Khyber Pakhtunkhwa Population Welfare Budget and Expenditure Analysis

(2008 - 09 to 2012 – 13)

HEALTH REPORT

Acknowledgement

TRF acknowledges the cooperation and support of the Health System Strengthening & Policy Unit of Ministry of Health and Provincial Health Departments in completing this assignment. Mr. Dawood Ahmed and Mr. Farooq Khan worked on the assignment and authored the report.

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Islamabad

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ABBREVIATIONS & ACRONYMS

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
GoKPK	Government of Khyber Pakhtunkhwa
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

1. The aggregate health expenditure (Provinces and consolidated Districts) for FY 2011-12 is Rs 23.81 bn against a budget allocation Rs 20.17b showing a growth of over 120% during FY's 2008-09 to 2011-12. Provincial health expenditures consistently account for large part of aggregate health expenditures (70% in FY 2011-12).

2. Off Rs 23.81 bn, more than 65% of aggregate health expenditure (Provinces and consolidated Districts) comprises of current budget. Employee related expenses account for around 50% of this aggregate current health expenditure (Provinces and consolidated Districts).

3. During FY's 2008-09 to 2011-12, employee related aggregate health expenditure (Provinces and consolidated Districts) have grown by a whopping 115%.

4. Aggregate health budget (Provinces and consolidated Districts) have grown by 142% over FY's 2008-09 to FY 2012-13. Districts health budgets are showing better growth rate when compared to Provincial health budgets.

5. Aggregate budget execution (Provinces and consolidated Districts) has been consistently impressive over the period of analysis. Except for FY 2010-11, it has been over 100%.

6. In nominal terms, provincial health budget allocation (current and development) for has increased by 138% since FY 2008-09. Barring FY 2008-09, current budget has grown at a faster rate than development budget throughout FY's 2008-13. During the period of analysis, provincial health current budget grew by around 192% where as development budget showed a growth rate of 91% during the same period. In FY 2011-12, provincial health development budget showed a negative growth rate (YoY basis).

7. Over the years, quite clearly, there is a marked shift towards more allocations for salary component of the Provincial health current budget. During FY's 2008-13, salary budget has grown by 294% where as non-salary grew by around 88% only. This is also evident from consistently rising ratio of salary budget until FY 2011-12.

8. The salary to non-salary ratio stood at 72:28 in FY 2011-12 against 51:49 in FY 2008-09;

9. Within Provincial health current budget allocations for repair & maintenance seem to be consistently ignored year after year. Throughout FY's 2008-13, the repair & maintenance allocation has never been more than 0.6% of non-salary budget;

10. Provincial health expenditure has grown more than double during FY's 2008-12. It stands at Rs 16.5 bn for FY 2011-12 showing a highest ever budget execution rate of 116%. With in Provincial health expenditure, ratio of current and development expenditure stands at 51:49 in FY 2011-12 showing improvements from prior year i.e 59:41 in FY 2010-11;

11. Budget execution rates for Provincial salary and non-salary health current budget exhibit entirely different trends over FY's 2008-12. Both seem to be moving in different directions. For example, budget execution rate for Provincial salary health budget has decline from 45% in FY 2008-09 to 34% in FY 2011-12, while the rate for non-salary budget has jumped from 159% in FY 2008-09 to 292% in FY 2011-112.

12. Within Provincial health current budget expenditure, composition between salary and non-salary current budget changes significantly when one compares their respective ratios at the time of budget allocation and expenditure. For example in FY 2012-13, budgeted ratio between salary and non-salary is 72:28 respectively. Whereas the same ratio at the time of expenditure is surprisingly 23:77. This peculiar issue is also visible in prior years and clearly points towards issues around proper planning and budgeting despite the fact that Health Department has been on Output Based Budgeting since FY 2010-11.

13. Provincial health development Expenditure has almost doubled during FY's 2008-12 and stands at RS 8.2 bn in FY 2011-12. It continues to demonstrate reasonably good budget execution rates. FY 2011-12 stands out as the ONLY year, during period of analysis, where budget execution was over 100% i.e. 127%.

14. Consolidated district health allocations have grown by 151% since FY 2008-09 (nominal terms). Similar to Provincial Government, large part of this increase has been due to employee related costs. Composition between salary and non-salary current budget has been around 88:12 respectively.

15. Provincial government makes allocations for district ADP as part of its allocations under PFC (Provincial Finance Commission). This means the funds are placed at the disposal of the District Governments for launching development schemes. However, analysis of district Annual Development Programme (ADP) suggests that there are NO health related development schemes at any of the Districts during the period of this analysis. This also shows low level of priority attached to health development budget allocations at District level.

16. Some Districts have received no budget allocations since FY 2008-09 for drugs and medicines in their current budget. These are Haripur, Mansehra, Hangu and Upper Dir. Similarly, Peshawar, Sawabi and Lakki have not received budget allocation for drugs and medicines in 2011-12.

17. District health expenditure (Rs. 7.2 bn in FY 2011-12) has doubled during FY's 2008-12 and shows impressive budget execution rate of well over 116%.

18. District health non-salary budget shows a better execution rate than salary budget. Budget execution rate for non-salary budget is 219% in FY 2011-12, while for salary budget it is 110%.

19. District drugs & medicines have recorded exceptionally high execution rates throughout FY's 2008-12 (e.g. 357% in FY 2012-13). High execution rates may mean that the budget allocation levels for drugs & medicines are less than the actual needs of the districts.

20. More than two-third (70%) of consolidated expenditure (province and aggregate districts) in health is towards 'General Hospital Services' and 10 % towards 'Professional Teaching/Colleges'. The existing functional classification does not seem to provide useful information on actual functions being performed by the Department and prohibits any basic analysis that may facilitate decision makers to assess purpose (& qualitative aspects) of expenditure and make informed policy choices. Functional classification of health needs reform and alignment with Provincial health policy / strategic objective.

21. A new KPK Local Government Act 2012 has been passed by Provincial Assembly but has yet to be implemented. In summary, it goes back to recentralisation (1979)

and is likely to have further impact on the fiscal arrangements between the Provincial Governments and Local Government;

22. Following passage of 18th Constitutional Amendment (wef 1 July 2011), Ministry of Health stands dissolved while most of its functions have been transferred to Provincial Government. Analysis of budget documents reveal Khalifa Gul Nawaz Hospital, Gomal Medical College DI Khan, Peshawar Institute of Cardiology (all previously shown under Federal development budget) has been absorbed into Provincial health current budget for FY 2012-13.

TABLE 1: % SHARE OF HEALTH IN PROVINCIAL & DISTRICT GOVERNMENT AGAINST TOTAL BUDGET ALLOCATION/ACTUAL EXPENDITURE

(Rs in Million)

GoKPK Overall Budget and Expenditure	Budget Estimate 2008-09	Actual Expenditure 2008-09	Budget Estimate 2009-10	Actual Expenditure 2009-10	Budget Estimate 2010-11	Actual Expenditure 2010-11	Budget Estimate 2011-12	Actual Expenditure 2011-12	Budget Estimate 2012-13
Government of the Khyber Pakhtunkhwa	75,379	57,898	93,577	68,910	142,382	95,119	171,478		203,547
District Governments	33,466	45,638	37,580	76,615	54,860	83,678	62,663		85,511
Total	**108,845**	**103,536**	**131,157**	**145,525**	**197,242**	**178,798**	**234,141**	**-**	**289,058**

GoKPK Overall Health Budget and Expenditure	Budget Estimate 2008-09	Actual Expenditure 2008-09	Budget Estimate 2009-10	Actual Expenditure 2009-10	Budget Estimate 2010-11	Actual Expenditure 2010-11	Budget Estimate 2011-12	Actual Expenditure 2011-12	Budget Estimate 2012-13
Government of the Khyber Pakhtunkhwa	7,495	7,278	8,359	8,266	12,512	11,408	14,304		17,905
District Governments	2,996	3,527	3,554	4,006	5,036	5,549	5,871		7,511
Total	**10,492**	**10,805**	**11,912**	**12,273**	**17,548**	**16,957**	**20,175**	**-**	**25,417**

% share of Health	Budget Estimate	Actual Expenditure	Budget Estimate	Actual Expenditure	Budget Estimate	Actual Expenditure	Budget Estimate	Actual Expenditure	Budget Estimate

	2008-09	2008-09	2009-10	2009-10	2010-11	2010-11	2011-12	2011-12	2012-13
Government of the Khyber Pakhtunkhwa	10%	13%	9%	12%	9%	12%	8%		9%
District Governments	9%	8%	9%	5%	9%	7%	9%		9%
Total	**10%**	**10%**	**9%**	**8%**	**9%**	**9%**	**9%**		**9%**

