
Health Budget & Expenditure Analysis

(2008-09 to 2010-11)

**Health Department (Government of Khyber Pakhtunkhwa)
District Governments in Khyber Pakhtunkhwa**

October 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
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

- **Over the last couple of years, the fiscal space available to the Provincial Government has improved.** This is due to two notable reasons: firstly, under the 7th NFC Award, KPK's share from Federal Divisible Pool has been increased from 14.78% (largest increase after Balochistan); and secondly, due to increase in receipts from the Federal Government relating to Net Hydel Profits. **Arrears due from Federal Government for Net Hydel Profits, as and when realised, are likely to have a positive impact on fiscal health of the Government over the medium term;**
- **In FY 2010-11, increase in fiscal space has been absorbed largely due to floods, employee related costs, law and order and transfers to District Governments.** Relative to FY's 2008-10, net revenue receipts for FY 2010-11 have improved noticeably freeing more resources for development budget allocations;
- **The consolidated health expenditure (province and aggregated districts) for FY 2010-11 is Rs 16.9bn which is 97% of the budget allocation (Rs. 17.5bn).** In FY 2008-09 and FY 2009-10, consolidated health expenditure (province and aggregated districts) has been more than 100% of budget allocation;
- The composition ratio between current and developmental consolidated budget allocation (province and aggregated districts) has remained more or less the same for e.g. 63:37 (current and developmental respectively) in FY 2010-11. **But, while analysing actual expenditure, this important composition has shifted more towards current expenditure during last two years for e.g. in 73:27 (current and development respectively) in FY 2010-11;**
- **Since FY 2008-09, Provincial health current budget allocation has increased by 68% to Rs. 5.9bn in FY 2010-11.** Large part of this increase has been due to employee related costs. **Non-salary current budget allocations show marginal**

growth (10%) in nominal terms and negative growth (-8%) in real terms. Allocations for repairs and maintenance have remained consistently low i.e. less than one percent of current budget allocation;

- Similar to current budget, since FY 2008-09, Provincial health development allocation has increased by 66% to Rs. 6.6bn in FY 2010-11. **New schemes seem to be enjoying more priority in terms of development budget allocations;**
- Since FY 2008-09, Provincial health current budget expenditure has increased by 89% to Rs 6.7bn in FY 2010-11. Budget **execution rate for employee related expenses is beginning to show declining trends despite large budgetary allocations.** Whereas, the budget execution rate for non-salary budget current budget has increased substantially from 159% (FY 2008-09) to 283% (FY 2009-10);
- Within Provincial health current budget expenditure, **composition of salary and non-salary in the current budget changes significantly when one compares their respective ratios at the time of budget allocation and expenditure.** For example in FY 2010-11, budgeted ratio between salary and non-salary is 68:32 respectively. Whereas, the same ratio at the time of expenditure is surprisingly 20:80. This is a consistent, extraordinary phenomenon witnessed over the period of this analysis which might points towards unrealistic budget allocations;
- **Since FY 2008-09, Provincial development budget expenditure (Rs. 4.7 in FY 2010-11) has grown by 25% in nominal terms.** In real terms, this is showing negative growth of 8%. **Execution rate for provincial health development budget allocation is consistently exhibiting declining trends.** It has declined from 94% in FY 2008-09 to 71% in FY 2010-11;
- **Since FY 2008-09, District health current budget allocation has increased by 68% to Rs. 5bn in FY 2010-11.** Similar to Provincial Government, large part of this

increase has been due to employee related costs. **Composition of salary to non-salary in the current budget has been around 84:16 respectively;**

- **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;
- **Some Districts have received no budget allocations since FY 2008-09 for drugs and medicines in their current budget.** These are Haripur, Malakand, Mansehra, Hangu and Upper Dir. Similarly, Peshawar, Sawabi and Lakki have not received budget allocation for drugs and medicines in 2010-11;
- **Allocations for repairs and maintenance do not seem to be high on agenda for District health current budget.** In real terms, they have gone down by 5% since FY 2008-09;
- **Budget execution rate for District health current budget has been consistently over 100% during last three years.** This applies to both salary and non-salary expenditure;
- As per functional classification of expenditures, **more than 71% of consolidated expenditure (province and aggregate districts) in health is towards 'General Hospital Services' and 10 % towards 'Professional Teaching/Colleges'.** This is not a very informative classification which can facilitate users and policy makers for example, to 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 purpose (and qualitative aspects) of expenditure and make informed policy choices. **Functional classification of health needs reform and alignment with Provincial health policy and strategic objectives;**

- After promulgation of 18th amendment, w.e.f. 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 that the major chunk of expenditure has been deferred till next NFC. According to decision of Council of Common Interest (meeting held on 28 April 2011), **Federal Government has agreed to fund vertical programs;**
- **At some point it would be useful to up-date 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 Khyber Pakhtunkhwa. This would give a good sense of quantum of health related public expenditure investment (by Provincial Government, District Government and Federal Government) in Khyber Pakhtunkhwa and serve as a valuable reference tool for decision makers

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
Government of Khyber Pakhtunkhwa	7,495	7,278	8,359	8,266	12,512	11,408
District Governments	2,996	3,527	3,554	4,006	5,036	5,549
Total	10,492	10,805	11,912	12,273	17,548	16,957

Government of Khyber Pakhtunkhwa & District Governments

Current budget	6,531	7,096	7,579	8,614	10,976	12,306
Development budget	3,961	3,709	4,334	3,659	6,571	4,651
Total	10,492	10,805	11,912	12,273	17,548	16,957

Government of Khyber Pakhtunkhwa

Current budget	3,534	3,569	4,025	4,607	5,941	6,758
Development budget	3,961	3,709	4,334	3,659	6,571	4,651
Total	7,495	7,278	8,359	8,266	12,512	11,408

District Governments

Current budget	2,996	3,527	3,554	4,006	5,036	5,549
Development budget	-	-	-	-	-	-
Total	2,996	3,527	3,554	4,006	5,036	5,549

% Share in Budget and Actual Expenditure

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

Per Capita Expenditure

Population of Khyber Pakhtunkhwa (in Million)*		24.083		24.762		25.460
Per Capita Expenditure – Total		449		496		666
Per Capita Expenditure - Current		295		348		483
Per Capita Expenditure - Development		54		148		183

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

1. 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 the Consultant at the request of the Technical Resource Facility (TRF). Though, geographically Federally Administered Tribal Areas (FATA) is part of KPK for the purposes of this analysis it has been excluded since it is directly funded by the Federal Government;
2. The analysis cover FY's 2008-09, 2009-10 and 2010-11. Cut-off date for acquiring expenditure data for FY 2010-11 is 8 October 2011. This means that the 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 the annual budget documents. Where as all other data, that is, provincial expenditures and budgets and expenditures 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;
4. The flow of this document has been organised in such a manner as to make it more informative by starting to explain 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 the readers, this report is divided into following sections:

Section I Macro-fiscal context of Khyber Pakhtunkhwa

Section II Analysis of Health Budgets and Budgetary trends

Section III Analysis of Health Budget Execution and Expenditure trends

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5. **Section I** lays down, in brief, the overall macro-fiscal situation facing the Province. This was considered necessary so that readers are able to appreciate the overall fiscal realities facing the Province against whose backdrop the budget each year is formulated and executed;
 6. **Section II** attempts to analyse budgetary allocations and how the budget has grown over the years in terms of aggregate and specific levels. This section also provides a commentary on MTBF estimates of Provincial Government;
 7. **Section III** reviews the expenditure against budget allocations from various dimensions ranging from an aggregate to specific, detail levels using an economic and functional classification perspective. Further expenditure by 'service delivery' area was also performed for three Districts that is, Chitral, Mardan and Mansehra representing the North, South and Center, respectively;
 8. As one would expect, the above analysis could only be performed after extracting and carefully reformulating quite a voluminous budget and expenditure data covering the 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 to 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 the Provincial Health Department and District Governments of Khyber Pakhtunkhwa;
 10. *Key assumptions* – the budget and expenditure analysis following sections do not provide commentary on:
 - budgetary processes and flows, basis of budgeting and budget priorities used in formulating budget estimates and their revision;
 - causes and reasons for low budget execution (spending);
 - qualitative impact and aspects of expenditure;
 - budget formulation and budget execution procedures and institutions.

2. MACRO-FISCAL CONTEXT OF KHYBER PAKHTUNKHWA

11. Khyber Pakhtunkhwa (KPK), formerly known as North West Frontier Province (NWFP), is the third largest province with an estimated population of 21 million (i.e. 11.9% of Pakistan's population), of which approximately 52% are male and 48% female. After Balochistan, KPK happens to be the second poorest Province in the country. Administratively, the province is divided into three parts: settled areas (which includes most of the districts of the province); provincially administered tribal areas (PATA); and federally administered tribal areas (FATA);
12. KPK contributes around 10% to country's GDP annually. Key sectors making up the provincial economy are forestry, mining, agriculture, manufacturing and trade. Generating hydel power appears to be an untapped area in the Provincial Government. KPK has a capacity of 29,600 MW which is 70% of country's hydel generation capacity. It current produces only 3,945MW (13%) of Provincial capacity;
13. Similar to other Provinces, there is high dependence (75% approximately) on transfers from federal government under the National Finance Commission (NFC). Under the 7th NFC Award, KPK's share from Federal Divisible Pool has been increased to 16.425% from 14.78%. Provincially owned resource base has generally remained narrow and shows some apparent inflexibility in the provincial economy;
14. FY 2010-11 appears to have provided more fiscal space to the Province. This amounts to Rs. 95bn approximately and is because of two factors: one, because of new NFC Award; and two, due to exponential growth in Net Hydel Profits. Since 1991-92, Net Hydel Profits were capped at Rs. 6bn (annually) based on provisional profits of WAPDA (FY 1990-91). Whereas the Province has challenged these computations and claimed more from the Federal Government. In FY 2006-07, Arbitration Tribunal approved Rs 110bn as arrears (till FY 2004-05) payable by the Federal Government to the Province over a period of five years. Furthermore, the Province has claimed from Federal Government an additional Rs 209bn for FY's 2005-06 to 2009-10 (accumulative principal and mark-up);
15. Last year's floods caused unprecedented damage to the Province in a number of ways. Besides rendering a large number of people homeless, the floods damaged the standing crops, livestock and infrastructure. This led the government to reconsider its budget priorities, freeze available funds earlier committed for development schemes and other initiatives and make necessary adjustments in the

Provincial budget estimates in FY 2010-11 by diverting available funds towards rehabilitation activities and infrastructure development;

16. The Province has also been directly hit by terrorism in recent years. Due to its unique location, the Province is more vulnerable to events taking place as a result of armed conflicts in the region. Suicide bombings, missile and drone attacks, bomb explosions and an overall war-like situation in some parts of the Province have direct bearing on the provincial economy – all becoming limiting factors for the provincial government in expanding provincial own resources. To compensate the Province on losses incurred in the ongoing war against terrorism, the 7th NFC Award provides additional resources (to KPK only) to the extent of 1.80% of the divisible pool;
17. Since FY 2008-09, total budget allocations have grown by more than 80%. A large part of the fiscal space has been absorbed by the current budget. Allocations for current budget have grown by 19% and 60% in FY 2009-10 and 2010-11, respectively. Whereas, the development budget has grown by 23% and 35% in FY 2009-10 and 2010-11, respectively. Over the years, ratio between current and budget has changed in the favor of current budget;
18. Current expenditure for FY's 2008-10 has consistently been more than the budget allocation. Salary budget accounts for 60% of current budget allocation. Budget execution rate for development budget for these years has hovered around 80%. One possible reason for this could be utilisation of development budget for current spending;
19. Provincial salary budget has increased significantly during three years. The major increase was done in FY 2010-11, when salaries were raised by more than 50%. As at 30th June 2011, there were more than 375,000 employees of the provincial government for which a sum of Rs. 76bn was allocated. Overall, around two-thirds of the budget goes to salary and wages;
20. For FY 2010-11, increase in fiscal space has been absorbed by salary costs, law and order, transfers to District Governments and slight increase in debt costs. Relative to FY's 2008-10, net revenue receipts for FY 2010-11 have improved considerably providing more resources for development budget allocation;

3. ANALYSIS OF BUDGETS AND BUDGETARY TRENDS

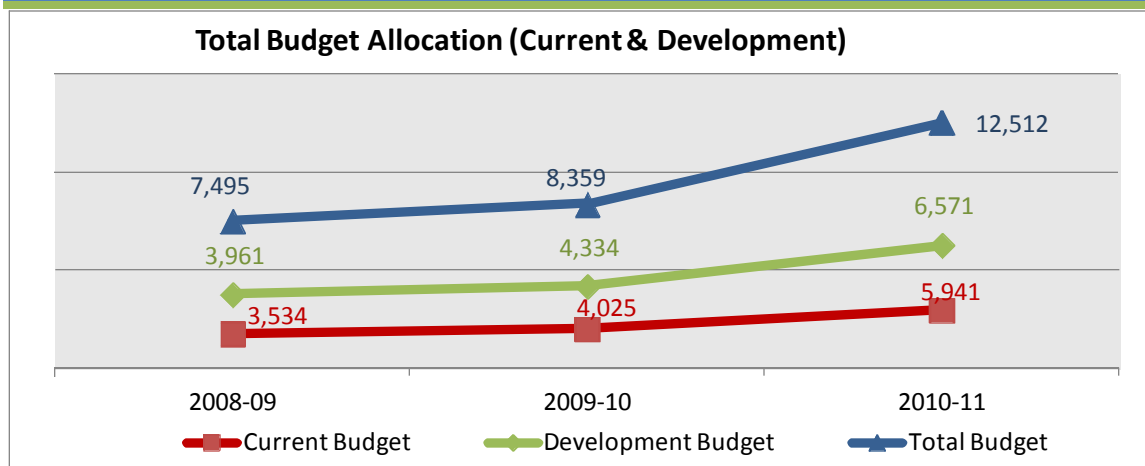
21. This Section of the Report provides analysis on the budget allocation and its historical trends during FY's 2008-09, 2009-10 and 2010-11 for (a) Health Department in Government of Khyber Pakhtunkhwa, and (b) Districts Governments. It starts by analysing the total budget allocation (Health Department and Aggregate Districts) that is, providing the macro perspective. Then it moves on to describe the typical composition of current and development budget and finally drills down separately into allocations for current and development budget for each level of Government;
22. 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;

