
Health Budget & Expenditure Analysis

(2008-09 to 2010-11)

**Health Department (Government of the Punjab)
District Governments in Punjab**

September 2011



Acknowledgement

TRF acknowledges the cooperation and support of PFM Consulting in preparing this report.

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ABBREVIATIONS

ADP	Annual Development Plan
A.E	Actual Expenditure
AKA	Also known as
BCC	Budget Call Circular
B.E	Budget Estimates
Bn	Rupees in Billion
CCI	Council of Common Interest
FD	Finance Department
FY	Fiscal Year
GoP	Government of Pakistan
GoPb	Government of the Punjab
HD	Health Department
LG	Local Government
LHW	Lady Health Worker
MDG	Millennium Development Goals
MNCH	Maternal & Neonatal Child Health
MTBF	Medium Term Budgetary Framework
NFC	National Finance Commission
O&M	Operation and Maintenance
P&DD	Planning & Development Department
PIFRA	Project to improve Financial Reporting and Auditing
Rs.	Pakistan Rupees
R.E	Revised Estimates
TRF	Technical Resource Facility
Wef	With effect from
YoY	Year on Year basis

EXECUTIVE SUMMARY

- **For the last three years, the Government of Punjab has been operating under a general environment of fiscal stress.** Following the 7th NFC Award 2009, the actual transfers from Federal Government have increased but their impact has largely been offset by increases in employee related costs (salary increments) and debt costs and the adverse impact of floods. Revenue from provincially owned resources remains stagnant and marginal;
- **In FY 2010-11, consolidated expenditure (province and aggregate districts) for health was Rs. 48bn (against budget allocation Rs 73bn).** Provincial Government accounted for more than 57% of this spending with the remaining balance being contributed by District Governments. Approximately, 55% of this spending was attributed to employee related costs, 13% to drugs and medicines and 1% to repairs and maintenance;
- **Current expenditure is dominated by consolidated health expenditure (province and aggregate districts) and accounts for more than 82% of overall spending.** This ratio is shared almost equally between Provincial Government and the Districts. **62% of current consolidated expenditure (province and aggregate districts) is for employee related costs and 1% for repairs and maintenance;**
- **Development expenditure (province and aggregate districts) in health has remained at constant for the past three years.** In fact, in real terms, it has shown negative growth. Around **62% of such spending is towards asset** creation such as physical assets and civil works and **33% towards salaries and operating expenses;**
- **Provincial current budget allocation and expenditure on health has almost doubled over last three years.** Large part of this increase is a result of increase in salary and cost of providing free medicines where as other key O&M areas like **repairs and maintenance remain largely ignored.** Current budget demonstrates good budget execution rates;

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- **Provincial development budget allocations for health have grown by more than 150% over the last three years. However, this has not translated into actual expenditure.** Over FY's 2008-11, provincial development spending is showing marginal growth in nominal terms and negative growth in real terms. Allocations for **development budget look largely ceremonial and are little more than a notional exercise;**
 - **Aggregate (all Districts) current budget allocations for health have grown in the last three years but once again this is largely due to increases in salary.** On the other hand, non-salary budget has remained stagnant. Current budget, similar to that of the Provincial Government, demonstrates good budget execution rates;
 - **Aggregate (all Districts) development budget allocations for health are showing negative growth in nominal and real terms.** Actual expenditure in FY 2010-11 (Rs 957m) has been reduced to half as compared to that of FY 2008-09;
 - **Lack of clarity surrounding fate of Local Governments is having an adverse impact on the share of health development expenditure in the District Governments which have been reduced by 40% (YoY) over FYs 2008-11.** Consequently, it also has a detrimental impact on health development expenditure which have been reduced by 45% (YoY) in FY's 2010-11;
 - As per functional classification of expenditures, **more than 77% of consolidated expenditure (province and aggregate districts) in health is towards 'General Hospital Services' and only 8 % towards 'Construction and Transport'.** This classification is not very useful in facilitating users and policy makers to, for example, identify expenditure between primary and secondary health services or MNCH for that matter. The existing use of functional classification prohibits any basic analysis that may facilitate decision makers to assess the purposes and qualitative aspects of expenditure and make informed policy choices. **Functional classification of health needs to be reformed and aligned with Punjab's health policy and strategic objectives;**

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- Despite a general low trend in allocating budgets to Districts Governments, certain **Districts seem to be getting preferential treatment in allocation of funds.** Examples of these are Attock, Khushab, Narowal, Bahawalpur, Layyah and Okara in FY 2010-11 (YoY);
 - **Two Districts stand-out in receiving no budget allocation for drugs and medicines in their current budget:** Hafizabad has received no budget allocation for drugs and medicines in their current budget since 2008. Sialkot has received no budget allocation for drugs and medicines in FY's 2008-09 and 2009-10;
 - **Resource sharing formula between Provincial Government and District Governments needs to be reviewed as a matter of priority.** Such review should be based on distribution of roles and responsibilities between these two tiers of Governments and development needs of District Governments;
 - Allocation and spending for development budget is seen as something of a 'residual nature', meaning, budget is allocated to development budget after meeting obligations of current budget and the same goes for financing development expenditures. Quite clearly, **development budget does not enjoy a higher level of priority which also explains the lower budget execution rate;**
 - **If the vertical programs are going to be devolved to Provinces then it might be worthwhile to explore the options of bringing these programs into the fold of current budget** which have consistently enjoyed good budget execution rates. Looking from budget analysis experiences and GoPb documentation **vertical programs would have a better chance of financing (rather than mere budget allocation) if they come under the ambit of current budget;**
 - **While analysing the allocation of the current health budget in the Provincial Government, one can witness preference being shown to use grants, subsidies and write-offs and 'transfer payments'.** These together have increased by more than 190% over FY's 2008-11. This is a very interesting case in point which highlights rigidities in the public expenditure management systems of the Province and the need for providing more flexibility to line departments which helps in service

delivery. Grants, subsidies and write-offs and transfer payments offer relatively more flexibility and discretion for budgeting and spending purposes

- After promulgation of 18th amendment, with effect from 1 July, 2011, Ministry of Health stands dissolved while most of its functions (drugs control, etc) have been devolved to the Provinces. However, the devolution of vertical programs (MNH, LHW, etc) which represents major chunks of expenditure has been deferred till next NFC. According to decision of Council of Common Interest (meetings held on 28 April 2011) **Federal Government has agreed to fund vertical programs. It's still not clear whether the Health function that has recently been devolved has been completely accounted for in Provincial budget allocations for FY 2011-12;**
- **There appears to be a growing inclination towards having unapproved schemes in Provincial ADP.** For examples there were 38 (Rs 1.3bn), 55 (Rs 3.8bn) and 6 (Rs. 740mn) unapproved schemes in FY 2008-09, FY 2009-10 and FY 2010-11, respectively. **Another conspicuous trend that can be noticed is towards setting aside budget allocations in ADP, as 'block allocation'** (except FY 2009-10). More worrying is when a good number of these block allocations are unapproved;
- While analysing the development expenditure (ADP schemes) of Provincial Government, it seems that the **development work being performed by Provincial Government characterises work that might actually come under the domain of District Governments**, For example, construction of BHU, construction of boundary walls, construction of civil dispensary, establishment of THQ, etc. Such a trend might also explain reduction in the size of health development budget and undermine Districts Governments;
- **At some point it would be useful to update this budget and expenditure analysis with budget and expenditure data of vertical programs (or other operations)** which are being run by the Federal Government in Punjab. This would give a good idea of the health related public expenditure investment (by Provincial Government, District Government and Federal Government) in Punjab and serve as a valuable reference tool for decision makers;

Government of the Punjab and Aggregate Districts-Budget and Actual Expenditure

(Rs in Millions)

	Budget Estimate 2008-09	Actual Expenditure 2008-09	Budget Estimate 2009-10	Actual Expenditure 2009-10	Budget Estimate 2010-11	Actual Expenditure 2010-11
Government of the Punjab	22,947	22,384	34,572	23,906	47,581	27,476
District Governments	20,012	15,646	23,632	18,172	25,431	20,473
Total	42,959	38,030	58,204	42,078	73,012	47,949