TABLE 2: GOVERNMENT OF THE KHYBER PAKHTUNKHWA AND AGGREGATE DISTRICTS-BUDGET AND ACTUAL EXPENDITURE

(Rs in Million)

	Budget Estimate 2008-09	Actual Expenditure 2008-09	Budget Estimate 2009-10	Actual Expenditure 2009-10	Budget Estimate 2010-11	Actual Expenditure 2010-11	Budget Estimate 2011-12	Actual Expenditure 2011-12	Budget Estimate 2012-13
Government of Khyber Pakhtunkhwa	7,495	7,278	8,359	8,266	12,512	11,408	14,304	16,587	17,905
District Governments	2,996	3,527	3,554	4,006	5,036	5,549	5,871	7,223	7,511
Total	**10,492**	**10,805**	**11,912**	**12,273**	**17,548**	**16,957**	**20,175**	**23,810**	**25,417**
Government of Khyber Pakhtunkhwa & District Governments									
Current budget	6,531	7,096	7,579	8,614	10,976	12,306	13,708	15,620	17,841
Development budget	3,961	3,709	4,334	3,659	6,571	4,651	6,467	8,190	7,575
Total	**10,492**	**10,805**	**11,912**	**12,273**	**17,548**	**16,957**	**20,175**	**23,810**	**25,417**
Government of Khyber Pakhtunkhwa									
Current budget	3,534	3,569	4,025	4,607	5,941	6,758	7,837	8,397	10,330
Development budget	3,961	3,709	4,334	3,659	6,571	4,651	6,467	8,190	7,575
Total	**7,495**	**7,278**	**8,359**	**8,266**	**12,512**	**11,408**	**14,304**	**16,587**	**17,905**
District Governments									
Current budget	2,996	3,527	3,554	4,006	5,036	5,549	5,871	7,223	7,511
Development budget	-	-	-	-	-	-	-	-	-
Total	**2,996**	**3,527**	**3,554**	**4,006**	**5,036**	**5,549**	**5,871**	**7,223**	**7,511**
% Share in Budget and Actual Expenditure									

Overall	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Government of Khyber Pakhtunkhwa	71%	67%	70%	67%	71%	67%	71%	70%	70%
District Governments	29%	33%	30%	33%	29%	33%	29%	30%	30%
Overall	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Current budget	62%	66%	64%	70%	63%	73%	68%	66%	70%
Development budget	38%	34%	36%	30%	37%	27%	32%	34%	30%
Current budget	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Government of Khyber Pakhtunkhwa	54%	50%	53%	53%	54%	55%	57%	54%	58%
District Governments	46%	50%	47%	47%	46%	45%	43%	46%	42%
Development budget	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Government of Khyber Pakhtunkhwa	100%	100%	100%	100%	100%	100%	100%	100%	100%
District Governments	0%	0%	0%	0%	0%	0%	0%	0%	0%

Per Capita Expenditure

Population of Khyber Pakhtunkhwa (in Million)*		**24.083**		**24.762**		**25.460**		**26.178**	
Per Capita Expenditure - Total		**449**		**496**		**666**		**910**	
Per Capita Expenditure - Current		295		348		483		597	
Per Capita Expenditure - Development		154		148		183		313	

*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 Khyber Pakhtunkhwa) and the District Governments in Khyber Pakhtunkhwa has been prepared by Consultant at the request of Technical Resource Facility (TRF). It is an update of a previous budget & expenditure report issued in October 2011. This Report will be further updated with macro-fiscal data once civil accounts / financial statements from Controller General of Accounts / Provincial Accountant General's office are finalised.

2. Although FATA (Federally Administered Tribal Areas) is part of KPK but for the purpose of this Report has been excluded from the analysis since it is directly funded by the Federal Government. A separate report will be issued on FATA's health budget and expenditure analysis.

3. Analysis covers FY's 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13. Cut-off date for acquiring expenditure data expenditure for FY 2012-13 is 30 November 2011. Since provincial civil accounts / financial statements have not been finalised till date, no commentary has been in this Report on fiscal performance of the Province. The Consultant will further update the Report as soon as the relevant data is finalised / available.

4. Source of provincial budget data is from the annual budget documents. Where as all other data i.e. provincial expenditures, budget and expenditure of Districts is taken from PIFRA System. Data obtained from PIFRA System was also verified on test cases by checking it with records at the Accountant General's Office (Peshawar) and District Accounts Offices. To this end, visits were performed by Consultant to certain selective Districts.

5. This document focuses situation from macro perspective and then narrowing down to micro. It analyses budget and expenditure trends separately. Report is divided into following sections for clarity and understanding.

Section I Analysis of Health Budgets and Budgetary trends

Section II Analysis of Health Budget Execution and Expenditure trends

6. **Section I** attempts to analyse budgetary allocations and how budget has grown over the years in terms of aggregate and at detail levels. This Section also provides a brief commentary on MTBF estimates of Provincial Health Department.

7. **Section II** reviews the expenditure against budget allocations against various dimensions starting from aggregate to detail levels from economic and functional classification perspective. Further expenditure by 'service delivery' area was also performed for three Districts i.e. Kohat, Mardan and Mansehra representing North, South and Centre.

8. The analysis has been done after extracting and carefully reformulating quite a voluminous budget and expenditure data over last five years (FY's 2008-13). All such data tables forming the basis of analysis have been included as Appendices of this Report which have been referred while appreciating budget analysis.

9. With in Appendices, Appendix A – Glossary of terms has been specially developed which describes key budget and expenditure terminologies which will guide readers in appreciating 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 Khyber Pakhtunkhwa.

10. *Key* assumptions **–** The budget and expenditure analysis following sections 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

Section 1: Analysis of Budget and Budgetary Trends

1. This Section of the Report provides analysis on the budget allocation and its historical trends during five years of budget analysis (i.e. FY's 2008-09, 2009-10, 2010-11, 2011-12 and 2012-13) for (a) Health Department in Government of Khyber Pakhtunkhwa, and (b) Districts Governments. It starts by providing analysis on the total budget allocation (Health Department and Aggregate Districts) i.e. providing the macro perspective, then describes typical composition of current / development budget and then finally drills down separately into allocations for current and development budget for each level of Government.

2. Khyber Pakhtunkhwa comprises of 25 Districts and each District has its own budget. Discussion on District budget in proceeding paragraphs starts by discussing consolidated budget (meaning ALL Districts) allocation but also provides a light commentary on particular Districts showing unusual movements in their budget allocations.

3. An analysis of the budget composition suggests that employee costs have the largest share (54%) in the consolidated budget allocations (province and aggregate districts) in FY 2012-13. These are followed by Civil Works (21%) and Operating Expenses (17%) in FY 2012-13. The share of Drugs & Medicines has remained negligible, i.e. less than 1% of the total budget allocations throughout FY's 2008-13 (Table 3, Appendix B).

4. As far as functional classification is concerned, more than two-third of the consolidated health allocation (province and aggregate districts) has been made under "General Hospital Services" in FY 2012-13. Rest of the allocations are for medical education / professional & technical colleges (17%) and Administration (5%) (Table 7, Appendix B).

5. Consolidated health allocations (for province and aggregate districts) continue to show rising trend over FY's 2008-13. In FY 2010-11, these have grown by 142% since FY 2008-09 (in nominal terms). In real terms, the growth has been 125% (Table 2, Appendix B).