Health Department & Aggregate Districts

23. Before going any further, here it would be useful to appreciate typical composition of the budget that is, an assessment of what it actually contains. An analysis of the budget composition suggests that employee costs have the largest share (47%) in the consolidated budget allocation (province and aggregate districts) in FY 2010-11. These allocations are followed by Civil Works (28%) and Operating Expenses (16%) in FY 2010-11. The share of drugs and medicines has remained negligible, that is, 1% of the total budget allocations in FY 2010-11 (Table 3, Appendix C);
24. With 74% allocation in FY 2010-11, "General Hospital Services" continue to dominate the consolidated budget (province and aggregate districts) in terms of functional classifications throughout the period of analysis. Other notable allocations are for medical education, professional and technical colleges (17%) and Administration (5%) (Table 7, Appendix C);

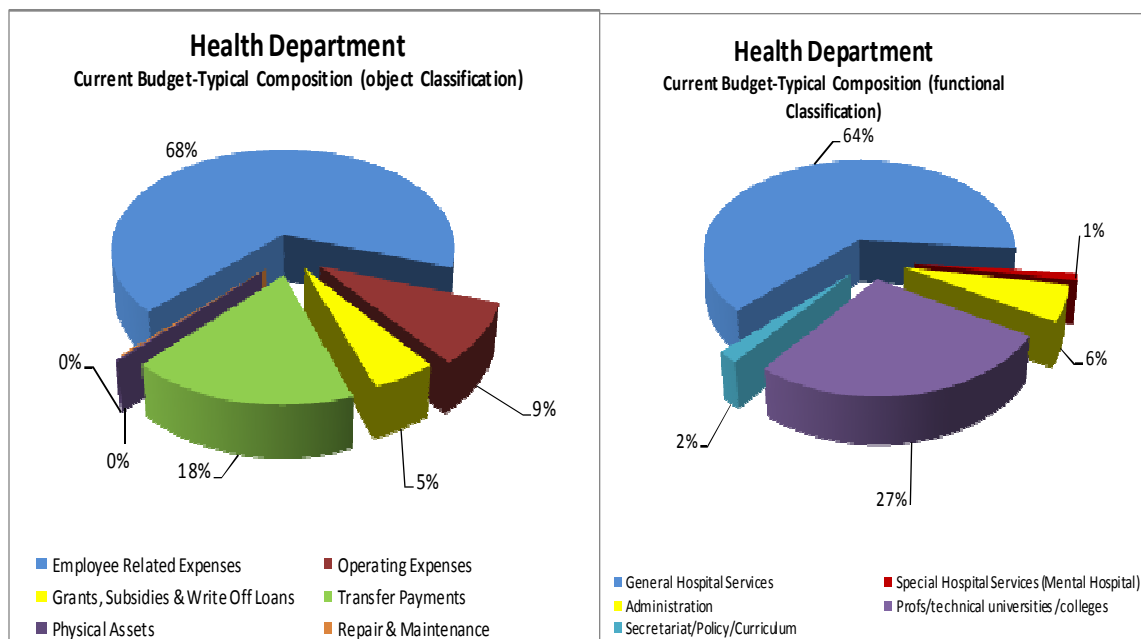
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25. Consolidated budget allocations continue to show a rising trend over FY's 2008-11. In FY 2010-11, these have grown by 67% since FY 2008-09 (in nominal terms). In real terms, however, the growth is 44% in FY 2010-11 (Table 2, Appendix C);
26. Consolidated employee related budget allocation (province and aggregate districts) have grown by 50% in FY 2010-11 (on YoY basis), while operating expenses grew by 153%. Transfer payments and grants, subsidies and write-off loans have shown a mixed trend but together have registered a net growth of 9% over 2008-09. Allocations for Civil Works have been consistently rising since 2008-09 and have grown by 23% in FY 2010-11 (Table 2, Appendix C);
27. The budget analysis also reveals that allocations for repair and maintenance have been fluctuating since FY 2008-09. In FY 2009-10, it showed a negative growth in nominal and real terms. Over FY's 2008-11 it has remained less than a quarter of a percent of consolidated budget allocation. The actual expenditure, though, has remained much higher than the allocations in FY 2010-11 (114%). This may not seem to reflect actual requirements of the budget entities (Table 2 & 3, Appendix C);
28. Since FY 2008-09, allocations for General Hospital Services are rising and have shown an increase of 44% in FY 2010-11. Similarly, allocations under the classification of medical education ("Professional / Technical / Universities") have more than doubled in FY 2010-11 and registered a growth rate of 122% since FY 2008-09 (Table 6, Appendix C);