Government of the Punjab & District Governments

Current budget	29,984	29,358	43,062	33,922	46,243	39,233
Development budget	12,976	8,673	15,142	8,156	26,769	8,716
Total	42,959	38,030	58,204	42,078	73,012	47,949

Government of the Punjab

Current budget	13,415	15,301	22,547	17,485	22,801	19,717
Development budget	9,533	7,084	12,025	6,421	24,780	7,759
Total	22,947	22,384	34,572	23,906	47,581	27,476

District Governments

Current budget	16,569	14,057	20,516	16,436	23,441	19,516
Development budget	3,443	1,589	3,117	1,735	1,990	957
Total	20,012	15,646	23,632	18,172	25,431	20,473

% Share in Budget and Actual Expenditure

Consolidated Health	100%	100%	100%	100%	100%	100%
Government of the Punjab	53%	59%	59%	57%	65%	57%

District Governments	47%	41%	41%	43%	35%	43%
Government of the Punjab & District Governments	100%	100%	100%	100%	100%	100%
Current budget	70%	77%	74%	81%	63%	82%
Development budget	30%	23%	26%	19%	37%	18%
Current budget	100%	100%	100%	100%	100%	100%
Government of the Punjab	45%	52%	52%	52%	49%	50%
District Governments	55%	48%	48%	48%	51%	50%
Development budget	100%	100%	100%	100%	100%	100%
Government of the Punjab	73%	82%	79%	79%	93%	89%
District Governments	27%	18%	21%	21%	7%	11%

Per capita expenditure

Population of Punjab (in Million)*	90.628		92.531		94.474
Per capita Expenditure – Total (PKR)	420		455		508
per capita Expenditure - Current (PKR)	324		367		415
per capita Expenditure - Development (PKR)	96		88		92

*Source: Projections of 1998 Census, Population Census Organization – Government of Pakistan

INTRODUCTION

1. This Report on health budget and expenditure analysis of the Provincial Government (Government of the Punjab) and the District Governments in Punjab has been prepared by the Consultant at the request of Technical Resource Facility (TRF);
2. Analysis cover FY's 2008-09, 2009-10 and 2010-11. Cut-off date for acquiring expenditure data for FY 2010-11 is 24 August, 2011, meaning, data used also takes into account year-end adjustments that usually come with the annual closure of books and financial accounts (also known as, civil accounts);
3. Source of provincial budget data is from the annual budget documents whereas, all other data i.e. provincial expenditures, budget and expenditure of Districts are taken from the PIFRA System. Data obtained from PIFRA System was also verified on test cases by checking it with records at the Accountant General's Office (Lahore) and District Accounts Offices. To this end, visits were performed by the Consultant to selective Districts;
4. In case of Provincial Government, development expenditure figures are also being maintained by the Health Department based on information received from P&D and spending units/programs. Reliability of these figures is doubtful, therefore Consultant has taken figures from PIFRA System which accurately represents record of State;
5. The flow of this document has been organized in such a manner to make it more informative. It starts by explaining the situation from a macro-perspective and then drilling down in details. It analyses budget and expenditure trends separately. In order to provide clarity and a reasonably good understanding to readers, the report is divided into the following sections:

Section I Macro-fiscal context of Punjab

Section II Analysis of Health Budgets and Budgetary trends

Section III Analysis of Health Budget Execution and Expenditure trends

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6. **Section I** lies down, in brief, the overall macro-fiscal situation facing the Province including the implications of 18th amendment. This was considered necessary so that readers are able to appreciate the overall fiscal realities facing Punjab against which the budget is formulated and executed each year;
 7. **Section II** attempts to analyze budgetary allocations and how budget has grown over the years in terms of individual and aggregate district levels. This section also provides a commentary on MTBF estimates of Provincial Government;
 8. **Section III** reviews the expenditure and budget allocations against various dimensions at individual and aggregate levels from an economic and functional classification perspective. Further review expenditure of the 'service delivery' area was also performed for three Districts i.e. Bahawalpur, Sialkot and Khanewal;
 9. As one would expect, the above analysis could only be performed after extracting and carefully reformulating quite a voluminous budget and expenditure data over last three years (FY's 2008-11). For the convenience of readers, all such data tables forming the basis of analysis have been included as Appendices of this Report which have been referred while appreciating the budget analysis;
 10. Within the Appendices, Appendix A, Glossary of terms, has been specially developed to describe key budgets and expenditure terminologies which will guide readers to appreciate relevant financial terms and its local connotation. It also provides an overview of types of spending units within Provincial Health Department and District Governments of the Punjab;
 11. *Key assumptions* – the following sections of the budget and expenditure analysis does not provide commentary on:
 - budgetary processes and flows, basis of budgeting and budget priorities used formulating budget estimates and their revision;
 - causes and reasons for low budget execution (spending);
 - the qualitative impact and aspects of expenditure:
 - budget formulation and budget execution procedures and institutions

MACRO-FISCAL CONTEXT OF PUNJAB

12. Punjab has a population of 90 million and contributes to approximately 56% of country's GDP. The Province remains largely an agricultural economy and continues to generate large produce of surpluses which contribute substantially towards the food basket of the whole country. Beside agriculture, industrial and services sectors of Punjab have achieved growth rates of 7% during last decade. Industries like textiles, chemicals, fertilizer, electrical goods and beverages have significantly increased their share in national GDP;
13. Over the years, Punjab has emerged as the fastest growing Province in the country with growth rates exceeding national growth rate on an average by approximately one percent;
14. Despite enjoying such strategic position in the country, Punjab's fiscal dependency has remained largely on fiscal transfers from the centre. These account for around 80% of the total revenue resources with balance coming from local tax and non-tax revenues. The 7th NFC Award that came into effect from 1st July 2010 has significantly enhanced the share of Provinces in divisible pool from 46.75% to 56% in the first year and 57.5% in remaining years of Award (till FY 2013-14);
15. Following 7th NFC, actual transfers received by Punjab from the centre have increased considerably but, on the other hand, province's own receipts remain consistently stagnant (Table 2, Appendix B). Though the overall resources available to Province have increased but its effect seems to have been absorbed by increase in salary cost (9% in FY 2008-09, 12% in FY 2009-10 and 25% in FY 2010-11) and ever increasing debt costs. During FY 2010-11, another major factor negatively impacting provincial finances has been the flood damages which amounted to Rs 11bn;
16. On YoY basis, provincial total current expenditures have increased by more than 22% in FY 2010-11 as compared to 11% in FY 2009-10 which can largely be attributed to increase in salary costs. Conversely, more emphasis should be placed

on meeting O&M costs. Current budget by and large has shown good budget execution rates basically due to salary and wages (Table 3, Appendix B);

17. Situation is quite different on provincial total allocations for development budget which is showing steady increase of around 9 to 10% each year but the actual spending has lagged far behind budget increase. For example, budget execution rate has dropped down to 55% in FY 2010-11 from 77% and 92% in FY's 2009-10 and 2008-09 respectively (Table 3, Appendix B). Overall development expenditure exhibits negative growth;
18. In terms of distribution of resources available to the Province, the allocation for development budget in the Province is typically seen as a residual item after meeting all other costs for example, current expenditure, debt, etc. This also clearly shows the low level of priority attached to such type of spending. However, the Government does sometimes raise funds exclusively for a development activity to maintain specific allocations (Table 1, Appendix B);
19. During past three years the overall fiscal health of the Province continues to be under severe stress. For example, each year after meeting current expenditures and domestic debt from revenue receipts, the available fiscal balance goes straight into negative. And yet, there are other key outlays to meet like development expenditure, etc. These circumstances seriously question funding of development budget as a whole and also raise doubts over fiscal sustainability of recurrent development spending (Table 1 & 2, Appendix B);
20. GoPb is walking on a 'tight-rope' with very little room for any contingency to sustain any fiscal shocks that may arise. For example, for FY 2011-12, no provision appears to have been made for pension funds, etc. Situation of domestic debt should improve in next two years that should hopefully provide more fiscal space to the Province;
21. There are 36 Districts in the Province which is the third tier of government in country. Allocations to District Governments are made as per the PFC Award 2006 which actually expired on 30 June, 2009. However, Section 120(F)(5) of Punjab

