.2 Current Expenditure on Capital Account**

<b>Major Function</b>	<b>Minor Function</b>
Debt Servicing	<ul style="list-style-type: none"><li>• Repayment of short term credits</li></ul>
Government Investments	
Loans and Advances	<ul style="list-style-type: none"><li>• Repayment of loans and advances</li></ul>

### **2.5.3 Development Expenditure**

**Development Expenditure** is the expenditure meant to

- (i) keep intact,

- (ii) enlarge and to improve the physical resources,
- (iii) improve the knowledge, skills and productivity of the people and
- (iv) encourage efficiency with which the available resources are used.

In Education, development expenditure includes expenditure, such as for the construction of buildings, purchase of computers and equipment, scholarships, ADB assisted Girls Primary Education Project II, Establishment of Non-Formal Basic Education Community Schools, Education for All (EFA) and other foreign funded federal education projects.

## **2.6 Federal Education Budget 2003-04**

Under Demand 29 of the Ministry of Education, the Federal Current Expenditure budget estimate for 2003-04 was Rs.6.7 billion. Rs.156 million was for education division, Rs.5.5 billion for higher education and Rs. one billion for federal government educational institutions in the Capital and Federal areas.

The major amounts, Rs.3 billion, were for Universities (main universities and Higher Education Commission, etc.) and Rs.1.7 billion for Professional Technical Universities/Colleges (e.g. UET Lahore, NED Karachi, UET Peshawar, Agricultural University Faisalabad and Balochistan Engineering University Khuzdar).

Under Demand 81, the Federal Budget included an education budget of Rs.1.6 billion for FATA. Similarly under Demand 85, the Federal Budget included an education budget of Rs.0.5 billion for Northern Areas.

The Federal Development Expenditure Budget for 2003-04 was of Rs.7.6 billion of which Rs.0.8 billion were for 'Construction of Works', and Rs.6.5 billion for 'Commodities and Services'.

# Provincial Budget



## **Provincial budget**

*(Except where otherwise stated, examples have been taken from the Punjab Budget 2003-04)*

### **3.1 Provincial Consolidated Fund and Public Account**

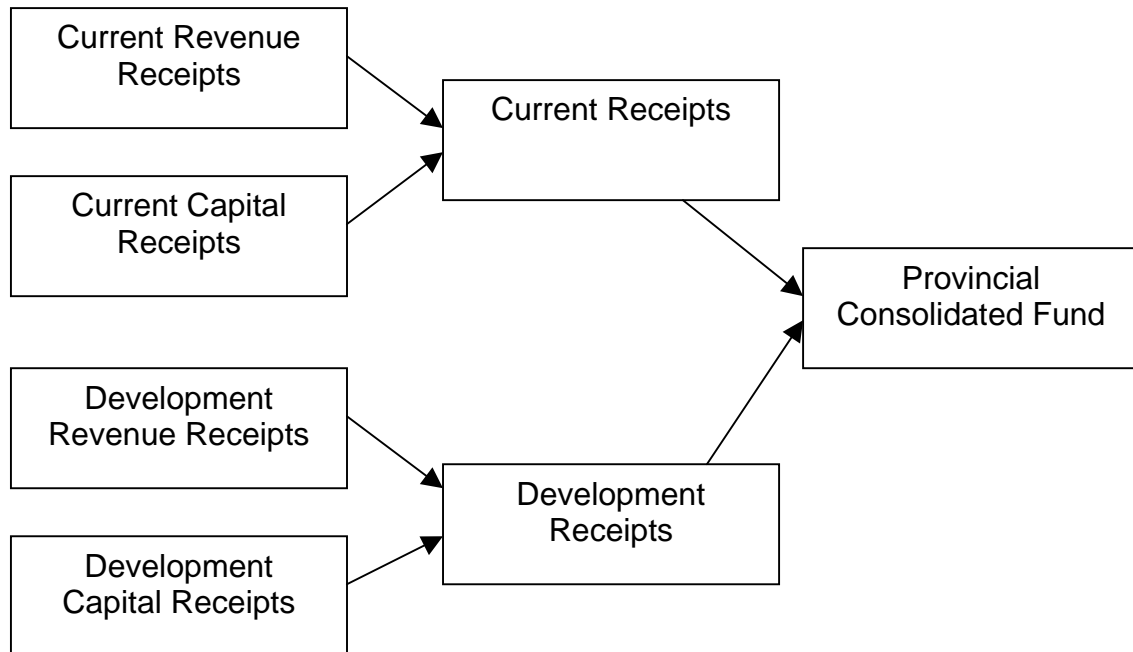
**Provincial Consolidated Fund**, according to Article 118 of the Constitution, is defined as:

(I) All revenues received by the Provincial Government, all loans raised by that Government, and all moneys received by it in repayment of any loan, shall form part of a consolidated fund,