Health Department, Government of Khyber Pakhtunkhwa



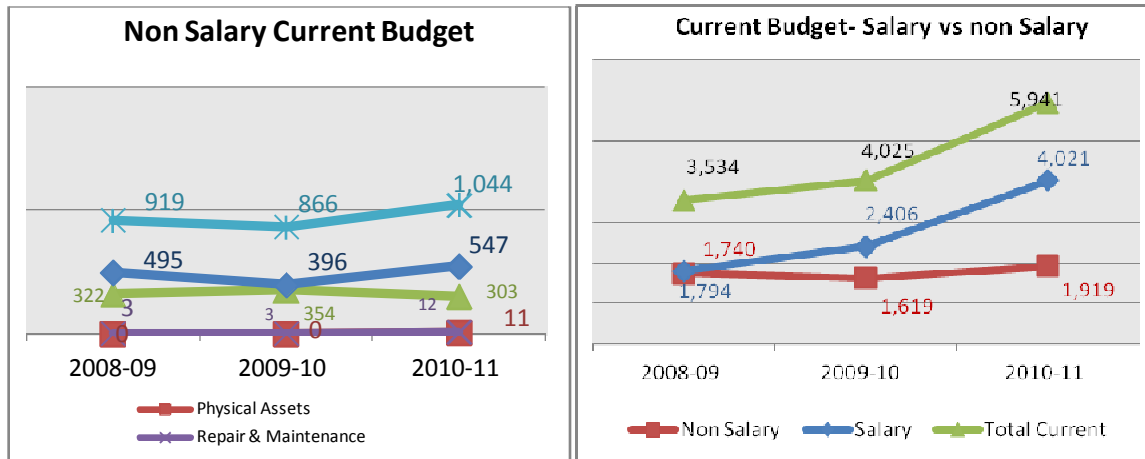
29. Total budget allocation (current and development) for Health Department is showing a rising trend since FY 2008-09. In nominal terms it has grown by 67% since FY 2008-09. In real terms, however, the total budget allocation has increased by 46% in FY 2010-11 after dropping by 2% in FY 2009-10 (YoY)(Table 1, Appendix D);
30. Provincial health budget allocation in comparison to total provincial budget outlays are showing declining trend since FY 2008-09. It has dropped from 7% in FY 2008-09 to 6% in FY's 2009-10 and 2010-11 (Table 2, Appendix D);
31. Both current and developmental budgets have been rising since FY 2008-09. Growth rate in current budget was slightly higher (14%) in FY 2009-10 when compared to the growth rate in development budget (9%). The situation, however, changed in FY 2010-11 when development budget grew by 52% and current budget demonstrated a growth rate of 48% on YoY basis (Table 3, Appendix D);
32. Ratio of composition between current and development budget stands at 47:53 respectively in FY 2010-11 which is unprecedented during the period of this analysis. Never in the last three years was half of total budget allocation for current budget. For example, the current budget to development budget ratio was 35:65 and 26:74 in FY 2008-09 and FY 2009-10, respectively (Table 3, Appendix D);

Current Budget



33. As far as budget composition is concerned, employee related expenses (68%) and operating expenses (9%) account for more than 77% of current budget allocations, transfer payments have an allocation of 18%, 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 D);

34. General Hospitals Services continue to dominate the current health spending. The use of functional classification seems to be consistent both in the provinces and districts (with the exception of medical education which is mostly used in the province);



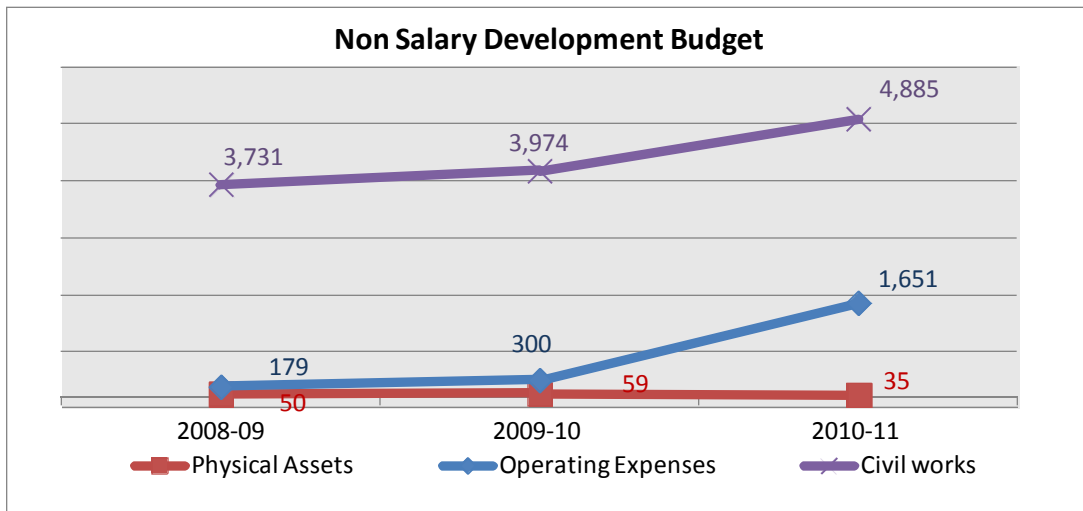
35. The total allocations for current budget exhibit higher growth over FY 2010-11 compared with the growth rate in FY 2009-10. In 2010-11, for example, current budget allocations have gone up till Rs. 5.9 billion (up by 48%) from Rs. 4 billion in FY 2009-10. Overall increase in FY 2009-10 was 14% (Table 4, Appendix D);
36. Over the years, quite clearly, there is a marked shift towards more allocations for salary component of the current budget. Since FY 2008-9, ratio between salary and non-salary component has changed from 51:49 to 68:32;
37. Non-salary budget has shown mixed growth rates over the years, from negative 7% (FY 2009-10) to 19% (FY 2010-11) on YoY basis. Overall growth rate has not been more than 10% since 2008-09. With negative 18% and 15%, the growth in real terms has further deteriorated in the two years (Table 9, Appendix D);
38. Salary budget is growing at a faster rate than non-salary budget in the three years. On YoY basis, it has grown by 67% in FY 2010-11. Within non-salary budget, the notable increases are in operating expenditure (38%) and transfer payments (20%). Physical assets and repairs and maintenance exhibit a large increase in percentage terms only (that is, 3143% and 233% respectively) however, in real terms the allocations have been quite low since 2008-09;
39. Allocations for repair and maintenance seem to be consistently ignored year after year. With an allocation as low as 0.17% of non-salary budget in 2008-09, the repair

and maintenance seems to have failed to make any impact on overall budget even after rising to 0.67% of non-salary budget in FY 2010-11 (Table 8, 9 & 10, Appendix D);

40. Budget allocations for operating expenses have increased by around 38% (YoY basis) in FY 2010-11 after registering a decline of more than 20% in FY 2009-10. The increase in FY 2009-10 can be largely attributed to allocations for 'drugs and medicines'. In FY 2010-11, allocations for drugs¹ and medicines have shown an increase of more than 328% on YoY basis (or 369% when compared to levels in FY 2008-09 (Table 10 & 11, Appendix D);

41. Similarly, allocations for²grants, subsidies and write off loans have declined by 14% in FY 2010-11 after rising by 10% in FY 2009-10. Transfer payments on the other hand show an increase of 20% in FY 2010-11 after registering a decline in FY 2009-10 (Table 10, Appendix D);

Development Budget



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 and Medicines have also been analysed separately. Apparently, there seems to be no policy for providing free of cost Drugs and Medicines patients in Provincial hospitals.