Local Government Ordinance 2001 allows the order to remain in force till such time that the new award is announced. The system of Local Governments is in a flux and the resources sharing formula between Province and Districts needs to be reviewed in light of role distribution between these two Governments and also, the needs of District Governments especially, resulting from heavy development spending before LG System was abolished;

22. Along with the restraining provincial backdrop, comes into motion the 18th Constitutional Amendment (passed on 18th April 2010) promising to bring provincial autonomy that is being implemented in three phases. Under each Phase, a certain number of line ministries (total of 18) are being devolved to Provinces. Phase I (5 ministries) was completed in December 2010 and Phase II (5 ministries), in April 2011. Phase III (8 ministries) was completed recently by June 2011;

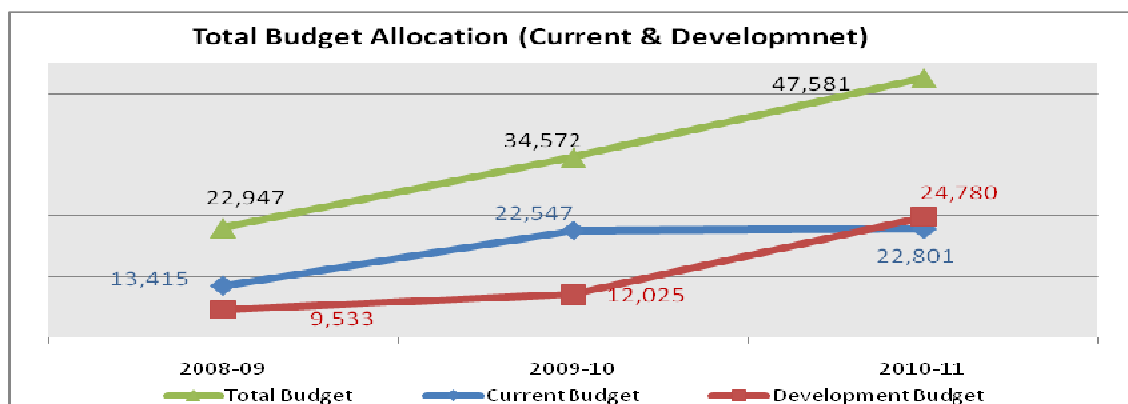
23. For Punjab, this Constitutional Amendment will come into play with its own set of administrative but more importantly, fiscal challenges that may add to the long list of fiscal pressures facing the Province. To date, the fiscal impact of 18th Amendment (i.e. Rs 385m) to Punjab that has been absorbed by Provincial Government i.e.. It's still not clear whether the Health function that has recently been devolved (with effect 1st July 2011) has been fully accounted for in Provincial budget allocations for FY 2011-12. But in the health sector, the real fiscal impact which relates to vertical programs (LHW, MNCH, etc) has yet to come and is deferred for until next NFC (2014). According to last meeting of CCI, the Federal Government has agreed to fund vertical programs till next NFC;

24. Interesting times lie ahead for authorities and administration of the Province. Unless there is an improvement in economic situation of the country coupled with making solid progress on certain policy and rather difficult structural reforms (for instance, raising tax revenue within Province) the overall fiscal outlook of Punjab does not look very encouraging.

ANALYSIS OF BUDGETS AND BUDGETARY TRENDS

25. This Section of the Report provides analysis on the budget allocation and its historical trends dated FY's 2008-09, 2009-10 and 2010-11 for (a) Health Department in Government of the Punjab, and (b) Districts' Governments. It starts by providing analysis on the total budget allocation (current and development) i.e.. providing the macro perspective, then, describes typical composition of current or development budget and then, finally drills down separately into the allocations for current and development budget for each level of Government;
26. Punjab comprises of 36 Districts and each District has its own current and development budget like that of a Provincial Government. Discussion on District budget in proceeding paragraphs starts by discussing the consolidated budget (meaning ALL Districts) allocation but also provides a light commentary on particular Districts showing unusual movements in their budget allocations;

Health Department, Government of the Punjab



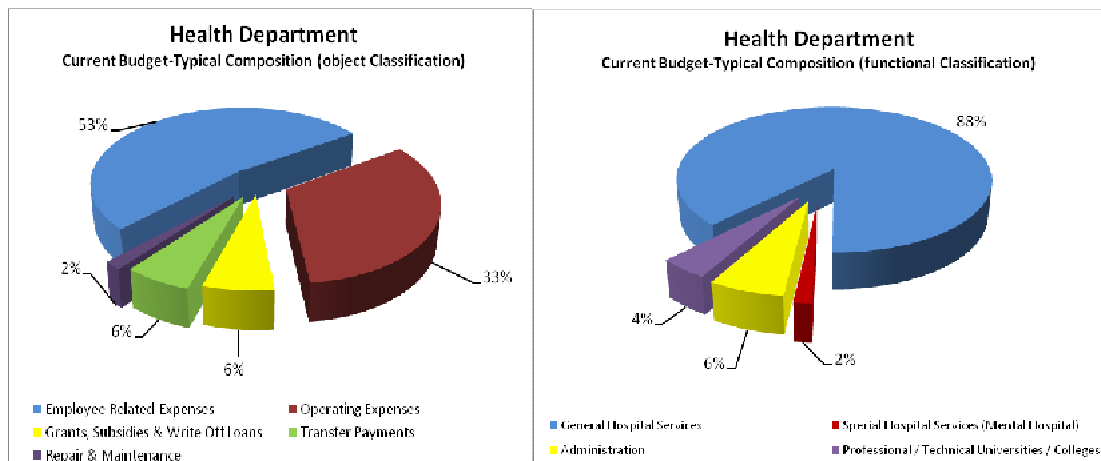
27. Total budget allocation (current and development) to Health Department is on a growing trajectory. It has increased by more than 50% and 35% in FY 2009-10 and FY 2010-11, respectively. However, in real terms, the total budget allocation has increased by 78% during last three years (Table 1, Appendix D);
28. The budget allocation to Health Department also seems to be gaining more prominence when viewed from the perspective of an overall provincial outlay. As at

FY 2010-11, it accounts for more than 8% of total provincial outlay increasing by more than 40% over the last three years (Table 2, Appendix D);

29. Development budget has doubled in comparison to the current budget. However, as discussed in following sections, large part of increase in budget allocation can be attributed to growth in allocations in budget for FY 2010-11 (Table 3, Appendix D);

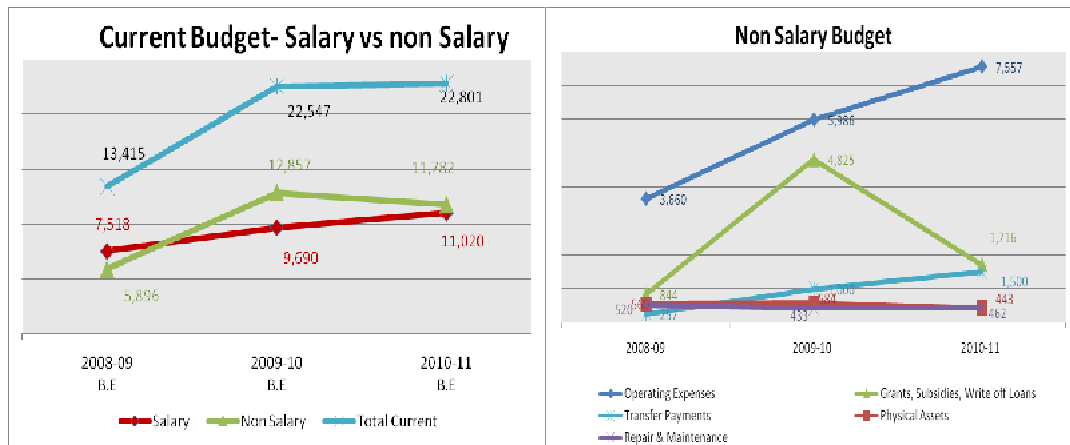
30. Ratio of composition between current and development budget stands at 48:52 in FY 2010-11 which is unprecedented during the period of this analysis. Never in the last three years, has half of total budget allocation been for development budget. For example, current budget to development budget ratio was 58:42 and 65:35 in FY 2008-09 and FY 2009-10, respectively (Table 3, Appendix D);