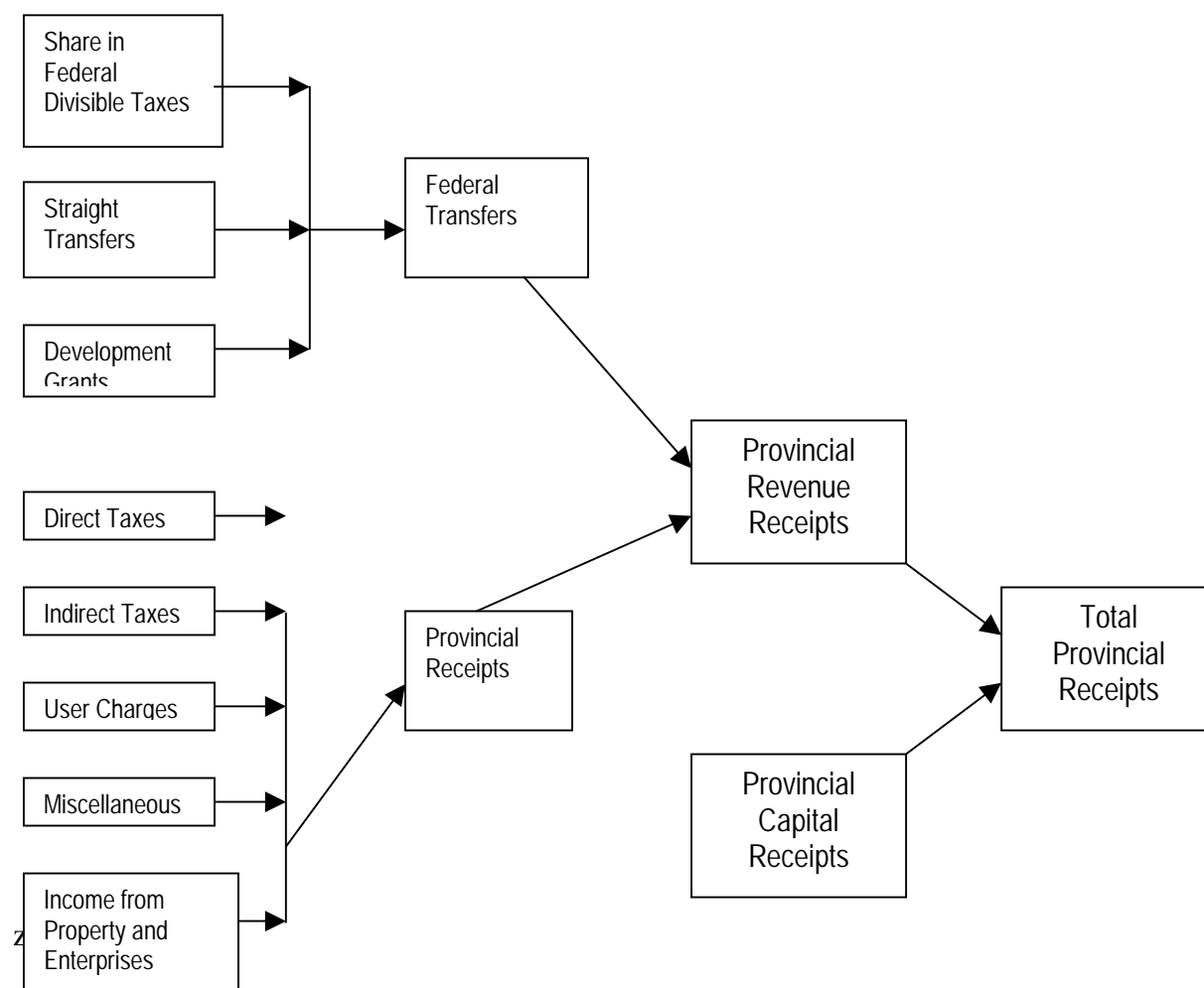
And **Public Account** as:

(II) All other moneys  
(a) received by or on behalf of the Provincial Government; or  
(b) received by or deposited with High Court or any other Court established under the authority of the Province;

### **3.2 Composition of Provincial Consolidated Fund**



### 3.3 Provincial Receipts



*The total budgeted revenues of the Government of Punjab for 2003-04 were estimated to be Rs.193.1 billion, which included Rs.149.3 billion (77 percent of the revenues) from Current Revenue Receipts and Rs.43.7 billion (23 percent of the revenues) from Current Capital Receipts. The revised estimates for the previous year (2002-03) were Rs.169 billion.*

#### 3.3.1 Federal Transfers to the provinces

##### a) Share in the Federal Divisible Pool Taxes

*(Example of Punjab)*

- The Provincial Governments are heavily dependent on transfers from the Federal Government.
- The Divisible Pool Taxes are the largest single source of receipts of the Provincial Consolidated Fund.

**Share in Divisible Pool Taxes**

*(Million Rs.)*

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Taxes on Income	28,065	31,178
Taxes on Sales	37,375	42,156
Federal Excise	8,623	8,910
Customs Duties	14,222	15,959
Capital Value Tax	123	143
GST on Services ( <i>Fed. CED</i> )	2,493	2,820
<b>Total</b>	<b>90,901</b>	<b>101,166</b>

For the financial year 2003-04, the Federal Divisible Pool Taxes are estimated to be 50.3 percent of the Provincial Consolidated Fund.

**b) Straight Transfer from the Federal Government**

These include excise duty, royalty on natural gas, net profit on electricity etc., shown in the following table.

**Straight Transfers from the Federal Government**

*(Million Rs.)*

	<b>R.E. 2002-03</b>	<b>B.E. 2003-04</b>
Excise Duty on Natural Gas	323	308
Royalty on Natural Gas	970	1,170
Gas Development surcharge	1,055	908
Electricity Profit	275	275
Royalty on Crude Oil	1,386	1,496
<b>Total</b>	<b>4,009</b>	<b>4,157</b>

**c) Other Transfers from the Federal Government**

- The Federal Government allocates grants to enable the Provincial Governments to meet
  - budgetary deficits
  - increases in salaries and pensions,
  - reimbursements for performance of agency functions
  - other matching grants.
- **Octroi** (collected by the municipalities or urban local councils) and **Zila Tax** (collected by the district councils) were abolished with effect from July 1 1999. To offset the losses caused to the local government due to abolition of

Octroi and Zila Tax, the Federal Government, initially, committed to provide full resources to the provinces from the proceeds of the additional 2.5 percent in the GST (the rate of GST was enhanced from 12.5 percent to 15 percent in December, 1998). However, the Federal Government provided Octroi and Zila Tax grants of these taxes at the collection level, for 1998-99 instead of full receipts from 2.5 percent GST.

- The Punjab Government as well as the governments of other provinces demanded provision of full revenues generated from 2.5 percent GST to the provinces. Upon this, the President of Pakistan decided to allocate the Federal Share of the 2.5 percent GST among the provinces in the financial year 2002-03 as per the following formula:

Punjab	:	52.24 percent
Sindh	:	38.30 percent
NWFP	:	05.07 percent
Balochistan	:	04.43 percent

- The budget for 2003-04 of 2.5 percent GST was estimated at Rs.11.3 billion as compared to previous year's revised estimates of Rs.10.1 billion. The Federal share is transferred to the provinces as grant-in-aid. The provincial share is transferred as **Divisible Pool Transfer**.

### **3.3.2 Provincial Own Source Revenues**

These include both **tax** and **non-tax receipts**. The revised estimates for 2002-03 and the budget estimates for 2003-04 are shown in the following table:

#### **Provincial Own Source Revenues**

(Million Rs.)