² Grants, subsidies and write off and Transfer Payments offers relatively more flexibility and discretion for budgeting and spending purposes

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42. Civil Works seems to claim the largest share in the Provincial development budget since FY 2008-09, though this share is declining. For example, in FY 2010-11, civil works had an allocation of 74% of the development budget, down from 94% and 92% in FY's 2008-09 and 2009-10, respectively. The share of operating expenses in the development budget stands at 25% in FY 2010-11, up from 5% in FY 2008-09 (Table 14, Appendix D);
43. In terms of functional classification, General Hospital and Services account for 74% of development budgetary allocations, followed by medical education (Professional / Technical / Universities, etc.) 22% (Table 15, Appendix D);
44. Development budget has grown substantially since FY 2008-09. In nominal terms, the allocations have grown by 66% while in real terms, the allocations have risen by 48% in FY 2010-11 after declining by 3% in FY 2009-10 (YoY) (Table 12 & 13, Appendix D);
45. A detailed analysis of the provincial ADP suggests that there is an increasing trend to undertake new development schemes by providing them a higher budget allocation rather than completing the existing schemes. In FY 2010-11, there were 130 schemes (ongoing and new) in the Province, of which Peshawar happens to have the largest number (ongoing: 23 and new: 10) followed by Mardan (ongoing: 8 and new: 4). Most of the schemes are self financed and foreign aid funded programs remain at very minimal levels (Table 16 & 17, Appendix D);

4. MEDIUM TERM BUDGETARY FRAMEWORK (MTBF)

46. Health Department is one of the pilot departments for implementation of MTBF reforms. Since FY 2009-10, it has been preparing its budgets on MTBF mode of budgeting. As part of it, the Department has developed a set of outcomes with related outputs and has prepared budget estimates for three years.
47. The Department has not fully switched to MTBF 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.
48. Health Department prepares MTBF estimates and also develops a set of service delivery indicators as part of the process;
49. MTBF estimates are compiled in the form of a separate book which provides information about three year budget estimates for current and development budgets;
50. Planning and budgeting in Districts is not on MTBF basis;

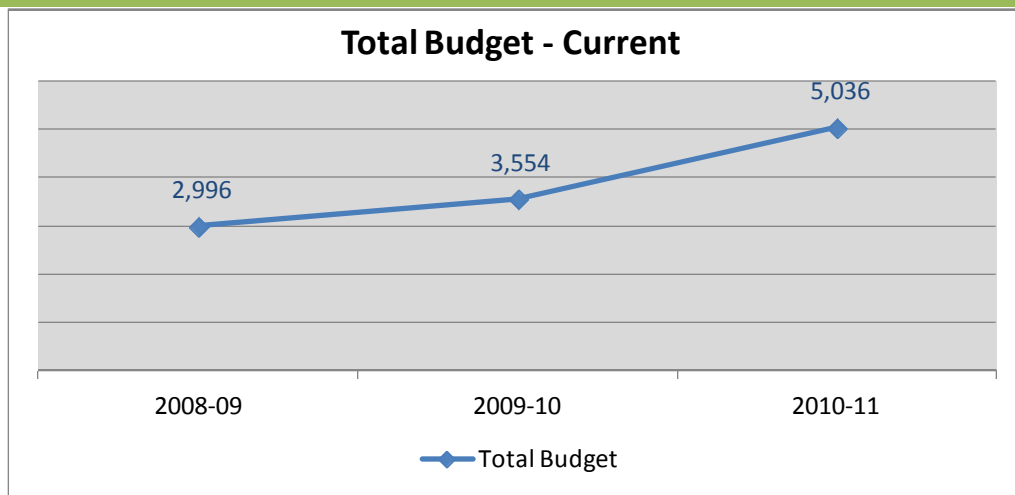
Current Budget

51. FY 2011-12 is the third year of MTBF implementation at HD. An analysis was performed showing how the outer years (budget forecast) have performed against actual budget allocation in subsequent years. It was observed that the projections for current budgets are by and large within 14% to 20% (Table 19, Appendix D);

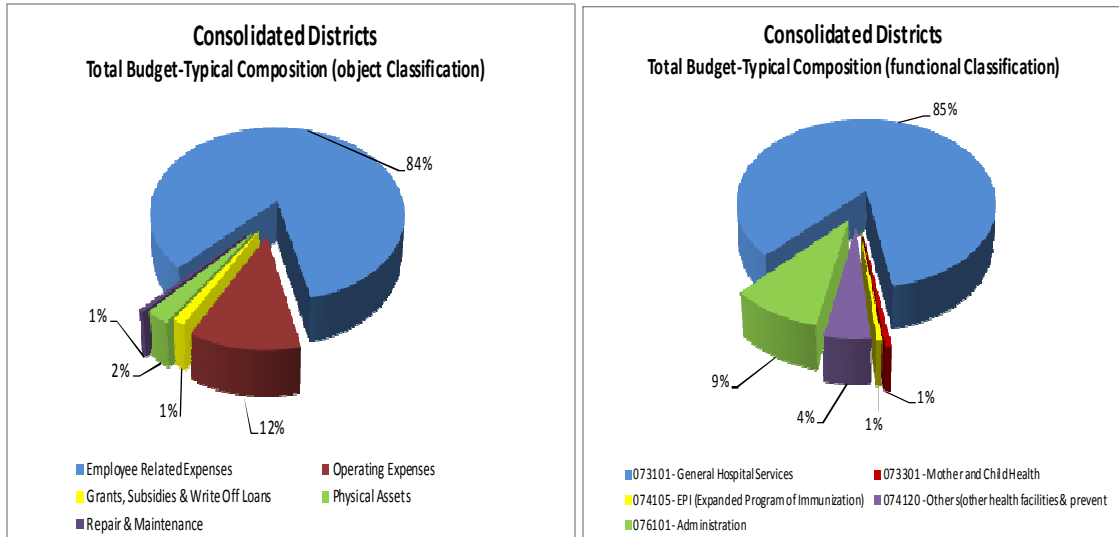
Development Budget

52. In case of development budget, the variances between outer years and actual budget allocation in subsequent years are minus 11% for FY's 2011-12 and 2012-13 (Table 19, Appendix D);

District Governments



53. Over-all district budget allocation in FY 2010-11 has risen by more than 68% when compared to levels in FY 2008-09 (nominal terms). The growth in real terms is much less, i.e. 44% since FY 2008-09 (Table 1, Appendix E);
54. 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. This also exhibits the level of priority attached to health development budgets at District level.
55. 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 and up-gradation of BHU and 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 2011-12, such schemes were around Rs 711mn (Table 18, Appendix D);



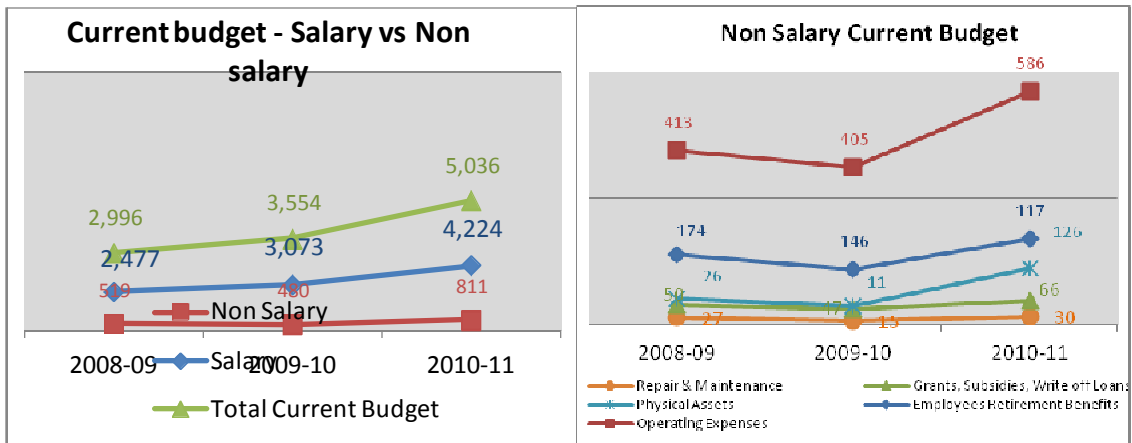
56. Employee related expenses (84%) and operating expenses (12%) put together comprise more than 96% of typical composition (economic and object classification) of district current budget. And in terms of functional classification, 84% is being allocated towards General Hospital and Services, 9% towards Administration and 5% towards Other Health Facilities. Only negligible (1% each) is allocated towards MCH and EPI programs (Table 2 & 3, Appendix E);