Current budget



31. Before going any further, here it would be useful to observe the typical composition of current budget. ie. Well, by and large, employee related expenses (53%) and operating expenses (33%) account for more than 86% of current budget allocations. Repairs and maintenance comprise only 2% of the current budget. In terms of 'functions', around 88% of current budget allocations are going towards 'General Hospital Services' (Table 6 & 7, Appendix D);

32. General Hospitals Services continue to dominate the current health spending. Surprisingly, the choice and use of functional classification seems to be more elaborate at the Districts' level;



33. The total allocations for current budget after taking a growth leap by 68% in FY 2009-10 seem to have stabilized at around 22.8bn in FY 201-011. It has not really shown any growth in FY 2010-11 (Table 4, Appendix D);

34. Interestingly, for the last three years, non-salary budget is growing at a faster rate than salary budget and has grown by more than 100% since the levels being maintained at FY 2008-09. Within non-salary budget, except for 'Repairs and Maintenance' and 'Physical Assets', all other heads i.e. 'Operating Expenses', 'Grants, Subsidies, Write-off Loans' and 'Transfer Payments' have shown an extraordinary increase during the last three years (Table 8, 9 & 10, Appendix D);

35. Budget allocations for operating expenses have grown by more than 100% over the last three years. This can be attributed to large allocations for 'Drugs and Medicines' (policy decision by GoPb to provide free medicines for last two years) and fuel for generators. Allocations for Drugs and Medicines have shown an increase of more than 160% during last three years (Table 11, Appendix D);

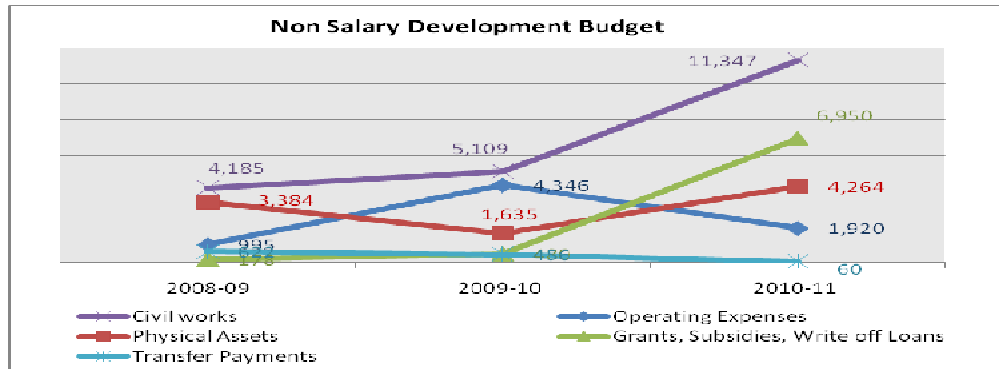
36. ¹Grants, subsidies, write-off loans and transfer payments seem to be showing roller coaster trends. They increased by more than 472% in FY 2009-10 and have

¹ Grants, subsidies & Write off and Transfer Payments offers relatively more flexibility and discretion for budgeting and spending purposes

declined by 64% ever since. Transfer Payments also witnessed large increases but have settled down in FY 2010-11 (Table 10, Appendix D);

37. Budget allocations for Physical assets and Repairs appear to remain consistently ignored over the years (Table 10, Appendix D);

Development budget



38. Each year the overall composition of development budget seems to vary. For example, in FY 2010-11, civil works and physical assets comprise more than 63% of budget composition of development budget. Whereas in FY 2009-10, it was all about operating expenses and civil works (Table 14, Appendix D);

39. In terms of functional classification, General Hospital & Services and Construction and Transport account for more than 95% of budgetary allocations (Table 15, Appendix D);

40. Over last three years, allocations for development budget have grown by more than 150% though FY 2010-11 and witnessed the single largest increase i.e.. 100% on a year to year basis. In the same year, size of development budget has crossed the size of current budget. Interestingly, more than 50% of this yearly increase in development budget is attributed to a block allocation of Rs. 6.5bn for MDG's (Table 12, Appendix D);

41. Each year ADP has a number of unapproved schemes for example, there were 38 (Rs 1.3bn), 55 (Rs 3.8bn) and 6 (Rs. 740mn) unapproved schemes in FY 2008-09,

FY 2009-10 and FY 2010-11, respectively. In FY 2011-12, such unapproved schemes have reached a rather disturbingly high point comprising of 45% of ADP. It stands at Rs 6.7b (13 schemes) (Table 18 to 21, Appendix D);

42. There also seems to be a growing trend towards setting aside (parking) budget allocation in ADP 'block allocation' (except for FY 2009-10). More worrying is when a good number of these block allocations are unapproved (Table 22, Appendix D):

- FY 2008-09 – Rs 1.34bn (41% unapproved)
- FY 2010-11 – Rs. 710m (100% unapproved)
- FY 2011-12 – Rs. 5.7bn (100% unapproved)

43. While analysing ADP schemes being carried out at the level of Provincial Government, one gets the impression that development work being carried out by Provincial Government belongs to District Governments. For example, construction of BHU, construction of boundary walls, construction of civil dispensary, establishment of THQ, etc. Except for FY 2009-10, such schemes are increasing in number. In FY 2011-12, ADP schemes that apparently relate to District Governments were around Rs 5bn (Table 23, Appendix D);

44. In real terms, development budget has grown by more than 123% during last three years (Table 13, Appendix D);

45. Quite clearly, there is an increasing trend to complete existing schemes by providing more budget allocations rather than starting new schemes. Lahore had the largest number of on-going schemes in FY 2010-11. A number of new schemes are focused towards southern Punjab in FY 2010-11. Most of the schemes are self-financed and foreign funded programs remain at very minimal levels (Table 16 & 17, Appendix D);

46. During FY 2010-11, the development budget showed more emphasis on allocations that deals with asset creation like physical assets and civil works as compared to previous years (Table 14, Appendix D);

MEDIUM TERM BUDGETARY FRAMEWORK (MTBF)

47. Since FY 2009-10, Health Department has adopted MTBF. MTBF is a multi-year approach to budgeting which links the spending plans of government to its policy objectives in the medium term (usually three years). The multiyear budget horizon provides Line Departments the space and flexibility they need to formulate, plan and implement policies that focus on service delivery or 'outputs';
48. Each year, a separate Budget Call Circular (MTBF Budget Call Circular) is issued by Finance Department to Health Department (and other Departments following this regime of budgeting). Three year budgetary ceilings are provided by Finance Departments for current and development budget. These serve as an indicative resource figure based on which these Health Department are required to develop budget estimates;
49. Budget Call Circular also requires Health Department to establish Budget and Priorities Committee. Using indicative ceilings this Committee is responsible for determining budget priorities over the medium term. From financial management to promoting fiscal discipline perspective, this can be considered a sound practice since it encourages a culture's 'needs' rather than 'wants' because resources are not infinite;
50. Health Department also develops an elaborate set of outputs aligning budgetary allocation with policy objectives. After an ambitious start (FY 2009-10) in determining numerous outputs, this practice has been curtailed to determining certain selective outputs. Having said that, there is room for improvements in articulating policy objectives and defining outputs;
51. MTBF statements are developed each year which is an informative document and provides very useful information about Department and its budgetary and policy objectives. It lays down three year budget estimates for current and development budgets;
52. Planning and budgeting in Districts is not on MTBF basis;