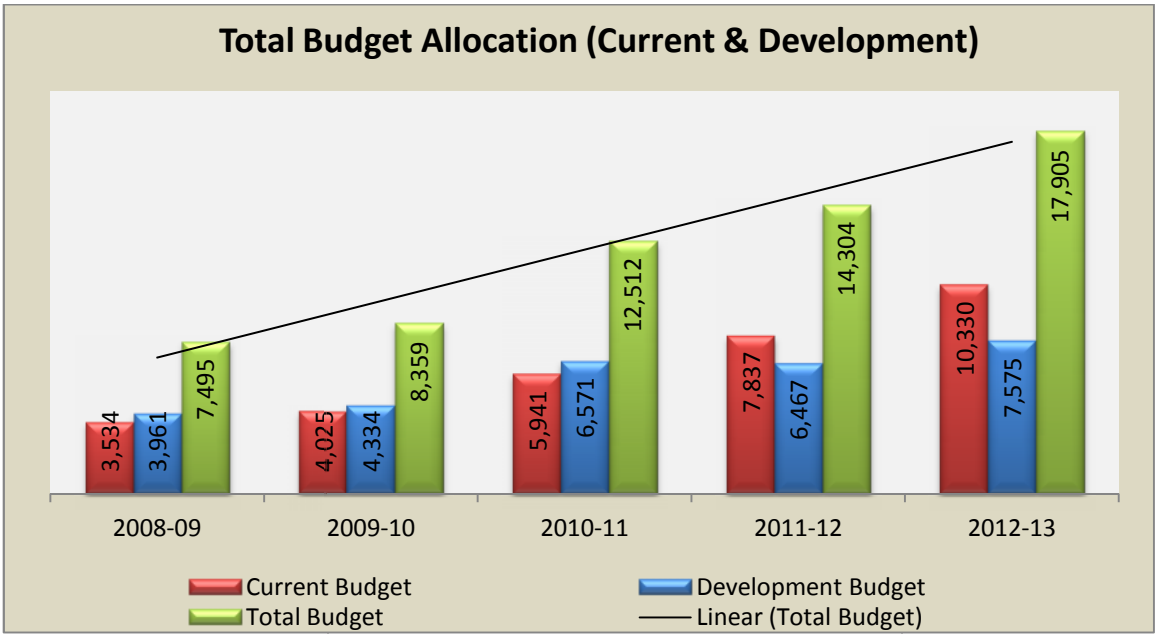
6. Consolidated employee related budget allocation (province and aggregate districts) has grown by 222% since FY 2008-09. On YoY basis, the highest increase during five years was in FY 2010-11 (50%). Other categories of expenses have shown mixed trend since

FY 2008-09. For example, Operating Expenses have increased by 37% while transfer payments have declined by 7% in FY 2012-13 Grants, subsidies & write-off loans have registered the highest growth (56%) compared to other items of expenses in FY 2012-13. Repair & Maintenance continues to have meager allocation despite a growth of 22% in FY 2012-13 (Table 2, Appendix B).

7. Growth rates suggests that all items of expenses depict wide fluctuations during five years (FY's 2008-13). For example, Physical Assets have recorded a growth rate of 142% in FY 2010-11 and then a decline of 78% and 19% in FY's 2011-12 and 2012-13 respectively, while grants, subsidies & write-off loans have shown a growth of 56% in FY 2012-13 after falling 10% in FY 2011-12 (Table 2, Appendix B).

8. Allocations for General Hospital Services have shown a mixed trend since FY 2008-09. These have increased by 25% in FY 2012-13 against an increase of 15% in FY 2011-12 and 44% in FY 2010-11. Similarly, allocations Professional / Technical / Universities have increased by 41% and for Drugs Control by 23% (YoY) in FY 2012-13. Other notable growth is witnessed under the head of Anti-malaria (which has a negligible allocation, though) which has recorded the highest increase of 372% in FY 2012-13 (Table 6, Appendix B).

FIGURE 1:TOTAL BUDGET ALLOCATION (CURRENT & DEVELOPMENT)



9. In nominal terms, total budget allocation (current and development) for Provincial Health Department has increased by 138% since FY 2008-09. On YoY basis, the growth has fluctuated from as high as 50% (FY 2010-11) to as low as 12% FY 2009-10) (Table 1, Appendix C).

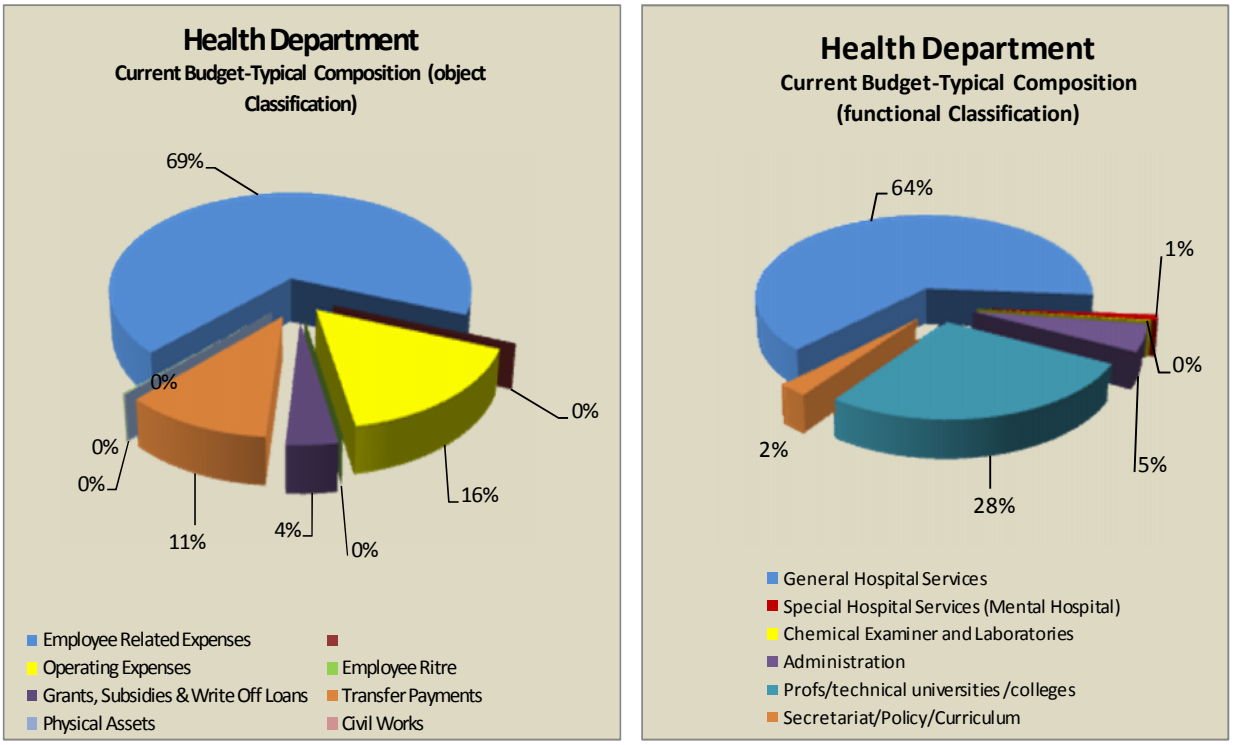
10. Provincial health budget allocation in comparison to total provincial budget outlays has remained steady at 6% since FY 2009-10 after dropping from 7% in FY 2008-09 (Table 2, Appendix C).

11. Barring FY 2008-09, current budget has grown at a faster rate than development budget throughout FY's 2008-13. During the period of analysis, Provincial health current budget grew by around 192% where as development budget showed a growth rate of 91% during the same period. In FY 2011-12, Provincial health development budget showed a negative growth rate (YoY basis).

12. Ratio of composition between current and development budget stands at 58:42 in FY 2012-13. During initial three years of analysis (FY's 2008-11), development budget was more than half the total budget, however, current budget, in comparison to development budget, started to rise during the remaining two FY's (2011-13) (Table 3, Appendix C).

Current Budget

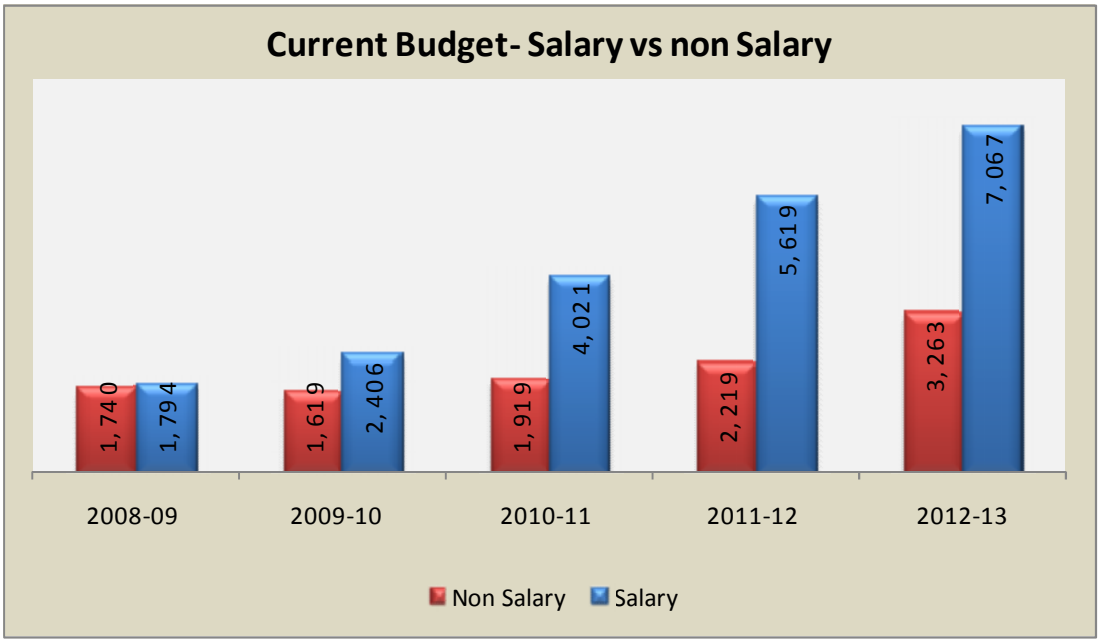
FIGURE 2: PIE CHART – HEALTH DEPARTMENT



13. As far as budget composition is concerned, employee related expenses (68%) and operating expenses (16%) account for around 83% of current budget allocations, transfer payments have an allocation of 11%, while repairs and maintenance has negligible allocation. In terms of 'functions', around 64% of current budget allocations are going towards 'General Hospital Services' and 27% to medical education (Table 6 & 7, Appendix C).