57. Total budget allocations for all Districts (consolidated), show consistently rising trends over the period of analysis (2008-11). The allocations grew by 42% in FY 2010-11 from 19% in FY 2009-10 (all in nominal terms). The inflationary impact has caused a decline in the growth rate but nonetheless, in real terms, the growth has remained positive throughout this period (Table 1, Appendix E);

58. Some Districts stand out in terms of showing extraordinary budget increase and decrease. Total budget allocations for Shangla, Peshawar, Swat, Batagram, Abbotabad, Dir at Timargara and Tank stand out in terms of phenomenal budget increase over last three years. (Table 9, Appendix E);

59. Districts appear to be getting very low allocations for repair and 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 to

again reach the levels in FY 2008-09. In real terms, repair and maintenance actually shows negative growth since 2008-09 (Table 6, Appendix E);



60. Ratio between salary and non-salary budget of the Districts has remained more or less the same in the past three years. In FY 2010-11, the ratio between salary and non-salary expenditure was 84:16. Allocation for salary has remained consistent within a range of 83%-86% of total budget during FY's 2008-11. For example, in FY 2010-11 salary allocations was 84% of the total budget, down by 2% from FY 2009-10 but slightly up when compared to 2008-09. This also means that non-salary budget allocation has remained at almost the same level as it was in 2008-09 (i.e. 16%). On YoY basis, however, it seems the rise in salary allocation is almost in line with the overall increase in budget. For example, salary increase was 37% (2010-11) and 24% (2009-10) (Table 4 & 5, Appendix E);

61. Non-salary budget has grown by 56% since FY 2008-09. In real terms, the growth, however, gives a different number, i.e. 34%. Similarly, FY 2009-10 had a negative real growth of 18% (Table 5, Appendix E);

62. Since 2008-09, salary budget has grown by around 71% where as operating expenses have risen by 42% in 2010-11. Allocations for repairs and maintenance have grown by more than 100% in FY 2010-11 after declining by 45% in FY 2009-10. (Table 5 and 6, Appendix E);

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63. For most of the budget heads within the non-salary component, FY 2009-10 was generally a year of declining trends in allocations. When compared to the levels in FY 2008-09, the largest decrease is observed in physical assets (57%) followed by repairs & maintenance (45%) and grants & subsidies (7%). The situation has drastically changed in 2010-11 when allocations in these budget heads moved up considerably. For example, physical assets have gone up by 1020%, repairs and maintenance by 101% and operating expenses by 45% (Table 6, Appendix E);
64. Allocations for drugs and medicines are made within operating expenses and have shown a decline of 5% (YoY) in FY 2010-11 after rising by 13% in FY 2009-10. The level of allocations is also not high and has remained around 2%-3% of the overall district budget allocations during 2008-11. In real terms, the negative growth has swelled to 8% since 2008-09 (Table 7, Appendix E);
65. The analysis of drugs and 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;
66. While analysing current budget certain Districts become more conspicuous in terms of:
- (a) Largest budget allocations (Table 8, Appendix E);
 - (b) Highest budgetary growth (Table 9, Appendix E);
 - (c) Least budget growth (Table 10, Appendix E);
 - (d) High proportion of salary budget (Table 11, Appendix E);
 - (e) Extra-ordinary increase in salary budgets (Table 12, Appendix E); and
 - (f) Extra-ordinary increase in non-salary budgets (Table 13, Appendix E).

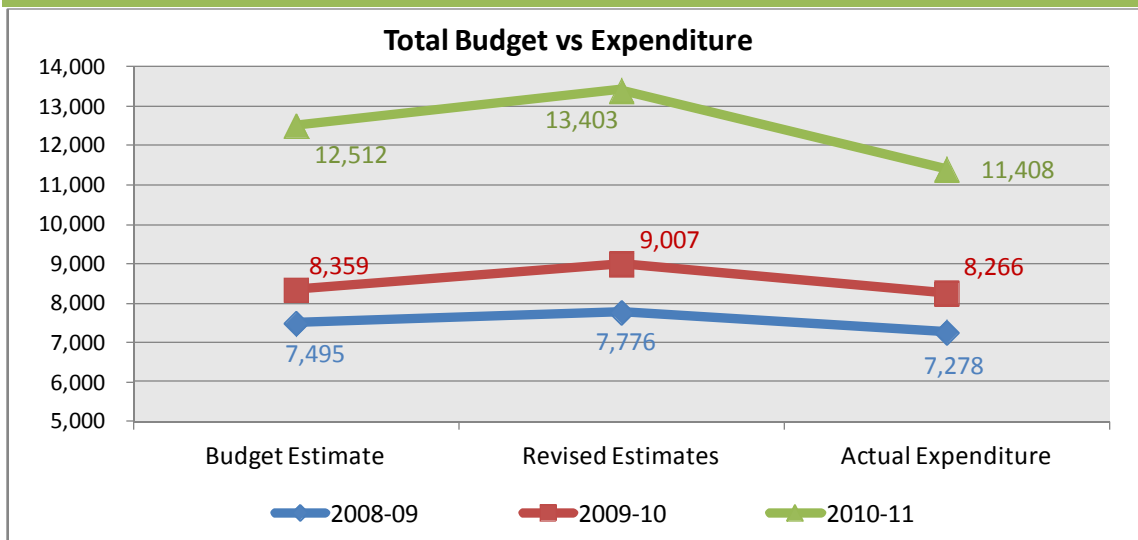
5. ANALYSIS OF BUDGET EXECUTION AND EXPENDITURE TRENDS

67. This Section of Report provides analysis on expenditure trends for the last three years i.e. FY's 2008-11 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 that is, providing the macro perspective and then finally drills down into assessing how expenditures have performed against current and development budget allocation for each Government;
68. 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;