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
<b>Tax Receipts</b>	<b>14,085</b>	<b>15,773</b>
Direct Taxes	4,225	4,276
Indirect Taxes	9,860	11,497
<b>Non-Tax Receipts</b>	<b>9,219</b>	<b>14,572</b>
Income from Property and Enterprises	1,567	1,053
Receipts from Civil Administration and other Functions	6,599	7,559
Miscellaneous Receipts	1,053	5,960
<b>Total</b>	<b>23,304</b>	<b>30,345</b>

### **3.3.3 Provincial Tax Receipts**

#### **a) Receipts from Direct Taxes**

Land Revenue, Registration Fee, Professional Tax, Agricultural Income Tax and Urban Immovable Property Tax are **Provincial Direct Taxes**.

**Receipts from Provincial Direct Taxes**

*(Million Rs.)*

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Agricultural Income Tax	1,250	1,037
Urban Immovable Property Tax	365	423
Tax on Transfer of Property (Registration)	354	390
Land Revenue	2,006	2,166
Tax on Professions, Trade and Callings	250	260
<b>Total</b>	<b>4,225</b>	<b>4,276</b>

**b) Receipts from Indirect Taxes**

**Provincial Indirect Taxes** include Stamp Duty, Motor Vehicle Tax, Provincial Excise, GST on services, Sale of Opium, Entertainment Tax, Education Cess, Cotton Fee, Tax on Hotels and Electricity Duty.

**Receipts from Indirect Taxes**

*(Million Rs.)*

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Provincial Excise	557	596
GST on Services	1,518	1,686
Sale of Opium	10	11
Stamp Duty	4,050	4,645
Motor Vehicle Tax	1,940	2500
Entertainment Tax	154	171
Cotton Fee	400	450
Tax on Hotels	94	100
Electricity Duty	1,137	1,338
<b>Total</b>	<b>9,860</b>	<b>11,497</b>

**3.3.4 Non-Tax Revenues**

**a) Income from property and enterprise**

The Government of Punjab has advanced loans to civil servants, local and autonomous bodies along with others. Interest on these loans is an item of Provincial Own Source Receipt of the government. The receipt includes Interest on Loans (Rs.1,027 million BE 2003-04) and Dividend Income (Rs.25 million BE 2003-04).

**b) Receipts from civil administration and other Functions**

These receipts are from law enforcement and other regulatory functions of the government, and, charges on account of services rendered by the Government agencies. Income from fines imposed by courts, driving licence fee, fees charges by various educational institutions, hospital receipts, sales proceeds of forest produce, water rate (*abiana*), hire charges of agriculture machinery, income from tolls, sale of tender forms, stationery and printing charges recovered by the government's printing presses are also included in these receipts.

**Receipts from Civil Administration and Other Functions**

(Million Rs.)

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
General Administration	172	178
Law and Order	992	1,035
Community Services	488	719
Social Services	843	646
Economic Services	4,104	4,981
<b>Total</b>	<b>6,599</b>	<b>7,559</b>

**c) Receipts from General Administration**

The receipts from General Administration comprise of the examination fee, receipts-in-aid of superannuation (pension contribution) and receipts under weights and measures, etc.

**d) Receipts from Law and Order**

Receipts under the head of administration of justice include general fee, fines and forfeitures, receipts from record rooms and fee for services rendered. Receipts from police consist of charges for police force supplied to the Federal and Provincial governments, private persons, driving licence fees, traffic fines and other fines and forfeitures. Receipts from Law and Order are shown in the following table.

**Receipts from Law and Order**

(Million Rs.)

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Administration of Justice	104	104
Police	851	891
Jails	35	38
Civil Defence	2	2
<b>Total</b>	<b>992</b>	<b>1,035</b>

**e) Receipts from Community and Social services**

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Buildings	115	125
Communications	363	584
Public Health	10	10
Education	508	291
Health	170	175
Housing and Physical Planning	150	165
Receipts Under the Wild Birds and Wild Animals Protection Act, 1933	15	15
<b>Total</b>	<b>1,331</b>	<b>1,365</b>

- Receipts from Building and Communications accrue from rent of government buildings, tolls on roads and bridges, sale of tender forms, registration fee of contractors and confiscation of earnest money of the contractors.
- Receipts from Public Health comprise water supply and sewerage charges, collection of payments for the services rendered and recovery of departmental charges.
- Receipts from Education consist of fees from educational institutions. For improving the access to education for poor people, Government of the Punjab has discontinued the recovery of tuition fee and has made education free up till matriculation.
- Health Receipts comprise hospital receipts and fee charged by the District and Tehsil Head Quarter hospitals. The expenditure for these hospitals is, however, incurred by the district governments as this function has been devolved.
- Housing and Physical Planning receipts are from sale of plots in government housing and satellite town schemes, and user charges for services rendered.

**f) Receipts from Economic Services**

- Receipts from Agriculture consist of income from experimental and seed farms, hire charges of bulldozers, earnings from boring operations, soil conservation and research stations.
- Receipts from Livestock comprise income from livestock and broiler farms, insemination fees and proceeds from research institutes. Income from forests includes sale proceeds of timber and other produce.
- Irrigation receipts are generated from water rates, direct receipts from canals, land reclamation and irrigation research institutes.

**Receipts from Economic Services**

(Million Rs.)

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Agriculture	437	445
Fisheries	64	70
Livestock	211	222
Forest	479	501
Cooperation	1	1
Irrigation	2,722	3,547
Printing	107	108
Stationery	4	4
Industries	78	83
<b>Total</b>	<b>4,103</b>	<b>4,981</b>

**g) Miscellaneous Receipts**

Miscellaneous receipts include unclaimed deposits, sale proceeds of stores and material, rent, Citizenship (Domicile Certificates) fees, receipts from royalty and minerals, collection charges of Sugar Cane Development Cess, recoveries of over payment, collection of payment for services rendered, fees, fines, forfeitures and other receipts. The Budgeted receipts for 2003-04 from these sources are estimated to be Rs.5,961 million.