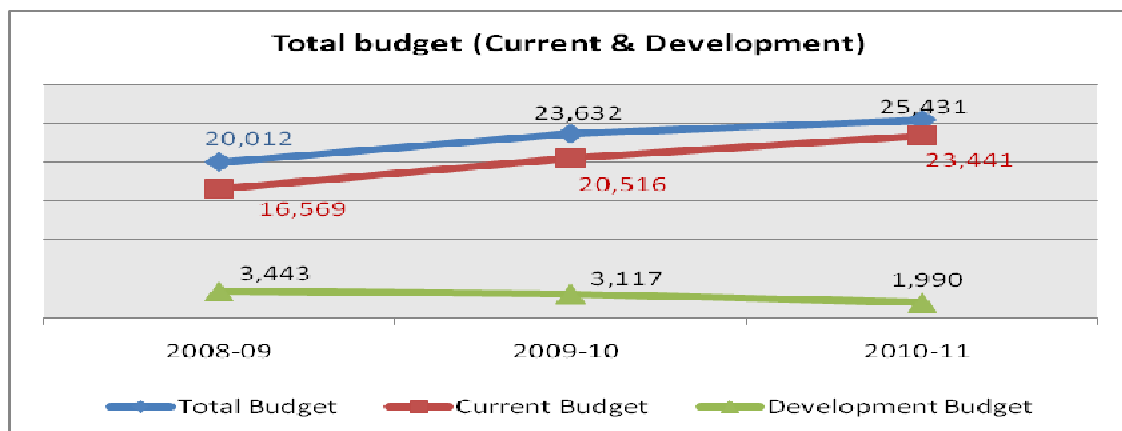
Current budget

53. FY 2011-12 is the third year of MTBF implementation at HD. An analysis was performed showing how the coming years (budget forecast) will perform against actual budget allocation in subsequent years. It was observed that the projections for current budgets are by and large within +/- 6% to 8% (Table 24, Appendix D);
54. The MTBF figures being developed for current budget can be taken as some form of a baseline and represents reasonably sound budget estimates;

Development budget

55. The situation is somewhat different on the development budget side. Variances between coming years and actual budget allocation in subsequent years show variances of +/- 20% to 50%

District Governments



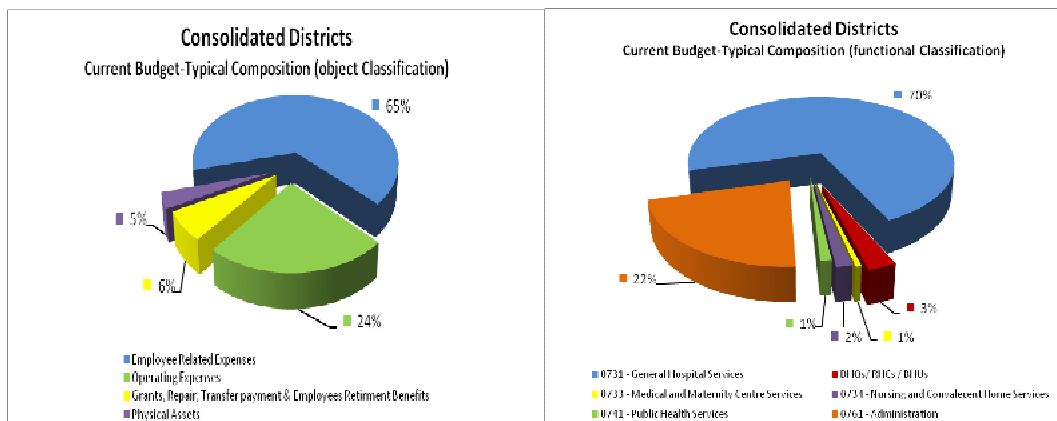
56. Total budget allocations for all Districts (consolidated) exhibit erratic trends. After gaining double digit (18%) budget growth in FY 2009-10, budgets show only a modest rise in FY 2010-11 (all in nominal terms). Annual inflation appears to have a neutralizing impact on budget increase averaging around 4% to 5% annually (Table 1, Appendix E);

57. Though, the total budget is showing some increase but the effective increase is due to slight increase in current budget allocation where as the development budget is taking a consistent nosedive and decreasing (Table 2, Appendix E);

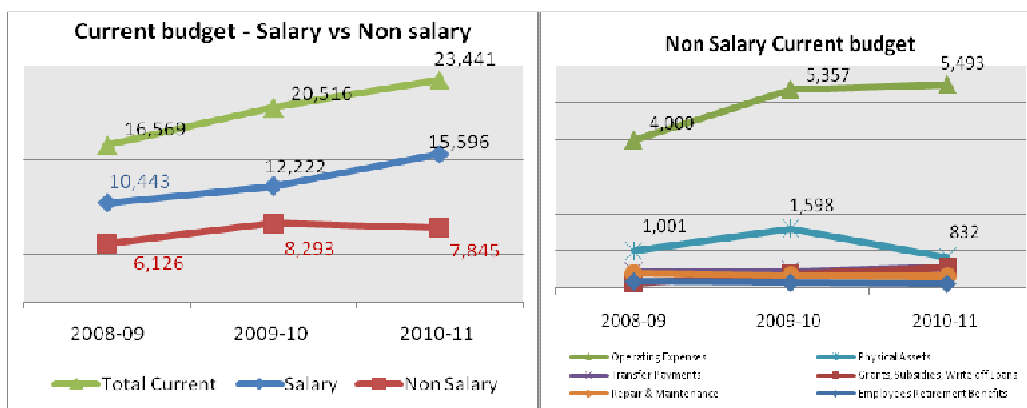
58. Overall allocation for development budget in FY 2010-11 has gone down by more than 42% when compared to levels in FY 2008-09. Interestingly, in terms of analysing allocation by geographical locations, the overall ratio of budget allocation between northern and southern Districts of Punjab by and large remain the same (Table 2 & 3, Appendix E);

59. Some Districts stands out in terms of showing extraordinary budget increases and decreases. Total budget allocations for Bahawalpur, Layyah, Attock and Okara stand out due to the phenomenal budget increase over the last three years. On the other hand, total budgets allocations for Sargodha, Faisalabad and Mandi Bahauddin shows have shrunk to almost nothing in FY 2010-11 (Table 4 & 5, Appendix E);

Current budget



60. Employee related expenses (65%) and Operating Expenses (24%) put together comprises of around 90% of typical composition (economic/object classification) of current budget. In terms of functional classification, 70% is being allocated towards General Hospital and Services and 22% towards Administration (Table 6 & 7, Appendix E);



61. Total current budget is growing but faces a declining trend in terms of YoY growth. Within current budget, allocation for salary seems to be growing due to salary increments but allocations for non-salary show declining trend in 2010-11 after a healthy rise in 2009-10. Contrary to Health Department (Provincial Government) salary budget is growing at a faster rate than non-salary budget. Ratio of composition between salary and non-salary budgets is widening with more emphasis on salary budget (Table 8 & 9, Appendix E);

62. Amongst non-salary budget, except for transfer payments and grants all other heads are, in effect, showing a decline in 2010-11. Operating expenses (app 70% of non-salary budget) after experiencing growth in 2009-10 have remained steady on YoY basis. Grants, subsidies and write-offs have grown by more than 330% since 2008-09 (Table 10, Appendix E);

63. Since 2008-09, budgets for salaries have grown by around 49% where as operating expenses have grown by 37% in 2010-11. Allocations for repairs and maintenance are facing a perpetual annual decline (Table 9 & 10, Appendix E);