Health Department & Aggregate Districts

69. Overall budget execution rate (which measures actual expenditure in relation to original budget allocations for a particular FY) has remained more than 100% in FY's 2008-09 and 2009-10 and slightly less than 100% in FY 2010-11 (Table 3, Appendix C);
70. A further analysis of budget execution rate into current and development components suggests that the budget execution rate for current budget (province and aggregate districts) has remained more than 100% of the original budget allocations through FY's 2008-11 (i.e. 108%, 114% and 112%), while less than 100% in case of development budget (and also showing consistent declining trend since FY 2008-09), i.e. 94%, 84% and 71%(Table 4 & 5, Appendix C);

Health Department, Government of the Khyber Pakhtunkhwa

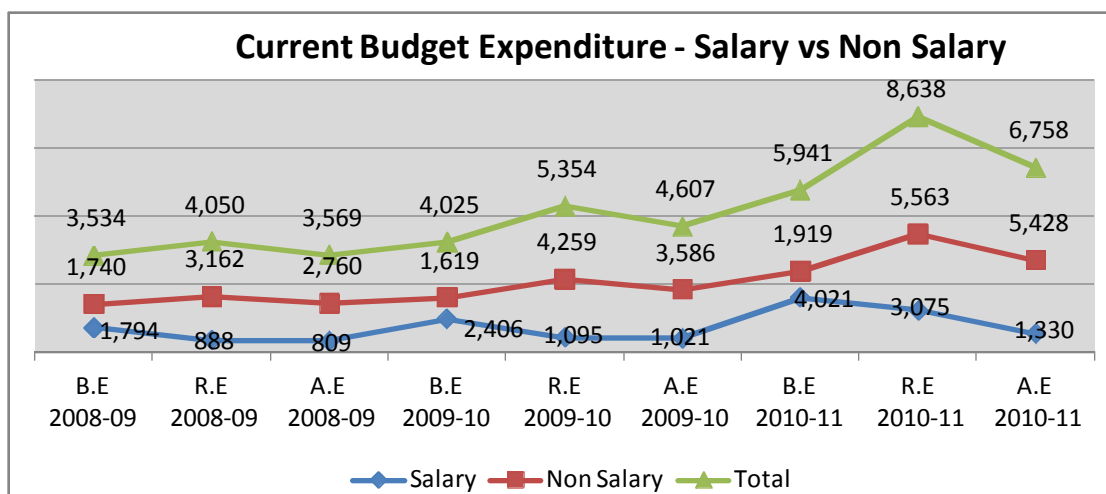


71. Overall budget execution rate for Provincial Health budget has remained very close to 100% since FY 2008-09. The execution rate has dropped to 91% in FY 2010-11 after rising to 99% in FY 2009-10 (Table 1, Appendix F);

72. During FY's 2008-11, original budget allocations have been revised upwards. For example, budget allocations were revised upward by 7% for FY 2010-11, 8% for FY 2009-10 and 4% for FY 2008-09. This revision has also impacted the budget execution rates, which after revision, were 85%, 92% and 94% respectively for FY 2010-11, 2009-10 and 2008-09 (Table 3, Appendix F);

73. Health Department has consistently been able to demonstrate good budget execution rates (Table 4, Appendix F) for its current budget (more than 100% in all three years) but the situation is different in case of development budget;

Current budget



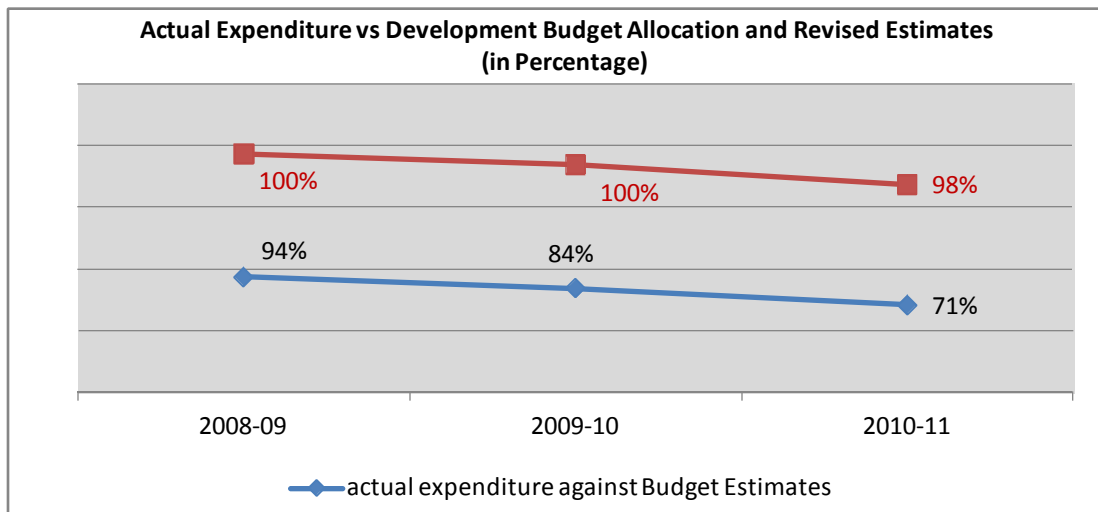
74. Current budget shows consistent extra-ordinary budget execution rate. For example, budget execution rates for FY's 2008-09, 2009-10 and 2010-11 have been 101%, 114% and 114% respectively (Table 4, Appendix F);
75. Budget execution rates for salary and non-salary budget exhibit entirely different trends over FY's 2008-11. 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 33% in FY 2010-11 while the rate for non-salary budget has jumped from 159% in FY 2008-09 to 283% in FY 2010-11 (Table 6 & 8, Appendix F);
76. Ratio of salary within current expenditure consistently shows a declining trend since FY 2008-09 (from 33% in FY 2008-09 to 20% in FY 2010-11), while that of non-salary budget continues to rise over the same period. This is quite surprising when compared to the composition based on budget allocations. For example, in FY 2010-11, the budgeted ratio between salary and non-salary is 68:32, whereas, the same ratio based on expenditure is 20:80, which seems quite unusual (Table 6A, Appendix F);
77. Actual expenditure for salary budget and non-salary budget has grown by 89% during last three years. Within non-salary budget, transfer payments continue to register exceptionally high execution rate throughout the period of analysis, i.e. 432% in FY 2010-11, up from 364% (FY 2009-10) and 274% (FY 2008-09). Apart

from this, operating expenses (which also include budget for drugs & medicines) register an execution rate of 75% in FY 2010-11, down from 77% in FY 2009-10. However, if analysed separately, execution rate for drugs and medicines has remained more than 100% throughout the three year period (e.g. 168% in FY 2010-11), although in nominal terms the proportion of drugs and medicines in the total current budget has remained negligible (Table 6,7 & 8, Appendix F);

78. 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 2008-11. This can, to some extent, reveal the limitations of the budgeting process currently being followed at the Province;

79. The Provincial budget and expenditure analysis also reveals that each year budget allocations are being consistently revised upwards since FY 2008-09. The actual spending has remained lower than the revised budget allocation and higher than the original budget (Table 4 & 5, Appendix F);