14. General Hospitals Services (64%) and Professional technical universities (27%) continue to dominate the current health spending. The use of functional classification seems to be consistent both at provinces and districts (with the exception of medical education which is mostly used in the province).

FIGURE 3: BAR CHART (CURRENT BUDGET – SALARY VS NON SALARY



15. At Rs. 10.3 bn, Provincial health current budget allocations have increased by almost three times since FY 2008-09. On YoY basis, these have registered a steady growth of 32% in FY's 2011-12 and 2012-13 after recording a high of 48% in FY 2010-11 (Table 4&5, Appendix C).

16. Over the years, quite clearly, there is a marked shift towards more allocations for salary component of the Provincial health current budget. During FY's 2008-13, salary budget has grown by 294% where as non-salary grew by around 88% only. This is also evident from consistently rising ratio of salary budget until FY 2011-12. The salary to non-salary ratio stood at 72:28 in FY 2012-13. However, the ratio changed slightly and dropped to the same level as was in FY 2010-11 (i.e. 68:32) (Table 8, Appendix C).

17. Except for FY 2012-13, salary component has generally always recorded a growth rate higher than non-salary component. For example, the growth rate for salary was 40% compared to 16% for non-salary component in FY 2011-12 which became 26% and 47% in FY 2012-13. As a result of the higher growth, the salary component stands at Rs. 7 billion in FY 2012-13 (i.e. almost three times the allocations in FY 2008-09 (Table 9, Appendix C).

18. Within non-salary budget, the notable increases are in Operating Expenditure (135%) and Grants, Subsidies & Write-off loans (26%). Physical Assets and Repairs & Maintenance continue to have negligible allocations since 2008-09 (Table 10, Appendix C).

19. Allocations for repair & maintenance seem to be consistently ignored year after year. Throughout FY's 2008-13, the repair & maintenance allocation has never been more than 0.62% of non-salary budget (Table 8, 9 & 10, Appendix D).

20. Budget allocations for Drugs and Medicines[1] have posted a decline of 24% in FY 2012-13 after recording a rise of 12% in FY 2011-12. Earlier in FY 2010-11, this account registered a massive growth rate of 324% (YoY) (Table 10 & 11, Appendix C).

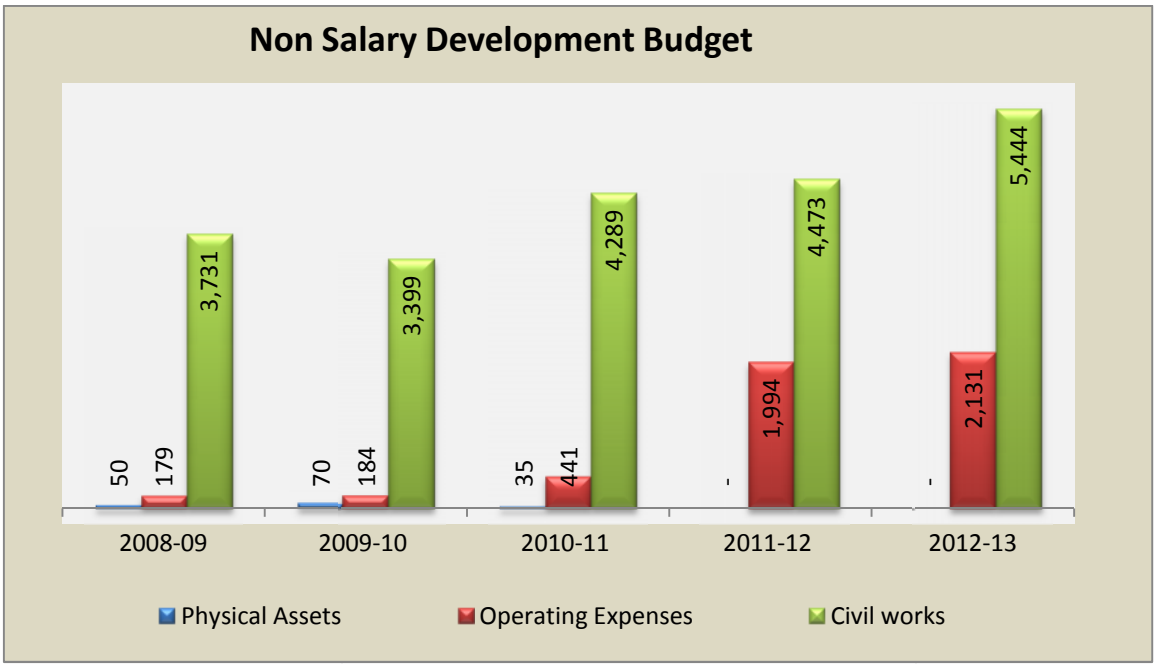
21. Similarly, allocations for Transfer Payments have declined by 7% in FY 2012-13 after rising by 20% in FY 2011-12. Grants, subsidies & write off loans[2] on the other hand show an increase of 26% in FY 2012-13 after growing by 5% in FY 2011-12 (Table 10, Appendix C).

[1] Drugs & Medicines are classified in Operating Expenses and are usually not separately disclosed in the budget books. For the purpose of this report, allocations for Drugs & Medicines have also been analysed separately. Apparently, there seems to be no policy for providing free of cost Drugs & Medicines patients in Provincial hospitals like in Punjab

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

Development budget

FIGURE 4: BAR CHART (NON SALARY DEVELOPMENT BUDGET)



22. Civil Works claim the largest share in the Provincial development budget, though this share continues to show declining trend during four out of five years of analysis. For example, it continued to slide from 94% in FY 2008-09 to 69% in FY 2011-12 but finally settled at 72% in FY 2012-13. On the other hand, the share of Operating Expenses in the development budget continues to rise during FY's 2008-12 and in FY 2012-13 this stands at 28% (Table 14, Appendix C).

23. In terms of functional classification, General Hospital Services account for 74% of development budgetary allocations, followed by medical education (Professional / Technical / Universities, etc.) 20% (Table 15, Appendix C).

24. Provincial health development budget is showing growth since FY 2008-09. In nominal terms, the allocations have grown by 91% while in real terms, these have risen by 78% in FY 2012-13. On YoY basis, the highest increase was in FY 2010-11 (52%), though in the following year (FY 2011-12), the allocations declined by 2% (Table 12 & 13, Appendix C).

25. A detailed analysis of the provincial ADP suggests that in earlier years (FY's 2008-12), there was an increasing trend to undertake new development schemes by providing them more budget allocations rather than completing the existing schemes. However the priority seems to have changed in FY 2012-13 as the share of allocations for new schemes has declined. For example, in FY 2012-13, new schemes had a 15% allocation compared to 23% in FY's 2010-11 and 2011-12. As far as the number of schemes is concerned, there were 89 schemes (ongoing & new) in the Province in FY 2012-13, of which Peshawar happens to have the largest number (ongoing: 14 & new: 4) followed by Mardan (ongoing: 7 & new: 0). Most of the schemes are self financed and foreign aid funded programs remain at very minimal levels (Table 16 & 17, Appendix C).

Medium Term Budgetary Framework (MTBF) / Output – based

26. As part of public finance reforms being undertaken in the Province, Health Department has been preparing its budgets on MTBF / OBB format since FY 2009-10. The Department has developed a set of outcomes with related outputs (service delivery indicators) and has prepared budget estimates for three years on a rolling basis. MTBF estimates are compiled as a separate book / publication which provides information about three year budget estimates for current and development budgets.

27. The Department has not fully switched to MTBF / OBB budgeting and continues to prepare estimates under the 'annual' budgeting system also, whereby budget estimates are prepared for one year only. Finance Department issues annual budget call circular (BCC) which serves as the basis for preparation of annual budget estimates. No separate BCC is issued for MTBF budgeting.