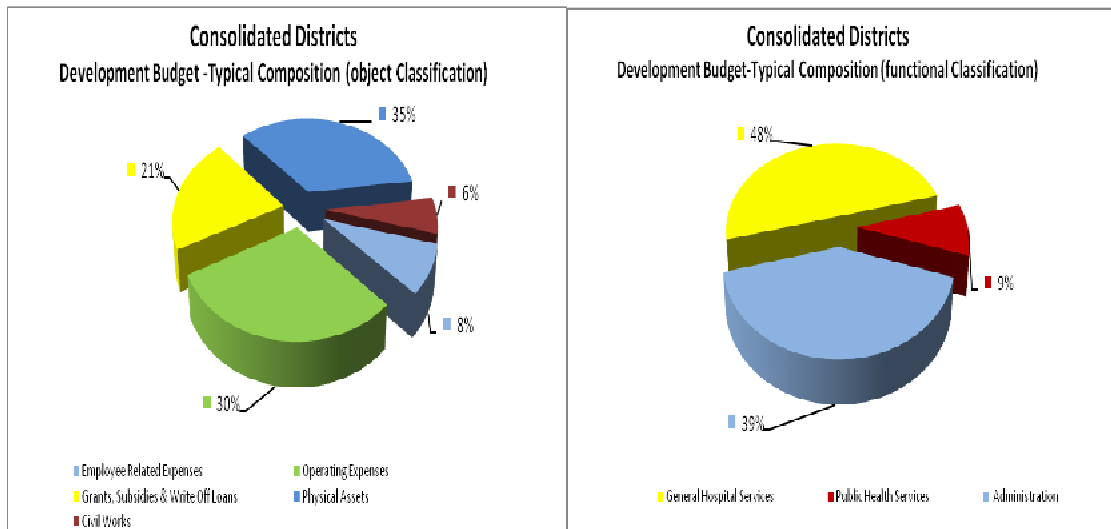
64. Allocations for Drugs and Medicine is done within ‘operating expenses’(current budget) and has remained consistent since FY 2009-10 after showing budget growth of 50% but worryingly shows zero growth in FY 2010-11. Hafizabad has received no budget allocation for Drugs and Medicine in their current budget since FY 2008-09. Surprisingly, budget allocation for Drugs and Medicine was allocated through development budget in FY 2009-10 and 2010-11.

65. Sialkot has received no budget allocation for Drugs and Medicine in FY's 2008-09 to 2009-10.

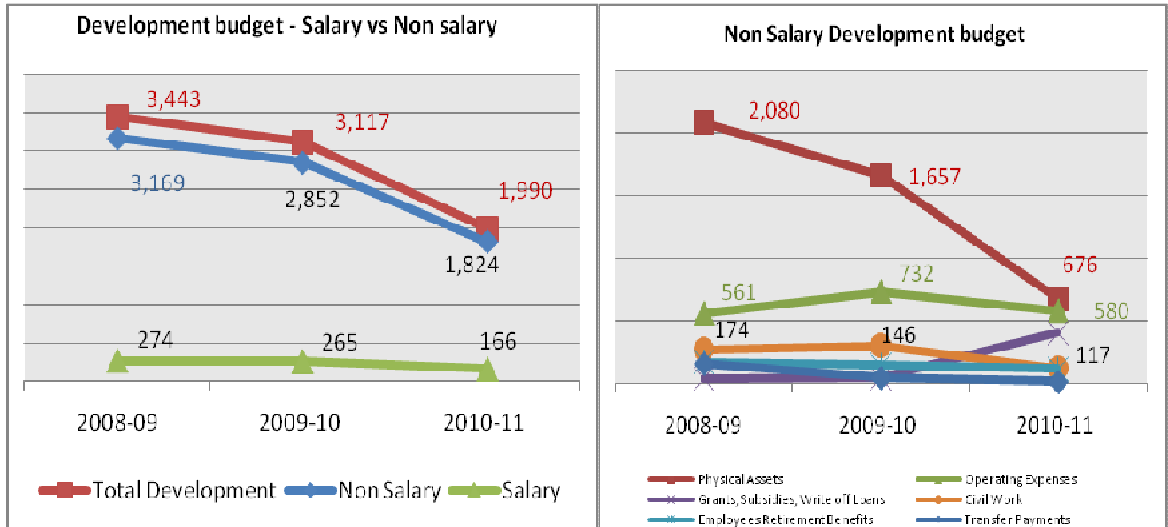
66. While analysing current budget certain Districts appear conspicuous in terms of;

- (a) Highest budgetary growth (Table 12, Appendix E):
- (b) Least budget growth (Table 13, Appendix E);
- (c) Extraordinary increase in salary budgets (Table 14, Appendix E); and
- (d) Extraordinary increase in non-salary budgets (Table 15, Appendix E).

Development budget



67. Before analysing budgetary trends under development budget it would be useful to look at what is the composition of District Health budget when viewed from object and functional perspective. This composition seems to have changed drastically since last two years. From FY 2008-10 more than 60% of allocation was towards physical assets but there is a visible downward shift dropping to 30%, in FY 2010-11. There is also an increased tendency to allocate a greater proportion of the budget to Grants and Subsidies. In terms of functional classification, General Hospital and Services and Administration account for more than 90% of development budget composition (Table 16 & 17, Appendix E);

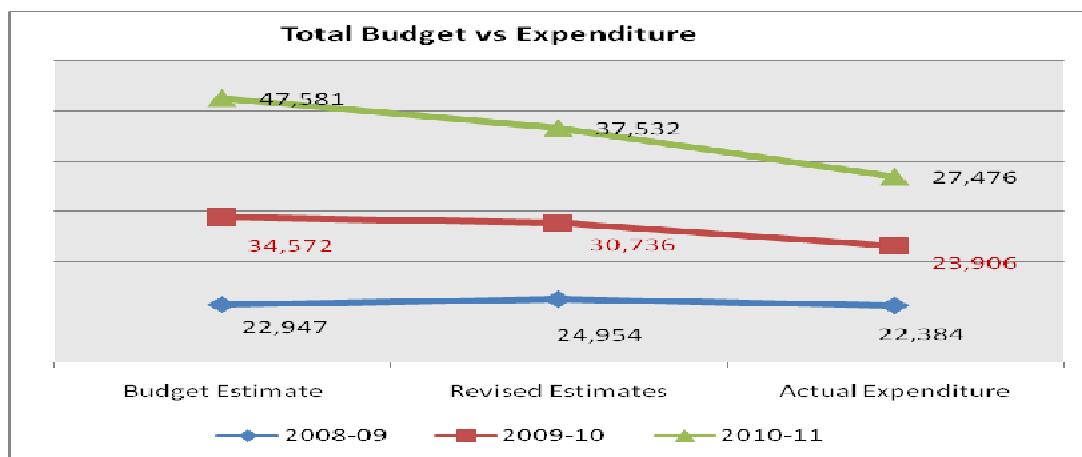


- 68. Surprisingly, allocation for grants, subsidies and write-offs is increasing exponentially on YoY basis i.e.. 762% in FY 2010-11 (Table 19, Appendix E);
- 69. Development budgets for Bahawalpur, Lahore, Mianwali, DG Khan, Sialkot, Muzaffargarh, Bahawalnagar and Sargodha have been reduce to nothing in FY 2010-11. (Table 21, Appendix E);
- 70. On the other hand, development budget for Attock, Hafizabad and Chiniot District stand out in terms of receiving phenomenal increases (Table 20, Appendix E);

ANALYSIS OF BUDGET EXECUTION AND EXPENDITURE TRENDS

71. This Section of Report provides analysis on expenditure trends for the last three years for (a) Health Department in Government of the Punjab, and (b) Districts Governments. It starts by providing analysis on total expenditures (current and development) against budget allocation i.e. providing the macro perspective and then finally drills down into assessing how expenditures have performed against current and development budget allocation for each Government;
72. Discussion on District budget in proceeding paragraphs starts by discussing consolidated (meaning ALL Districts) budget allocation but also provides a light commentary on particular Districts showing unusual movements in budget expenditure trends;