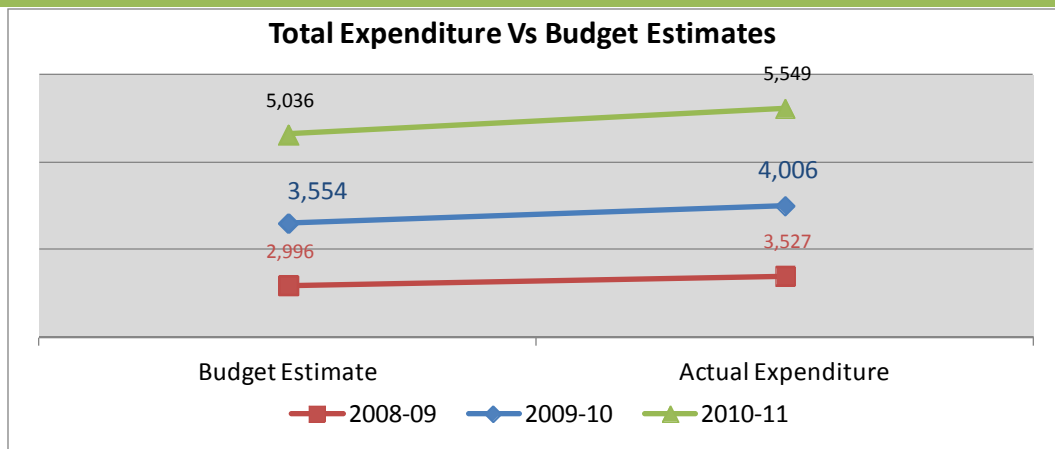
Development Budget



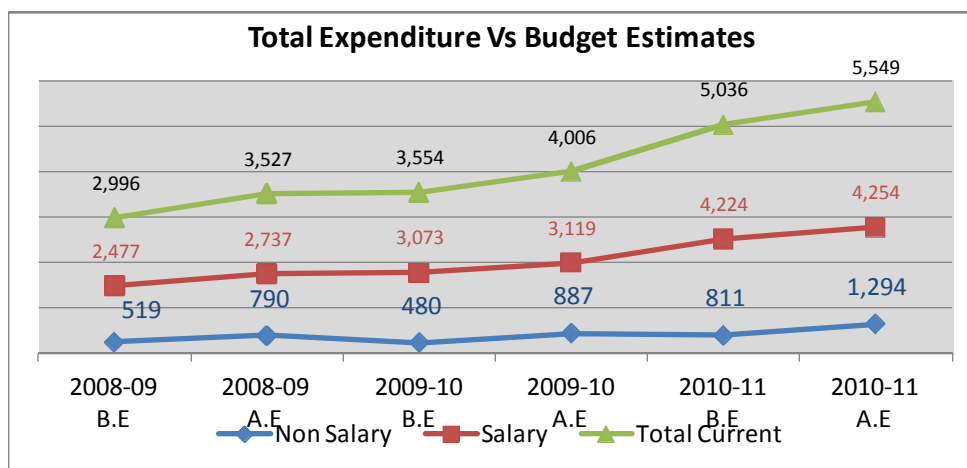
80. Actual expenditure in development budget has grown by 27% in nominal terms and 24% in real terms (Table 9, Appendix F);

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81. Budget execution rate for development budget has been declining since FY 2008-09. For example, in FY 2010-11 it has dropped to 71% from 84% in FY 2009-10 and 94% in FY 2008-09. In nominal terms, overall actual expenditure depicts an increase of 25% in 2010-11 when compared to the spending level in FY 2008-09. However, in real terms, the expenditure decreased considerably (by 13%) in FY 2009-10 before registering a growth of 24% in FY 2010-11 (Table 9, Appendix F);
82. Development budget allocations have consistently been revised downwards each year during the period of FY's 2008-09. 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 (Table 10, Appendix F);
83. Budget execution rate for most of the non-salary development budget has been declining since FY 2008-09. For example, operating expenses and civil works have declined from 54% and 95% in FY 2008-09 to a mere 25% and 85% respectively in FY 2010-11. Physical assets demonstrate very high execution rates (i.e. 435% in FY 2009-10 and 200% in FY 2010-11), although has very limited allocations when compared to other budget heads. (Table 12, Appendix F);
84. However, the budget execution rate based on revised estimates is much higher for the non-salary budget, e.g. (i.e. 94% for operating expenses and 97% for civil works) in FY 2010-11 (Table 13, Appendix F);
85. 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 one year only, that is, FY 2008-09 (Table 12 & 13, Appendix F);

District Governments



86. As noted earlier, district health budget comprises current budget only and no allocations are made for development budget in the district budget;
87. The overall budget execution rate has remained higher than the original allocations but at the same time also shows a marginal declining trend over last three years that is, 118%, 113% and 110% in FY 2008-09, FY 2009-10 and FY 2010-11, respectively (Table 1, Appendix G);
88. The actual spending in FY 2010-11 is around 5.5bn which is 38% higher than spending levels in FY 2008-09. In real terms, actual spending has increased by 35% (YoY) in FY 2010-11 against zero percent in FY 2009-10. Overall growth in nominal terms since FY 2008-09 is 57% (Table 1 & 2, Appendix G);



89. Ratio between salary and non-salary based on district health allocations has remained more or less the same in the three years (e.g. 84:16 in FY 2010-11). The ratio based on expenditure has however shown slight variations in FY's 2008-11. For example, the ratio was 78:22, 78:32 and 77:33 in FY's 2008-11 for salary and non-salary budget (Table 3, Appendix G);

90. Relatively, non-salary budget shows a better execution rate than salary budget. Budget execution rate for non-salary budget is 160% in FY 2010-11 while for salary budget, it is 101%. 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 (Table 3A, Appendix G);

91. Amongst non-salary budget, the budget execution rate of operating expenses, physical assets and repair and maintenance are showing downwards trend in FY 2010-11, whereas grants, subsidies and write-off loans are consistently showing upward trends:

	<i>2008-09</i>	<i>2009-10</i>	<i>2010-11</i>
Operating expenses	155%	180%	173%
Grants, subsidies and write off loans	164%	206%	209%
Physical assets	158%	322%	80%
Repair & Maintenance	87%	143%	119%

92. Some districts show exceptionally high budget execution rates and are listed in Table 6, in Appendix G;

93. Similarly, Table 7 (Appendix G) lists the names of the Districts with dismal budget execution rates;

94. 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 to 10, in Appendix G gives 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 Centers and Clinics and 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 (62%) in FY 2010-11 (Table 11, Appendix G);
- Mansehra has almost all spending in the above areas. Here the largest spending is in DHQ Hospitals (36%), which is followed by spending in BHU's (Table 11, Appendix G);
- The spending proportions in Mardan look like that of Mansehra, i.e. 100% in the above areas (individually with 37% spending in DHQ hospitals, 19% in BHU's and 20% in EDO health) (Table 11, Appendix G).



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