28. OBB reforms have also been extended to some selected districts of the Province (e.g. DI Khan, Buner) which have started preparing their budgets on MTBF / OBB mode.

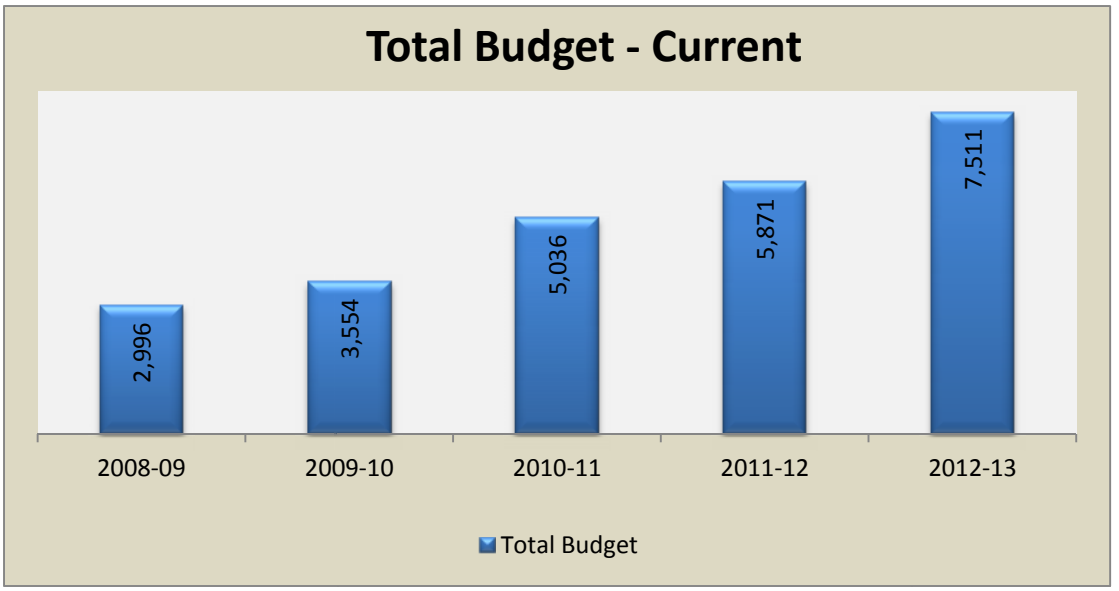
Current Budget

29. An analysis of budgets prepared under MTBF/OBB mode has been carried out showing how the outer years (budget forecast) have performed against actual budget allocation in subsequent years. It was observed that in case of current budget the deviations from forecast were 44% for FY 2012-13 and 37% for FY 2013-14 (Table 19, Appendix D).

Development Budget

30. Similarly, in case of development budget, the differences between outer years and actual budget allocation in subsequent years also vary considerably. For example, for FY 2012-13, the allocations varied by 40% and for FY 2013-14 by 21% (Table 19, Appendix D).

FIGURE 5: BAR CHART (TOTAL BUDGET - CURRENT)



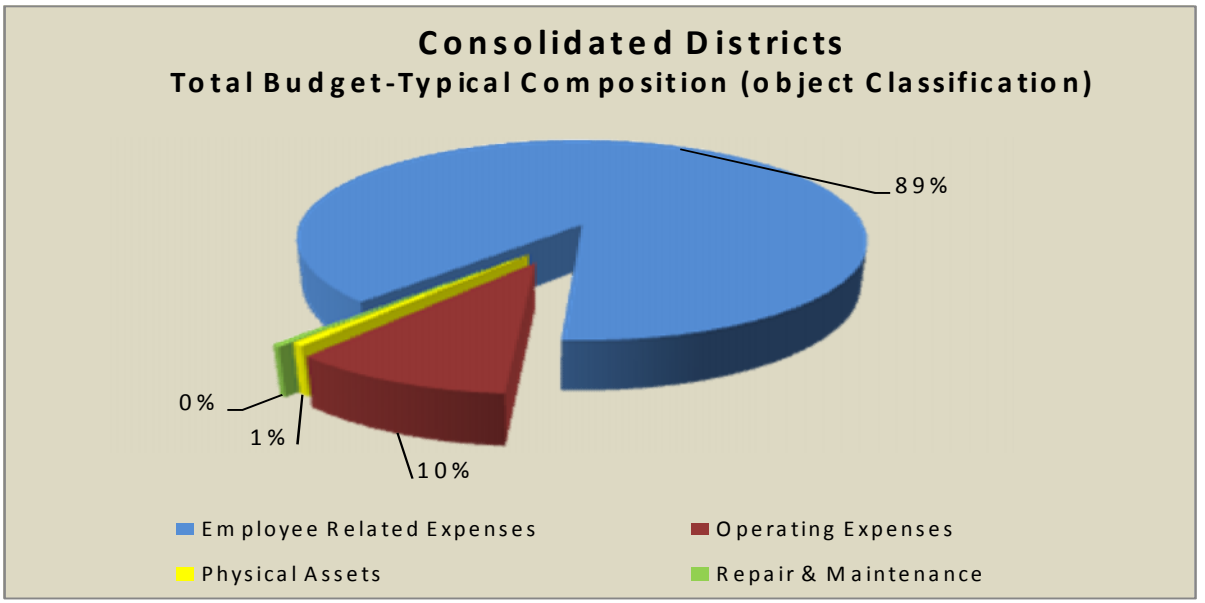
31. Consolidated district health allocations have grown by 151% since FY 2008-09 (nominal terms), though in the growth in is less, i.e. 133%. On YoY basis, the allocations rose by 42% in FY 2010-11 before declining to 17% in FY 2011-12 (Table 1, Appendix D).

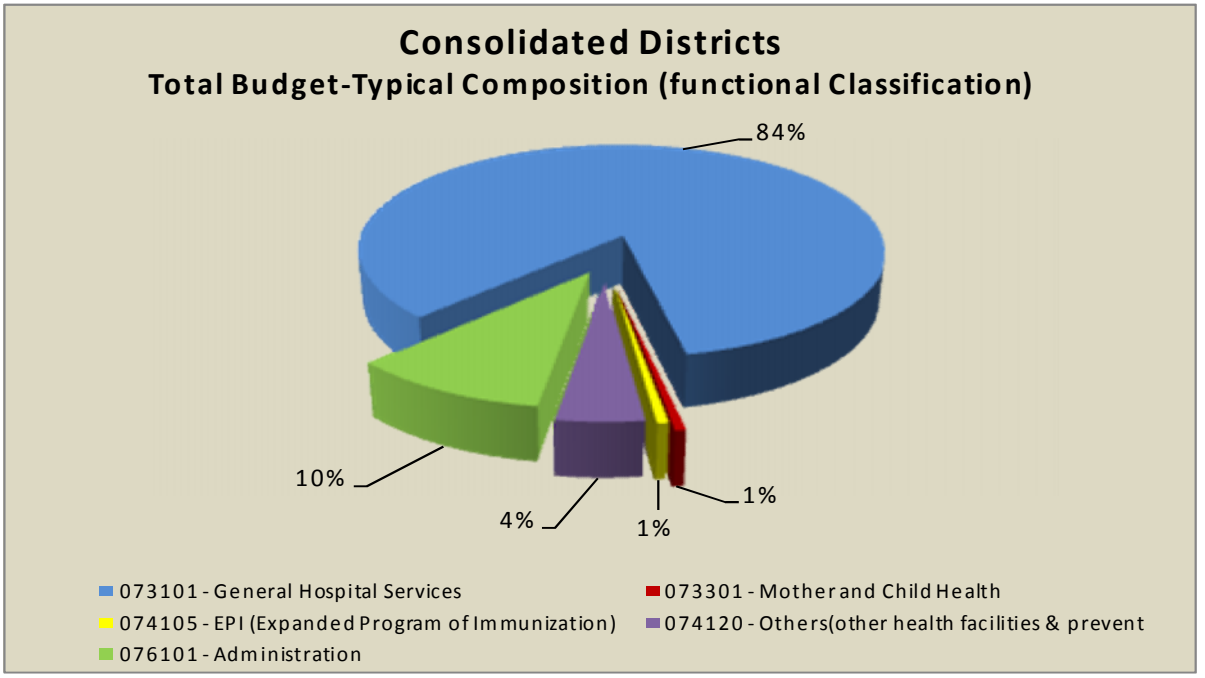
32. District health budget comprises current budget only. Although, Provincial Government makes allocations for district ADP while deciding transfers to districts (as part of Provincial Finance Commission Award each year), however, the District Governments have in turn not made these allocations in their respective development budget schemes.