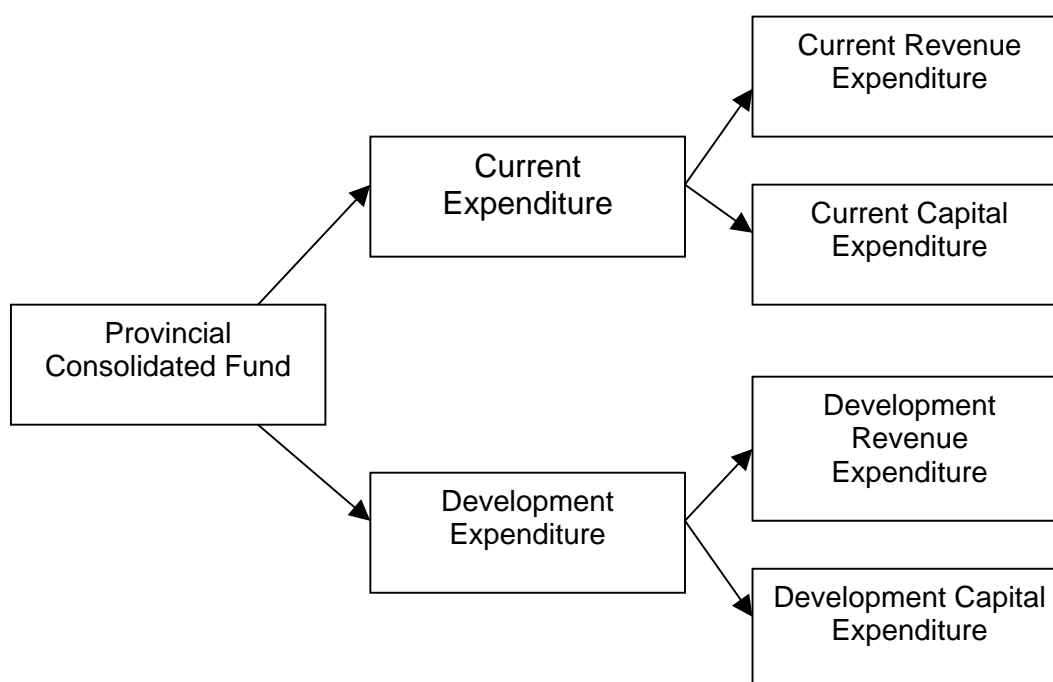
**3.3.5 Development Receipts**

**Provincial Development Receipts**

(Million Rs.)

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
<b>Development Revenue Receipts</b>	<b>1,885</b>	<b>89</b>
i. Foreign Grants	260	89
ii. Other Grants from Federal Govt.	1,625	0.000
<b>Development Capital Receipts</b>	<b>6,235</b>	<b>8,300</b>
i. Domestic Debt	0.000	0.000
ii. Foreign Debt	6,235	8,300
<b>Total</b>	<b>8,120</b>	<b>8,389</b>

### 3.4 Utilisation of Provincial Consolidated Fund



### 3.5 Distribution of resources between the provincial and local governments

#### 3.5.1 *The Provincial Finance Commissions*

- The Local Government Ordinances 2001 (as amended) provide for the establishment of a **Provincial Finance Commission**<sup>2</sup> to recommend the formula and amounts for vertical distribution of resources between the province and district governments and for horizontal distribution between different local governments in a district.
- The functions of the Provincial Finance Commission (PFC)<sup>3</sup> are:
  - (a) Distribution between the Government and the Local Governments out of the proceeds of the Provincial Consolidated Fund into Provincial Retained and Provincial Allocable;
  - (b) Distribution of the Provincial Allocable among the Local Governments (District Governments, TMAs and Union Administration) as their share;
  - (c) The making of grant-in-aid by the Government to the Local Governments from the Provincial Retained amount.

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<sup>2</sup> Section 120-A of the BLGO 2001. The aim of setting up of the PFC according to the Local Government Plan 2000 is “to accomplish a transparent, credible and fair system of transferring funds to the local governments”.

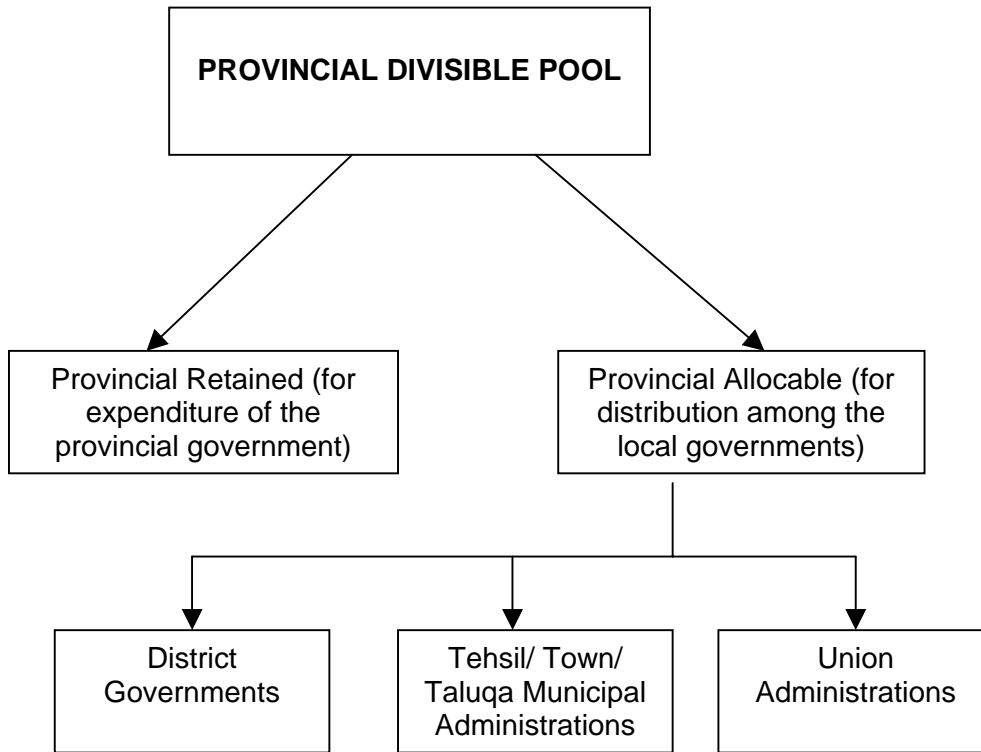
<sup>3</sup> Section 120-D (1) of the BLGO 2001 (added on June 10, 2003).

- The recommendations of the PFC are to be based on the principles of
  - (a) fiscal need,
  - (b) fiscal capacity,
  - (c) fiscal effort, and
  - (d) performance<sup>4</sup>.
- The setting up of the PFC and formula based transfers to the local governments has provided an enabling framework for
  - (a) Equitable distribution of resources
  - (b) Controlling the bureaucratic and political imperatives being employed for resource allocation and
  - (c) Rationalisation of decision making.
- Provincial governments can now base systems for inter-governmental transfers and grants on a formula in order to
  - (a) Facilitate planning at the local council level,
  - (b) Provide incentives for improved performance, and
  - (c) Most importantly develop basis and criteria for equitable distribution of resources in the province.
- The share of the district governments determined by the PFC Award is being transferred as a single line transfer to the district governments. The district governments are fully empowered to allocate expenditures to various sectors in accordance with their own spending priorities that are evident from the annual budgets approved by the Zila Councils. The discretion of the district governments is, however, restricted by the demand for salaries of the staff of the devolved departments which forms a major portion of the recurrent budget.