Government of the Punjab



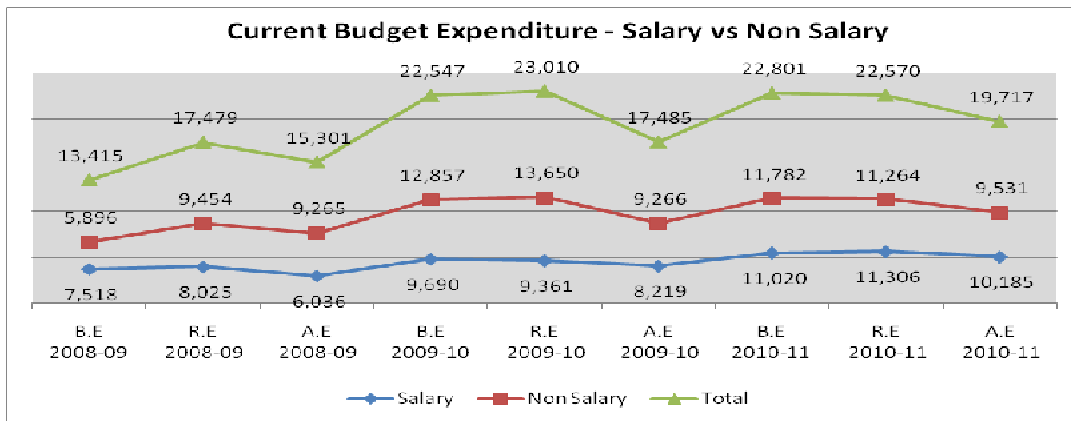
73. After maintaining a moderately impressive overall budget execution rate of more than 70% (against budget allocation) over last two years the actual budget execution rate has fallen down to 58% in FY 2010-11. This is also quite reflective of the budget execution situation in the whole Province which has enjoyed relatively good budget execution rates for last two years but in FY 2010-11 has gone down to 55% for development budget (Table 1& 2, Appendix F);

74. Except for FY 2008-09, original budget allocations (i.e. BE: Budget Estimates) have been revised downwards (i.e. RE: Revised Estimates). For FY 2010-11 it was revised downward by 21% and for FY 2009-10 by 11%. But even after such massive downward revisions the actual spending is nowhere near to either the budget or revised budget allocation except for year 2008-09. Growth in actual spending is lagging far behind growth in budget allocations (Table 3, Appendix F);

75. Budget execution rate might look promising if it is compared against revised budget estimates as often done by Government agencies. But in view of Consultant such comparison undermines and defeats the purpose of planning and budgeting exercise and is somewhat delusional;

76. Health Department has consistently been able to demonstrate good budget execution rates (Table 4, Appendix F) for its current budget but the situation is quite opposite in case of its development budget;

Current budget



77. Current budget shows consistent impressive budget execution rates (actual spending as % of budget allocation). Budget execution rates for FY's 2008-09, 2009-10 and 2010-11 has been 114%, 78% and 86% respectively (Table 4, Appendix F);

78. Ratio of salary within current budget spending has gone up in FY 2010-11 and comprises of more than 52% of total current expenditure. Salary and Operating

Expenses put together comprise of more than 88% of actual spending each year (Table 6 & 8, Appendix F);

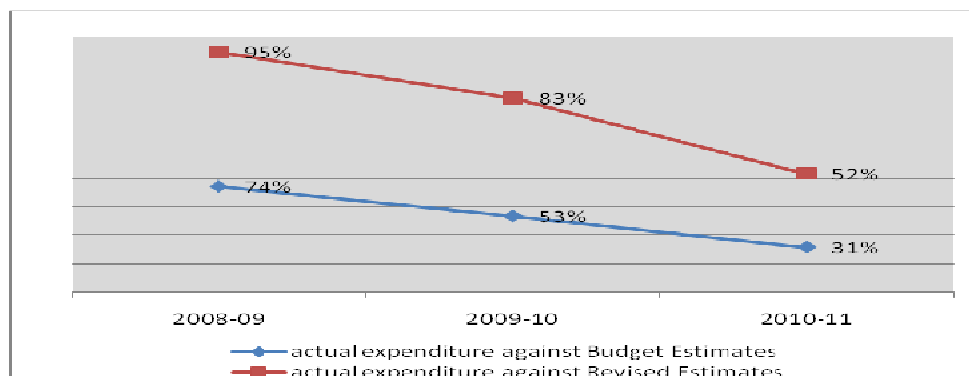
79. Actual spending for salary budget and non-salary budget has grown by around 100% during last three years i.e. maintaining above 82% of budget execution rate in FY 2010-11. Within non-salary budget, it is the operating expenses (largely comprising budget for medicines) which continues to show impressive spending growth. Spending for essential O&M expenses like repairs and maintenance is showing negative growth rate in FY 2010-11 both in nominal and real terms and low budget execution rate (Table 6,7 & 8, Appendix F);

80. The above graph reveals some interesting but consistent trends each year;

- Almost each year budget allocations are being revised (typically happens by end of financial year) upwards but despite such increase the actual spending has been below budget and revised budget allocation (except for FY 2008-09);
- Both salary and non-salary budget execution rate are showing consistent impressive trends against budget allocation but the story is a bit different when it comes to spending against revised allocation;

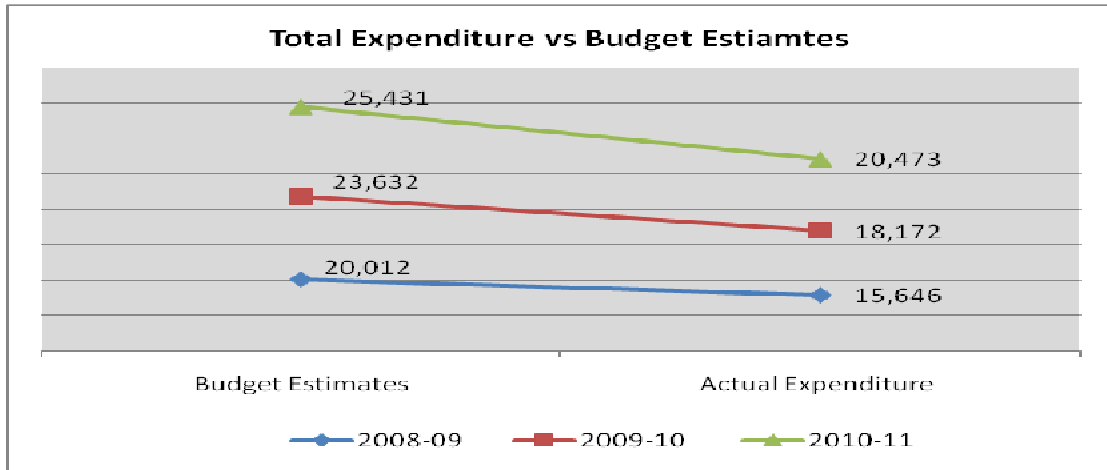
81. Here one might argue about the rationale of revising upward. One possible explanation could be that while negotiating budgets for next year, previous years revised budget estimates are taken into account (by FD) and checked and not the actual spending. This practice may encourage Departments to slightly inflate their revised budget estimates;

Development budget



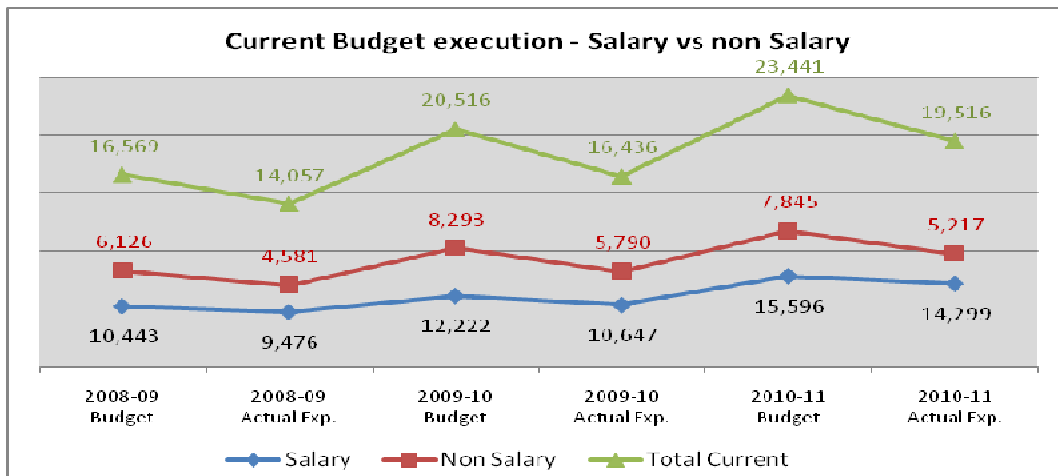
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82. Budget execution rate is going down drastically each year. For FY 2010-11 budget execution rates were only 31% which has also impacted the overall health budget (current and development budget) execution. For FY 2010-11, the development budget execution is marginal growth in nominal terms and negative growth in real terms when compared to levels in FY 2008-09. This is despite the fact that development budget allocation has increased by more than 150% over last three years (Table 9, Appendix F);
83. The budget allocations for development budget have consistently been revised downwards each year. Such revision appear extreme when budget figures for FY 2009-10 and 2010-11 were revised downwards by 36% and 40% respectively (Table 10, Appendix F);
84. Interestingly, despite these revisions for non-salary development budget, the actual expenditure has failed to match even the revised budget figures. Such revisions are usually occurring in 'Grants' and Civil Works. GoPb usually makes block allocations under 'Grants' which is like a 'lump-sum' allocations usually made for un-approved schemes. It appears these schemes could not be materialized. This also raises serious doubts about planning and budgeting capability for development budget or possible issues in funds release or even politically driven interventions (Table 13, Appendix F);
85. There is also a small element of salary budget within development budget allocation. Situation is quite opposite for salary development budget where each year the actual spending has exceeded by more than 700% against budget allocation (Table 12, Appendix F);