33. A new KPK Local Government Act 2012 has been passed by Provincial Assembly but has yet to be implemented. In summary, it goes back to recentralisation (1979) and is likely to have further impact on the fiscal arrangements between the Provincial Governments and Local Governments.

34. Apparently, Provincial development budget allocations include some development schemes which seem to be carried out on behalf of district governments. For example, schemes like construction / up-gradation of BHU & RHC's, construction of civil dispensary, establishment of THQ hospital, etc. are being implemented by the Provincial Government and are included in provincial ADP. In FY 2012-13, such schemes were around Rs 1.75 bn (Table 18, Appendix D).

FIGURE 6: PIE CHART (CONSOLIDATED DISTRICTS)





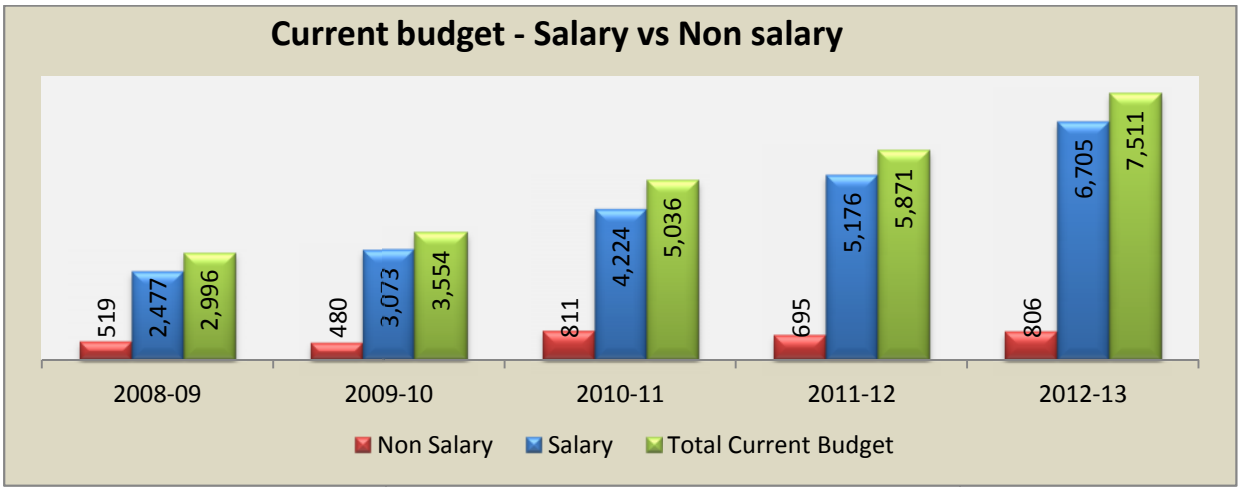
35. As far as budget composition is concerned, employee related expenses (89%) and Operating Expenses (8%) put together comprise more than 97% of the consolidated district current budget. In terms of functional classification, 50% is being allocated towards Administration and 43% towards General Hospital and Services, while only 5% is meant for Other Health Facilities (Table 2 & 3, Appendix D).

36. Consolidated health budget allocations for Districts show rising trends, though at varying growth rates, over the period of analysis (2008-13). In FY 2012-13, the allocations have grown by 28%, up from 17% in FY 2011-12 (all in nominal terms). The highest growth was in FY 2010-11 (42%) (Table 1, Appendix D).

37. Some Districts stand out in terms of showing extra-ordinary health budget increase and decrease. Total budget allocations for Swat, Mardan, Kohat, Tank, etc. stand out in terms of phenomenal budget increase over last five years (Table 9, Appendix D).

38. Districts appear to be getting very low allocations for Repair & Maintenance when compared to overall district health budgets. Even these allocations are not consistent and exhibit wide fluctuations since 2008-09. In FY 2009-10, for example, allocations dropped by 45% from 2008-09 level but rose by 101% in FY 2010-11 before falling again by 28% in FY 2011-12. In real terms, repair & maintenance actually shows negative growth since 2008-09 (Table 6, Appendix D).

FIGURE 7: BAR CHART (CURRENT BUDGET SALARY VS NON SALARY



39. Ratio between salary and non-salary health budget of the Districts has remained more or less the same throughout FY's 2008-13. In FY 2012-13, the ratio between salary to non-salary was 89:11, while in FY 2008-09 it was 83:17. These levels also represent the high and low of the ratio during the five years of analysis (Table 4 Appendix D).

40. Salary budget has demonstrated a higher growth rate (171%) when compared to the growth rate of non-salary budget (55%) since FY 2008-09. Also, the growth in non-salary is more erratic (e.g. 69% in FY 2010-11 and minus 14% in FY 2011-12) (Table 5, Appendix D).

41. Non-salary component generally depicts irregular pattern of allocations for most of its constituent budget heads throughout FY's 2008-13. Generally, declining trend in allocations is witnessed in FY's 2009-10 and 2011-12. For example, employee retirement benefits, grants & subsidies and physical assets exhibit decrease of 100%, 81% and 71% in FY 2011-12 (YoY). In FY 2012-13, however, grants & subsidies have grown up considerably (by 828%) (Table 6, Appendix D).

42. Allocations for Drugs & Medicines are made within Operating Expenses and have registered a growth rate of 21% (YoY) in FY 2012-13 after rising by 11% in FY 2011-12. However, overall, the level of allocations for drugs & medicines is not high when compared to other budget heads within non-salary component. Also, in comparison to district consolidated health budget, these allocations have been declining consistently. For example, these have dropped from 3% in FY 2008-09 to 1.75% in FY 2012-13 (Table 7, Appendix D).

43. The analysis of Drugs & Medicines also reveals that some Districts have received no budget allocations for Drugs & Medicines since 2008-09. These include: Haripur, Malakand, Mansehra, Hangu and Upper Dir. Similarly, Peshawar, Sawabi and Lakki have received no budget allocation for drugs and medicines in 2010-11.

44. While analysing current budget certain Districts become more conspicuous in terms of;

- Largest budget allocations (Table 8, Appendix D);
- Highest budgetary growth (Table 9, Appendix D);
- Least / negative budget growth (Table 10, Appendix D);
- High proportion of salary budget (Table 11, Appendix D);

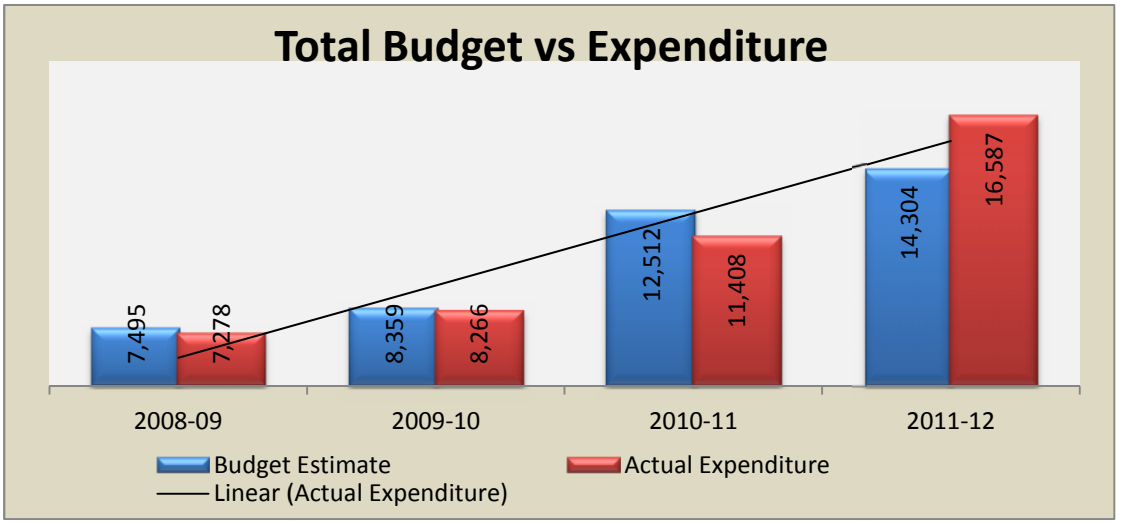
- Extra-ordinary increase in salary budgets (Table 12, Appendix D); and
- Extra-ordinary increase in non-salary budgets (Table 13, Appendix D).

Section 2: Analysis of Budget Execution and Expenditure Trends

1. This Section of Report provides analysis on expenditure trends since last four years i.e. FY's 2008-12 for (a) Health Department in Government of the Khyber Pakhtunkhwa, 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.