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<sup>4</sup> Section 120-D (2) of the BLGO 2001 (added on June 10, 2003).

**3.5.2 Allocation of Resources through PFC Award**



- **Provincial Allocable Amount** means such proceeds of the Provincial Consolidated Fund which are set apart on the basis of the orders received by the Governor, which are based on the recommendations of the Provincial Finance Commission, for distribution among the local governments in accordance with a formula based on the principles of fiscal need, fiscal capacity, fiscal effort and performance. Local Governments includes District Governments, City District Governments, Tehsil/Town/Taluka Municipal Administrations, and, Union Administrations. Amounts once transferred to the local governments cannot be re-transferred or taken back.
- **Provincial Retained Amount** means the balance of the Provincial Consolidated Fund after taking out the Provincial Allocable Amount.

*In the Punjab Budget for 2003-04, Rs.48.2 billion was kept for single line resource allocation to the local governments. In the revised estimate for the previous year the Provincial Allocable was Rs.45.3 billion.*

*In addition, the 2.5 percent GST received in lieu of the Octroi and Zila Tax Grant from the Federal Government is passed on directly to the local governments by the Punjab provincial government. In the budget for 2003-04, Rs.4 billion will be the straight transfers for TMAs and Rs.2.7 billion for the Union Administrations.*

### 3.6 Provincial expenditure

Provincial Expenditure consists of **Revenue** and **Development Expenditure**.

### 3.7 Current Revenue Expenditure

(Million Rs.)

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
General Administration	13,377	15,321
Law & Order	13,379	15,777
Social Services	6,206	10,889
Community Services	1,718	1,950
Economic Services	8,235	10,613
Subsidies	3,000	1,920
Debt Servicing, Investible Funds and Grants	69,106	72,726
Miscellaneous ( <i>Un-allocated</i> ) Items	0	0
<b>Total</b>	<b>115,022</b>	<b>129,195</b>

#### a) General Administration

(Million Rs.)

	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Organs of State	1,224	1,446
Fiscal Administration	11,785	13,479
Economic Regulation	55	73
Statistics	136	154
	177	169
<b>Total</b>	<b>13,377</b>	<b>15,321</b>

#### b) Law & Order

A major ADB-assisted programme 'Access to Justice Programme' has been undertaken to reform law enforcement, legal and judicial institutions i.e. police, courts and jails. A budgetary allocation of Rs.15,777 million has been made in 2003-04 as compared to Rs.12,189 million in 2002-03.

#### c) Social Services

There has been a major devolution in the functions relating to the provincial education and health departments. School and college education (other than universities and

professional education) and primary healthcare facilities (including tehsil and district headquarter hospitals) have been devolved to the district governments.

The devolution of functions has resulted in a massive decrease in the provincial education budget (from Rs.31.7 billion in 2002-03 to Rs.3.3 billion in 2003-04) as shown in the following table.

(Million Rs.)

	<b>BE 2002-03</b>	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Education	31,690	1,573	3,374
Health	9,016	4,181	7023
Manpower & Labour Management	123	27	32
Housing & Physical Planning	138	55	47
Sports & Recreation Facilities	106	74	75
Social Security & Other welfare	507	237	273
Natural Calamities & Other Disasters	24	23	23
Religious Affairs	39	37	42
<b>Total</b>	<b>41,644</b>	<b>6,206</b>	<b>10,889</b>

The comparison of the budgetary allocations for education and health for the financial year 2003-04 with those of the previous year does not mean that the service delivery has been curtailed – it simply means that the function has been transferred to the district governments and they are now providing the major portion of the education services. Due to devolution of health-care and educational institutions to the local governments, the major spending on social sector is now being made by the district governments out of the share transferred to them based on the Provincial Finance Commission Award.

*i) Expenditure on Education*

An enhanced budgetary allocation of Rs.3,374 million has been made in the budget for 2003-04 over 2002-03 RE of Rs.1,573 million has been made. Education up to Matriculation has been made free. The school teachers would be recruited on a contract basis in the year 2003-04. Punjab Education Sector Reform Programme is being launched for provision of missing facilities in educational institutions, training of teachers, provision of free textbooks to the students up to class V, provision of stipends etc.

*ii) Expenditure on Health*

Budgetary allocation for the Health sector have been enhanced from Rs.4,181 million in 2003-03 RE to Rs.7,023 million in the 2003-04 budget, resulting in an over all increase of 68 percent. The yardstick for the provision of non-salary budgetary allocations to teaching or mega hospitals has been revised upward from Rs.120 per

bed per day to Rs.400 per bed per day. The operation theatres of teaching hospitals are being upgraded.

*iii) Expenditure on Community Services*

*(Million Rs.)*

	<b>BE 2002-03</b>	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Works	4,981	1,636	1,874
Water Supply (Public Health)	513	45	36
Scientific Research & Services	7	5	7
Other Community Services	27	31	32
<b>Total</b>	<b>5,528</b>	<b>1,717</b>	<b>1,949</b>

As a result of devolution, the major expenditures on Community Services is now being incurred by the local governments out of the share transferred by the provincial governments from the Provincial Allocable Amount according to the PFC Award. Therefore the comparison of budgetary allocations on Community Services with budgetary allocations for the pre-devolution years can be misleading and unrealistic since now, in addition to expenditure incurred out of the provincial budget, a major expenditure is being incurred by the local governments from their own budgets.

**d) Economic Services**

*(Million Rs.)*

	<b>BE 2002-03</b>	<b>RE 2002-03</b>	<b>BE 2003-04</b>
Agriculture & Food	5,084	2,712	3,002
Irrigation	6564	3,817	5,796
Land Reclamation	86	69	76
Rural Development	395	63	38
Industrial & Mineral Resources	1,359	1,542	1,693
Transportation & Communication	57	32	7
<b>Total</b>	<b>13,545</b>	<b>8,235</b>	<b>10,612</b>

### **3.8 Transfer of share of local governments**

In line with the PFC Award, an amount of Rs.48,160 million is budgeted as a single line resource allocation to local governments for FY 2003-04. The amount passed on to the local governments as per revised estimates of 2002-03 was Rs.45,380 million.