District Governments



86. The overall budget execution rate has remained pretty consistent over last three years i.e. 78%, 77% and 81% in FY 2008-09, FY 2009-10 and FY 2010-11 respectively (Table 1, Appendix G);
87. The actual spending in FY 2010-11 is around 20.5bn which is 31% higher than expenditure levels in FY 2008-09. Once again, the above total budget (current and development) execution rate can be misleading because budget execution for current budget is better relative to development budget (Table 3, Appendix G);
88. In real terms, budget expenditure hasn't increased much either. Over last three years it has increased by only 12% (Table 1, Appendix G);
89. The budget execution rate for current budget has remained above 80% in FY's 2008-11. But budget execution rate for development budget remains pretty dismal (Table 3, Appendix G);

Current budget



90. Ratio of salary budget (to non-salary budget) has increased over last three years. This also positively impacts the overall budget execution rate for current budget which is 83%. Salary accounted for around 73% of current budget spending in FY 2010-11 as against 67% in FY 2008-09 (Table 4 & 5, Appendix G);

91. Relatively, salary budget shows a better execution rate than non-salary budget. Budget execution for salary budget in FY 2010-11 is 92% in FY 2010-11. Budget execution for non-salary budget in FY 2010-11 has gone down to 67% from 75% in FY 2008-09 (Table 5, Appendix G);

92. Amongst non-salary budget, the budget execution rate of operating expenses, grants, subsidies, write-offs and physical assets are showing downwards trend in FY 2010-11:

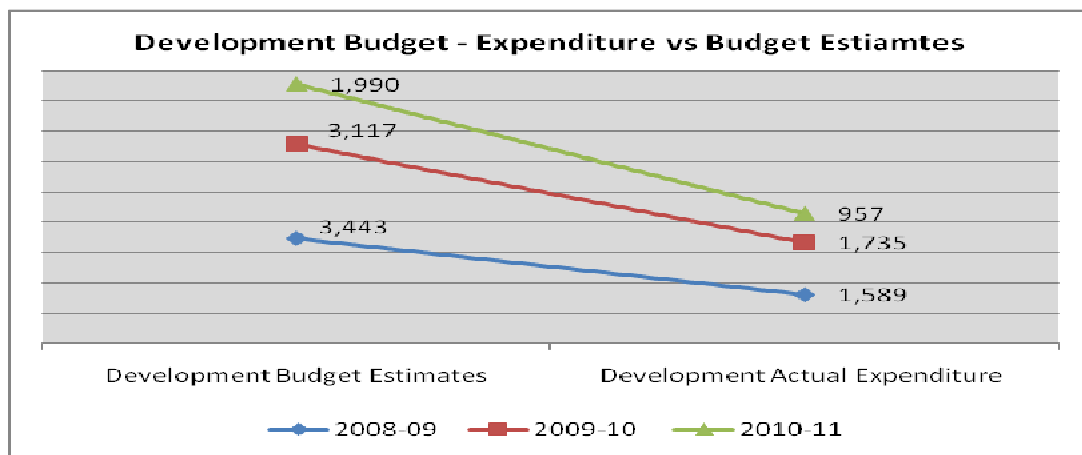
	2008-09	2009-10	2010-11
Operating expenses	83%	80%	74%
Grants, subsidies and write off loans	72%	56%	35%
Physical assets	41%	36%	23%

93. The actual expenditure on key areas like medicines and repairs and maintenance is showing very low growth rate in nominal terms. Even more so, in real terms it is showing negative growth rate (Table 6, Appendix G);

94. Please refer to Table 7 in Appendix G for Districts showing impressive budget execution rates;

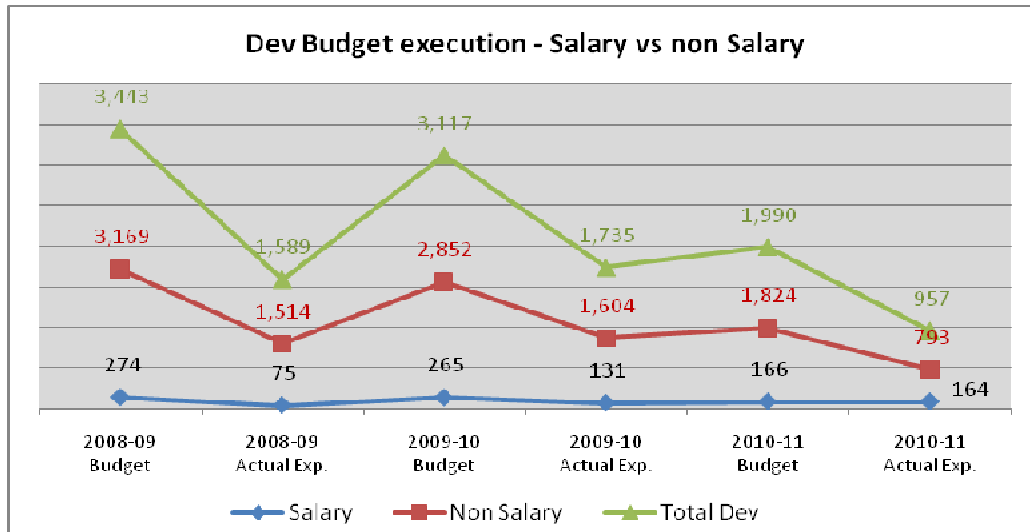
95. Please refer to Table 8 in Appendix G for Districts showing dismal budget execution rates;

Development budget



96. Budget execution for development budget has gone down drastically but the budget allocations have also decreased. Budget execution rate has fallen to 48% in FY 2010-11 from 56% in FY 2009-10 (Table 9, Appendix G);

97. In real terms, the development budget spending is showing negative growth rates. In FY 2010-11, development budget spending is Rs 822m which is half the size of development spending in FY 2008-09 (Table 9, Appendix G);



98. The above low budget execution rates are not only applicable to salary budget but also holds true for non-salary budget (Table 10 & 11, Appendix G);

99. Please refer to Table 12 in Appendix G for Districts showing impressive budget execution rates;

100. Please refer to Table 13 in Appendix G for Districts showing dismal budget execution rates;

101. Attock, Hafizabad, Narowal and Chiniot are four notable Districts that have received large development budget allocations which have not resulted in good budget execution rates (FY 2010-11) - Table 13, Appendix G .

102. A further drill down of expenditure analysis was performed to identify specific service delivery areas where financial resources were being spent in these three Districts namely Bahawalpur, Khanewal and Sialkot. For this purpose, detail listing by spending units (fund centres) was obtained (Table 14 to 16, Appendix G). Based on this analysis, it was observed that majority of spending is taking place at basically four service delivery levels i.e. District Health Offices, Basic Health Units, Rural Health Centres and Tehsil Headquarters. But more specifically:

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- Over FY's 2008-11, around 80-90% of actual spending (current and development) is taking place at these four levels in Bahawalpur and Khanewal (Table 17, Appendix G);
 - Over FY's 2008-11, around 58-67% of actual spending (current and development) is taking place at these four levels in Sialkot (Table 17, Appendix G).



TRF is funded by UKaid from the Department for International Development and AusAID, and managed by HLSP