2. Discussion on District budget in proceeding paragraphs starts by discussing aggregate (meaning ALL Districts) budget allocation but also provides a light commentary on particular Districts showing unusual movements in budget expenditure trends.

FIGURE 8: BAR CHART (TOTAL BUDGET VS EXPENDITURE)



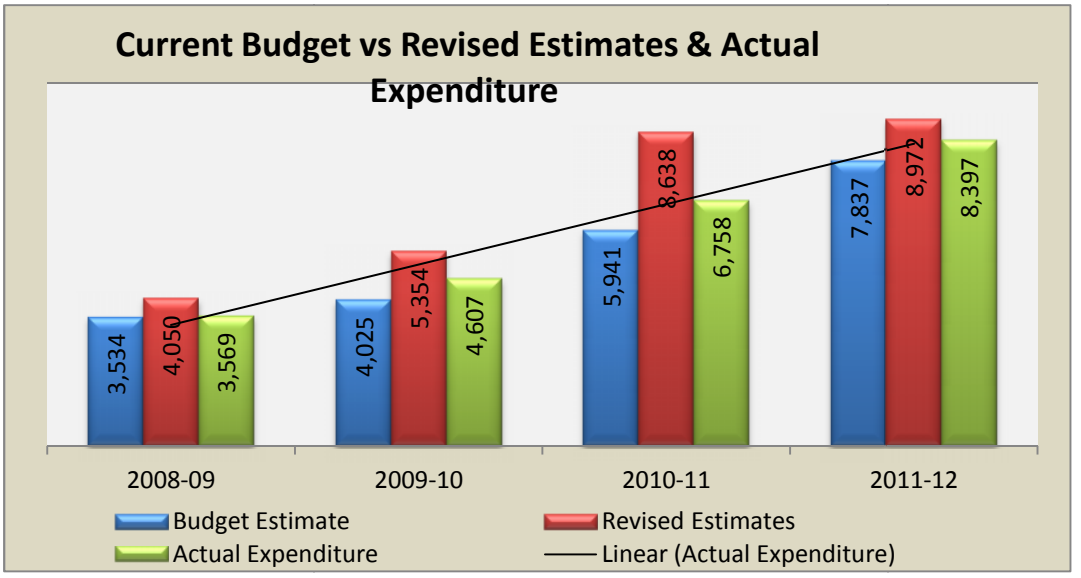
3. Provincial health expenditure has almost DOUBLED during FY's 2008-12. It stands at Rs 16.5bn for FY 2011-12 showing a highest ever budget execution rate of 116%. After experiencing a modest growth (YoY basis) in FY 2009-10, Provincial health expenditure continues to show a rising trajectory (Table 1, Appendix E).

4. With in Provincial health expenditure, ratio of current and development expenditure stands at 51:49 in FY 2011-12 showing improvements from prior year i.e 59:41 in FY 2010-11 (Table 1A, Appendix E).

5. Both Provincial health current and development expenditure appears to be growing at a same rate over FY's 2008-12 i.e both over 120%. Provincial health development expenditure grew the most (YoY basis) in FY 2011-12 showing a growth rate of 76%.

Provincial Health Current Expenditure

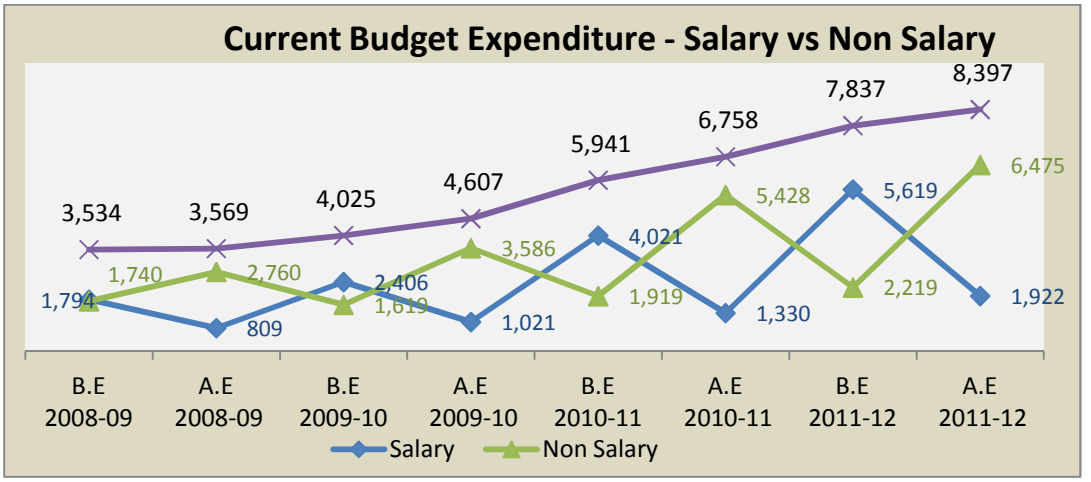
FIGURE 9: BAR CHART (CURRENT BUDGET VS REVISED ESTIMATES & ACTUAL EXPENDITURE)



6. Provincial health current budget for FY 2011-12 is Rs 8.3b. It has consistently maintained budget execution rate of well over 100% during FY's 2008-12. Original budget estimate was revised upwards through all these years.

7. Budget execution rates for salary and non-salary budget exhibit entirely different trends over FY's 2008-12. Both seem to be moving in different directions. For example, budget execution rate for salary budget has decline from 45% in FY 2008-09 to 34% in FY 2011-12 while the rate for non-salary budget has jumped from 159% in FY 2008-09 to 292% in FY 2011-112.

FIGURE 10: CURRENT BUDGET EXPENDITURE – SALARY VS NON SALARY



8. Ratio of salary within current expenditure consistently shows steady trend i.e just above 20% while non-salary is over 70%. This is quite surprising when compared to the composition based on budget allocations. For example, in FY 2011-12, the budget ratio between salary and non-salary is 72:28, whereas, the same ratio based on expenditure is 23:77, which seems quite unusual. The peculiar issues is also visible in prior years. For example, in FY 2010-11, budget ration between salary and non-salary health budget is 68:32, where as the same ration based on expenditure is 20:80. This clearly shows issues around proper budgeting.

9. Both salary and non-salary Provincial health expenditure have grown by over 135% during FY's 2008-12.

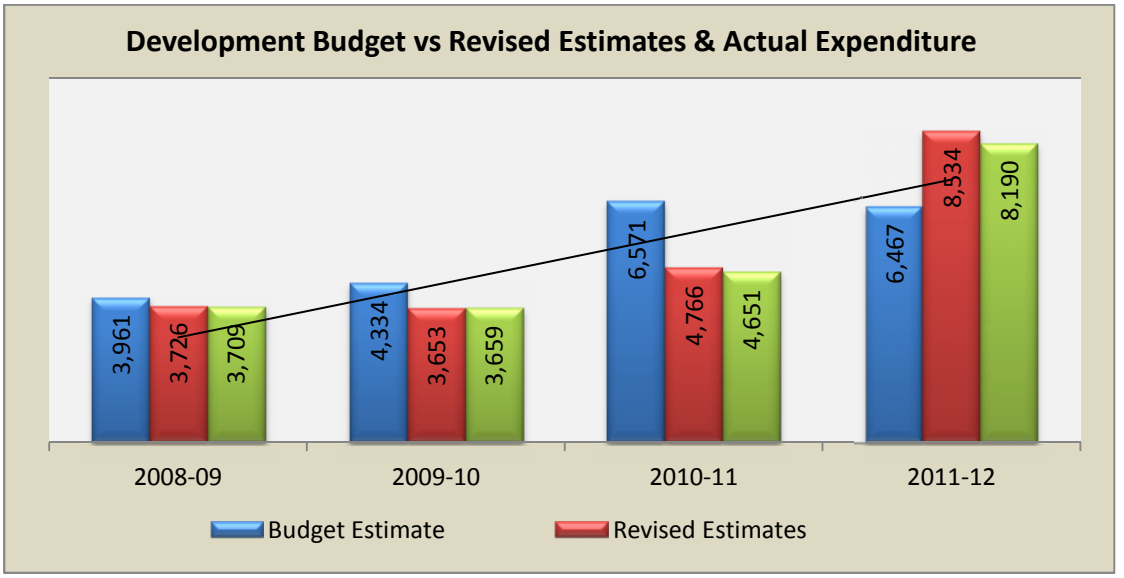
10. Within non-salary budget, Transfer Payments continue to register exceptionally high execution rate throughout the period of analysis, i.e. 462% in FY 2011-12 and 432% in FY 2010-11. Apart from this, operating expenses (which also include budget for drugs & medicines) register an execution rate of 79% in FY 2011-21 up from 75% in FY 2010-11. However, if analysed separately, execution rate for drugs & medicines has remained more than 100% throughout the three year period (e.g. 146% in FY 2011-12), although in nominal terms the proportion of drugs & medicines in the total current budget has remained negligible.