### **3.9 Straight transfer to the local governments**

Moneys received in lieu of the Octroi & Zila Tax are passed on to the local governments in the form of a Straight Transfer as required under section 120-D(A)(i)

of the Punjab Local Government Ordinance, 2001. The following amounts were to be transferred to the local governments on this account during FY 2003-04:

*(Million Rs.)*

	<b>BE 2002-03</b>	<b>RE 2002-03</b>	<b>BE 2003-04</b>
TMA's	3,997	3,997	3,997
Union Administrations	2,702	2,702	2,702
<b>Total</b>	<b>6,699</b>	<b>6,699</b>	<b>6,699</b>

### 3.10 Annual development plan

The size of the ADP of Punjab for 2003-04 is Rs.30.50 billion. The break-up is as follows:

	<i>Rs. In billion</i>
Provincial Programme	13.20 (43 percent)
Foreign Project Assistance	8.30 (27 percent)
District Programme	<u>9.00 (30 percent)</u>
<b>Total</b>	<b>30.50 (100 percent)</b>

The sector-wise ADP of the Punjab for FY 2003-04 is given in the following table. It is about 47 percent higher than the previous year.

*(Rs. in million)*

<b>Sr. No.</b>	<b>Sector / Sub-Sector</b>	<b>ADP Allocations 2003-04</b>
<b>A</b>	<b>Normal Programme</b>	
1	Agriculture	737
2	Irrigation	3,750
3	Education	5,976
4	Health	860
5	Roads	3,265
6	Information Technology	230
7	Forestry & Wildlife	140
8	Water Supplies	936
9	Livestock	170
10	Industries	300
11	Environmental Planning	90
12	Government Buildings	300
13	Access to Justice Programme	500
14	Information, Culture & Youth Affairs	34
15	Social Welfare	36
16	Labour & Human Resources	15

17	Regional Planning	1,500
18	Planning & Development Department	11
	<b>Total (A)</b>	<b>18,850</b>
<b>B</b>	<b>Block Allocations (B)</b>	
i).	Priority Programme	350
ii).	Katchi Abadis	150
iii).	Capacity Building	50
iv).	Un-Funded Schemes	245
	<b>Total (B)</b>	<b>795</b>
	<b>Total (A+B)</b>	<b>19,645</b>
<b>C</b>	<b>Tameer-e-Punjab Programme</b>	<b>1,855</b>
	<b>Total Provincial Programme (A+B+C)</b>	<b>21,500</b>
<b>D</b>	<b>Block Allocations for Districts (local governments)</b>	<b>9,000</b>
	<b>Total (A+B+C+D)</b>	<b>30,500</b>

## **Provincial expenditure on education**

Provincial expenditure on education is made up of the current and development expenditure. The expenditure on provision of these services is incurred by both the provincial and district governments.

Provision of education is the responsibility of the provincial government and also the district government according to the specific functions devolved to them. Primary, secondary education (schools) and colleges are the responsibility of the district government while professional colleges are the responsibility of the provincial government.

Prior to introduction of the new LG system in 2001, expenditure on these services was borne by the provincial governments and was therefore reflected in the provincial budgets. In addition, many education facilities were set up in urban areas by the ULCs (Metropolitan Corporation, Municipal Corporation, Municipal Committee or Town Committee) and in the rural areas by the district council or the union council. The O&M costs of these institutions were met by the relevant local councils established under the provincial Local Government Ordinances of 1979.

## **Current expenditure on education**

The devolution of functions has resulted in a massive decrease in the provincial education budget of Punjab from Rs.31.7 billion in 2002-03 to Rs.3.3 billion in 2003-04. (However, this does not mean that the total outlay on education has been reduced. Part of the responsibility has now been devolved and a major portion of expenditure is not reflected in the provincial budget as it is being met from the district government budgets).

The comparison of budgetary allocations for education and health for the financial year 2003-04 with those for the previous year does not mean that service delivery has been curtailed – it simply means that the function has been transferred to the district governments and now they are providing the major portion of the education services. Due to devolution of educational institutions to the district governments, the major spending on social sector is now being made by the district governments out of the share transferred to them as a one line transfer, based on the PFC Award.

## **Development expenditure on education**

The total development outlay provided for the education sector in the Annual Development Programme 2003-04 is Rs.5,976 million. This allocation is 341 percent higher than previous year's allocation. Under Punjab Education Sector Reform Programme (ESR) assisted by the World Bank, an amount of Rs.5 billion will be made available for:

- Establishment of Programme monitoring and Implementation Unit.
- Provision of missing facilities in schools including up gradation.
- Awareness campaign about education through mass media.
- Provision of free textbooks to all primary school students.
- Stipend to girl students of classes VI to VII in 8 backward districts.

- Training of teachers.
- Strengthening of school council for improving school governance and provision of funds for maintenance and repair and instructional material.
- Studies through NGOs/Consultants to evaluate impact of interventions under the Programme.
- Re-structuring of Punjab Education Foundation.
- Re-organisation/Strengthening of Punjab Education Management Information System.

The remaining amount of Rs.976 million has been allocated to different sub-sectors of education as given in the following table:

(Million Rs.)

Sr. No.	Sub-Sector	Allocation
1	School Education	678
2	Higher Education	241
3	Literacy Programme	36
4	Special Education	21
	<b>Total</b>	<b>976</b>

### **Foreign-funded projects**

The Annual Development Programme includes three foreign aided projects i.e. Girls Primary Education Project (ADB Assisted), Second Science Education Project (ADB Assisted) and Promotion of Primary Education for Girls in Rural Areas (WFP). Through these projects, mainly girls' education is being promoted. Under Girls' Primary Education Project, 543 community model schools have already been established and about 60 more were to be established during 2003-04. Under this project, edible oil is being provided in 8 districts of Punjab to attract the girls for enrollment in schools and to retain them for completing primary education. Science Education at secondary level will be promoted through Science education Project-II at a total cost of Rs.1, 272 million.

### **Provincial expenditure on education (Balochistan)**

In Balochistan for the first year after devolution, the expenditure was shown in the provincial budget as a line item termed **District Set-up** under each department. The total current expenditure in 2001-02 (RE) for Education was Rs.4,553 million of which only Rs.542 million was borne by the provincial government and the district set-up (26 district governments) was responsible for incurring a substantial amount (over Rs.4,011 million) and also a substantial percentage (88 percent) of the total current expenditure education.

In Balochistan, the provincial government continues to meet the development expenditure on education from its own PSDP although the PSDP includes a

number of schemes that are directly related to the functions that have been devolved to the local governments<sup>5</sup>.

Balochistan's provincial budget for education is shown in the following table.

**Provincial education expenditure (Balochistan)**

*(Million Rs.)*

	<b>2001-02 RE</b>	<b>2002-03 RE</b>	<b>2003-04 RE</b>
Current Expenditure	<b>542.1</b>	<b>1,096.1</b>	<b>819.5</b>
<i>Salary</i>	346.7	412.4	415.0
<i>Non-Salary</i>	195.4	683.7	404.5
Development Expenditure	<b>801.5</b>	<b>1,326.3</b>	<b>1,423.7</b>
<b>Total Education</b>	<b>1,343.6</b>	<b>2,422.4</b>	<b>2,243.2</b>

<sup>5</sup> *The Provincial Finance Commission Award of Balochistan has not allocated a part of the PSDP to the local governments. The Provincial Finance Commission Award of Punjab, however, has allocated Rs.9 billion from the development budget to the local councils for meeting their development needs.*

# **District Government Budget**



## **District government budgets**

After 2001, a number of functions have been devolved from the provincial governments to the local governments (district government, tehsil/ taluqa/ town municipal administration/ union administration).

In Education, the functions of primary and secondary education have been devolved to the district governments. For these functions the district governments are now the main actors.

### **4.1 Overall budget of a district government**

- The major source of revenues of the local governments is from the inter-government transfers of the provincial governments, based on the PFC Awards.
- In addition the local governments have own source revenues from user charges, fee and fines, taxes and rent of properties

The **budget in brief** showing the overall picture of revenues and expenditures of Layyah (a district in the Punjab) is attached as **Annex A**.

- The overall revenues of the district government (DG) are Rs.1,140,624,000 (Rs.1.14 billion).
- Rs.129 million (11 percent of the resources) were available with the DG on 1<sup>st</sup> July (at the beginning of the financial year). Part of these were payable on various accounts as liabilities from last year's expenditure because at times there is delay in the execution of contracts due to late tendering, etc.
- Rs.987.133 million (87 percent) are receivable as share of the district government from the 'Provincial Allocable' decided according to the PFC Award.
- The Own Source Revenues (OSR) of the DG is Rs.11.025 million (about one percent of the total revenues).
- The overall annual expenditure of the district government is budgeted at Rs.1,138,196,000.

- Of this, Part I is for ‘Current Expenditure’ budgeted at Rs.848.867 million (75 percent of the total expenditure).
- Part II, ‘Development Expenditure’ budgeted at Rs.216.3 million (19 percent of the total expenditure) for development schemes. Some of these schemes continue from the previous year while implementation of the others is to be started during the year. Out of the development budget, Rs.70 million has been kept for CCB Schemes (Schemes to be completed in public-private partnership with the Citizen Community Boards).
- Part III shows the various liabilities (of last year), refund of contractors’ securities, benevolent funds and other expenditure amounting to Rs.730 million (about six percent) of the total expenditure.

## **4.2 Summary of Current Expenditure**

The **summary of the budget**, which shows the break-up of the current expenditure,<sup>6</sup> is attached as **Annex B**.

- This also shows the break-up of the total current expenditure of Rs.848.867 million into salary and non-salary expenditure for different offices of the district government.
- Of this, Rs.668.634 million is for salaries i.e. salaries are 79 percent of the current expenditure and 59 percent of the total expenditure.
- The allocations in the current budget for education have been marked. These appear against Grant 15 (the same number as in the provincial government budget).
- The offices have then been arranged under ‘Groups of Offices’ in **Annex C**. Here also the ‘Education Group of Offices’ has been marked.
- The ‘Education Group of offices’ of the district government is headed by the Executive District Officer – EDO (Education) assisted by a number of district officers such as the DO (Colleges), DO (Secondary), DO (Secondary / Higher Secondary), DO (Elementary-Male), DO (Elementary-Female), etc. Each District Officer is assisted by a Deputy District Education Officer who is located in the tehsil and (depending on the requirements) by Assistant District Education Officers.
- Total expenditure on education is Rs. 520 million (which is 64.8 percent of the current expenditure and 46 percent of the total expenditure of the district).
- Of this, Rs.485.434 million is for salaries. Salaries are 93 percent of the annual education budget (current expenditure) of the district. The salary budget for elementary education (male and female) consumes more than 95 percent of the allocations.

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<sup>6</sup> *May be written as recurrent expenditure or non-development expenditure in budgets prepared by some local governments.*

### **4.3 Summary of Development Expenditure**

The **summary of the development expenditure**, which shows the break-up of development expenditure according to various programmes, is attached as **Annex D**.

- The total development budget is Rs.215 million. Of these Rs.21 million is to be spent on schemes that were started in the previous year but could not be completed before 30<sup>th</sup> June while Rs.194 are for those schemes that will be implemented (or whose implementation be started) during the financial year.
- From the ‘summary of development budget’ it is apparent that there are seven block allocations for development schemes (about 70 percent of the new development expenditure). Ideally, the development budget (or the Annual Development Programme – ADP) should show a list of selected schemes but normally block allocation is kept at the time of approval of the budget. The exact schemes are then identified during the year and approval obtained from the Zila council.

### **4.4 Detailed budgets for Education – Current Expenditure**

From the detailed budgets of the various offices of the Education Group of Offices, the selected detailed budgets for DO (Secondary-High Schools), DO (Secondary – Primary Schools attached to the high schools), DO (Male - Elementary), DO (Female - Elementary), and for Elementary Schools are attached as **Annex E**.

These detailed budgets show the figures for two years – the year for which the budget is being presented and the current year.

Establishment Budget shows the designations, grade and number of sanctioned posts. These are based on the Schedule of establishment, showing the sanctioned, filled and vacant posts for the district. A copy of the relevant pages is attached as **Annex F**.