11. It seems apparent from the above analysis that since FY 2008-09, non-salary budget continues to be spent by the Health Department in excess of the levels set as part of the

original allocations, whereas the salary component has consistently remained under-spent throughout FY's 2008-12. This to some extent reveals issues around the budgeting process currently being followed at the Province.

Provincial Health Development Expenditure

FIGURE 11: BAR CHART (DEVELOPMENT BUDGET VS REVISED ESTIMATES & ACTUAL EXPENDITURE)



12. Provincial health development expenditure has almost DOUBLED during FY's 2008-12 and stands at RS 8.2b in FY 2011-12. It continues to demonstrate reasonably good budget execution rates. FY 2011-12 stands out as the ONLY year, during period of analysis, where budget execution was over 100% i.e 127%.

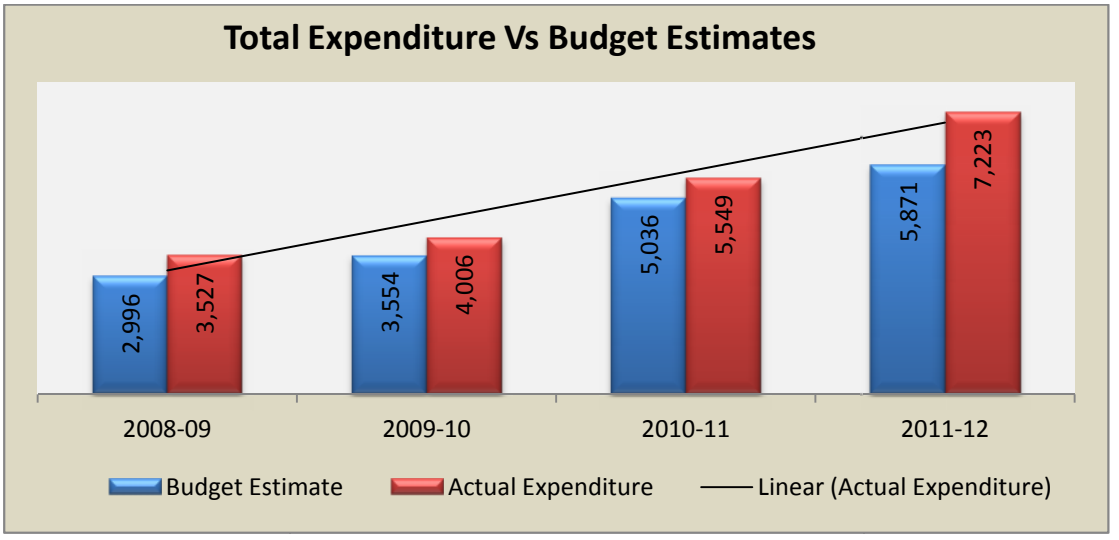
13. Provincial health development budget allocations have consistently been revised downwards each year during the period of FY's 2008-12 The highest revision was in FY 2010-11 (27%) compared to a downward revision of 16% in FY 2009-10 and 6% in FY 2008-09. FY 2011-12, however, suddenly witnessed an upward revision of 32% (Table 10, Appendix E).

14. Historically, asset creation activities like 'civil works' used to dominate non-salary development expenditure comprising well over 90% of expenditure mix but this situation

has changed. From FY 2011-12, 'operating expenses' account for 56% of non-salary development expenditure.

15. There is also a small element of salary budget within the development budget which does not appear in the original budget allocation but is shown as an actual expenditure in two years, i.e. FY 2008-09 and 2011-12.

FIGURE 12: BAR CHART (TOTAL EXPENDITURE VS BUDGET ESTIMATES)

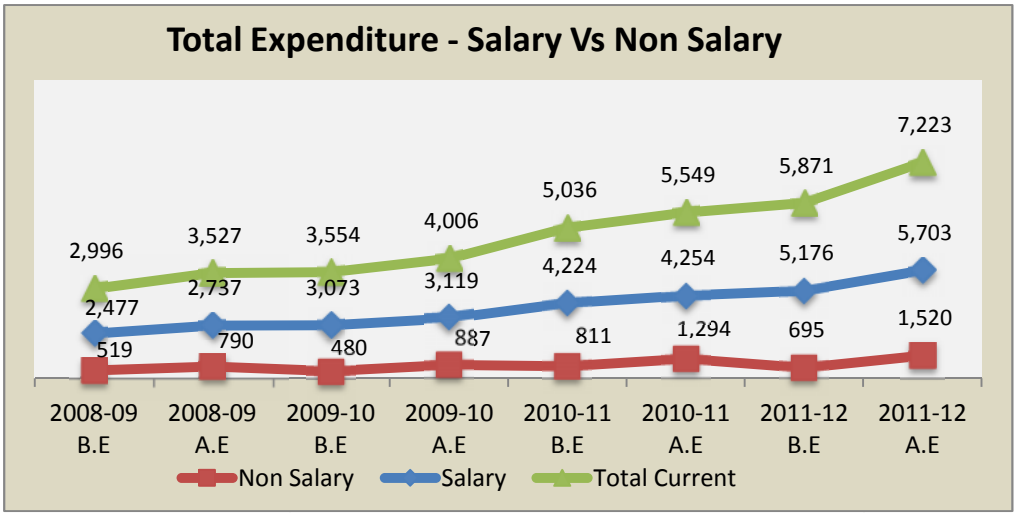


16. As noted earlier, district health budget comprises current budget only and no allocations are made for development budget in the district budget.

17. District health expenditure has DOUBLED during FY's 2008-12 and shows impressive budget execution rate of well over 116%. District health expenditure for FY 2011-12 is Rs 7.2b showing an increase of 105% since FY 2008-09.

18. Ratio between salary and non-salary based on district health expenditure has remained more or less the same in the three years (e.g. 88:12 in FY 2011-12). The ratio based on expenditure has however shown slight variations in FY's 2008-12. For example, the ratio was 78:22, 78:32, 77:33 and 79:21 in FY's 2008-12 for salary and non-salary budget.

FIGURE 13: TOTAL EXPENDITURE – SALARY VS NON SALARY)



19. Relatively, non-salary budget shows a better execution rate than salary budget. Budget execution rate for non-salary budget is 219% in FY 2011-12 while for salary budget, it is 110%. The high execution rates can also mean that both the salary and non-salary components are under-budgeted with inadequate allocations at the time of budget making and the result is that the actual spending surpasses the original budget allocations every year (typically done through supplementary budgets that come under 'revised budget')

20. Amongst non-salary budget, the budget execution rate of operating expenses, physical assets, repair & maintenance, grants / subsidies / write-off loans is giving consistently upward trends during FY's 2010-12.

21. Districts of Dir, Haripur and Hangu have received no budget allocation and consequently have not had any expenditure on 'drugs & medicines' since FY 2008-09.

22. Districts of Lakki and Swabi have received no budget allocation and consequently have not had any expenditure on 'drugs & medicines' since FY 2010-11.

23. Districts of Swat and Peshawar have received no budget allocation and consequently have not had any expenditure on 'drugs & medicines' for FY 2011-12.

24. Some districts show exceptionally high budget execution rates and are listed in Table 6, Appendix F.

25. Some randomly selected districts were subject to a detailed analysis with respect to their service delivery areas for which budget spending is actually taking place. The districts so analysed include Kohat, Mardan and Mansehra. Table 8 in Appendix F and various Tables in Appendix G give listing of districts' spending units which has been reviewed for the purpose of this analysis. This analysis reveals some interesting proportions of expenditure for districts' service delivery areas. According to the analysis, majority of the spending is taking place at five service delivery levels i.e. District Headquarters (DHQ) Hospitals, District Health Offices, Basic Health Units, Rural Health Centres and Clinics / Dispensaries. District wise proportions are mentioned as follows:

    - Kohat has more than 90% spending in the above service areas. Individually, the largest being in DHQ Hospitals (61%) in FY 2011-12 (Table 8, Appendix F);
    - Mansehra has almost all spending in the above areas. Here the largest spending is in DHQ Hospitals (38%), which is followed by spending in BHU's (Table 8, Appendix F);
    - The spending proportions in Mardan look like that of Mansehra, i.e. 100% in the above areas (individually with 36% spending in DHQ hospitals, 19% in BHU's and 20% in EDO health) (Table 8, Appendix F)

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