The current expenditure of each office is made up of:

- Establishment Charges
  - Pay of Officers
  - Pay of Staff
  - Regular Allowances
  - Other Allowances
- Repair and Maintenance of Durables
- Commodities and Services
  - Transportation – TA, transportation, POL
  - Communications – postage, telephones
  - Utilities – electricity, water, gas, hot & cold weather charges
  - Office Stationery
  - Rent, Royalty, Rates and Taxes

- Other expenditure
- Transfer Payments
  - Grants in Aid
  - Scholarships
  - Awards

## **4.5 Detailed budgets for Education – Development Expenditure**

The detail of the development budget (selected pages) is attached as **Annex G**.

From the **summary of development budget** (attached as Annex D) it is apparent that Rs.15 million has been kept as block allocation for development schemes for the education sector. Detail of the schemes for block allocations cannot be attached as these schemes had not been identified by then and were to be executed during the financial year.

The Zila council has the powers to re-appropriate the budget from one head to the other and so (if approved by the majority) it can transfer a part of the budget allocated for development expenditure of education to some other sector or vice versa.

In one district, a number of programmes in progress in 2004 were:

- Khushal Pakistan Programme under which there are three specific schemes for construction of halls.
- Tameer-e-Watan Programme (Education Building Sector) under which schemes for upgrading of two primary schools is being executed.
- President's programme for school buildings which includes one scheme for two new rooms in a school
- Education for All (EFA)

Under the Annual Development Programme of the district, the councilors can suggest development schemes, which the Zila council considers and approves in line with its development priorities.

Rs.61 million has been approved by the Zila council (on the suggestion of the councilors), out of which less than 10 schemes (e.g. supply of furniture to a primary school, boundary wall of a primary school, etc) relate to the Education sector.

## **4.6 Provincial schemes**

In addition to the district schemes, schemes in the Education sector are also being implemented by the province.

Under the Tameer-e-Watan Programme schemes are identified by the MPAs. The schemes under the Tameer-e-Watan Programme in Layyah show that:

- Under one MPA, 14 schemes costing Rs. five million are in progress in the district, six of these schemes valuing Rs. 1.3 million (26 percent) are from the education sector. Four of the schemes are for construction of an additional classroom in different schools while two schemes are for construction of boundary walls.
- The second MPA has allocated funds for five road schemes and one for water supply.
- Under the third MPA, 21 schemes costing Rs.5 million are in progress, eight of these schemes valuing Rs.1.5 million (30 percent) belong to the education sector. Six of the schemes are for construction of an additional classroom in different schools while two schemes are for the construction of boundary walls.
- The fourth MPA has selected seven schemes – all for roads.
- The fifth MPA has selected 19 schemes - again all for roads.
- The sixth MPA again has selected all the three schemes for roads.

**Annex H** shows the summary of the schemes that are in progress under the Education Sector Reforms (Presidents Programme) and under the ESR (Chief Minister's Programme for missing facilities).

Under the Education Sector Reforms (Presidents Programme) there are 26 schemes budgeted at Rs.11.2 million:

- Seven for science education in secondary schools project (Rs.3.8 million)
- Three for the introduction of technical schemes in secondary schools (Rs.3.3 million), and
- 16 for rehabilitation of facilities for existing primary schools (Rs.4.1 million).

The ESR (Chief Minister's Programme for missing facilities) is based on an extensive survey conducted in each district for missing facilities in various educational institutions. Copies of the relevant pages are attached as **Annex I**.

In each district of the Punjab, the provincial government has allocated Rs.137 million. In Layyah, this programme will undertake

- Eight schemes for shelter-less primary schools (6.7 million)
- 11 for additional class rooms (2.8 million)
- five for provision of drinking water facilities (Rs.25,000)
- 18 for up-gradation of primary to middle schools (Rs.24 million)
- 10 for up-gradation of middle to high schools (Rs.20.3 million)
- 315 toilet blocks (Rs.315 million)
- repair of 20 school buildings (Rs.2.3 million)
- Boundary walls for 208 schools (Rs.44.8 million), and
- Provision of electricity to 348 facilities (Rs.13.5 million).

# **Detailed Budgets for Schools**



## **Detailed budget for schools**

### **5.1 Total expenditure for schools**

For each school, the salary component is paid through the relevant DDO, however, the non-salary budget is allocated and intimation sent to the relevant school.

The distribution of budget grant (non-salary current expenditure) for boys and girls secondary schools of a district in the Punjab is attached as **Annex J**.

The annual budgets detailed for each school are allocated for the following types of expenditure:

- Repair and Maintenance of Machinery and Equipment (between Rs.500 to 1000 per school).
- Repair and Maintenance of Furniture and Fixture (between Rs.500 to 4000 per school).
- Transportation
- Postage (Rs.2,400 to 2,900)
- Telephone (3,000 to 10,000)
- Electricity (Rs.5,000 to 20,000)

### **5.3 Calculating and tracking total expenditure for schools**

- The total expenditure for each school is made up of the **Current** and **Development** Expenditure.
- The district government incurs the current expenditure while the development expenditure is incurred both by the district and provincial governments.

The detailed expenditure components of expenditure for each school have been detailed/ discussed in the previous sections with copies of examples of the available

budgets and other relevant data which is required for tracking of education expenditure. In this section, reference has been made to the Annexes attached and discussed earlier in this manual.

Expenditure incurred for each school by the district government for current expenditure and district and provincial government for development expenditure has to be added to arrive at the total expenditure being incurred at a school.

## **Current Expenditure**

- Salary Expenditure – from detail prepared by the EDO (Education) and EDO (F&P) for the relevant district office (similar to Annex C) supported by the Schedule of Establishment (similar to Annex F) and allocation to each school.
- Non-Salary Expenditure for the Schools – from the budget head-wise allocation made for each schedule (similar to Annex J).

## **Development Expenditure**

- From District's own sources - Scheme wise detail (similar to Annex D and G). In case scheme-wise detail has not been attached with the budget documents, there would be an approved list of schemes that are being implemented.
- From Provincial Sources: e.g. Tameer-e-Punjab (Schemes of elected members) and the Education Sector Reforms Project (similar to Annex H).

## **Quantitative Data**

- This is detailed in the summary for missing facilities (similar to Annex I) – in addition a detailed school-wise list is also available with the EDO (Education).
- The school-wise record produced under the Education Management Information System (EMIS).



# **ANNEXES**



**The Commonwealth Education Fund (CEF) is a joint initiative of Action Aid, Oxfam and Save the Children UK. The fund aims at strengthening civil society participation into the design and implementation of national and local education plans through support to broad-based national level alliances as well as through tracking government spending on education and supporting documentation of innovative approaches that help the excluded children.**



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