Centre for Peace and
Development Initiatives

Budget Making Process and Development Project Implementation at District Level in Pakistan

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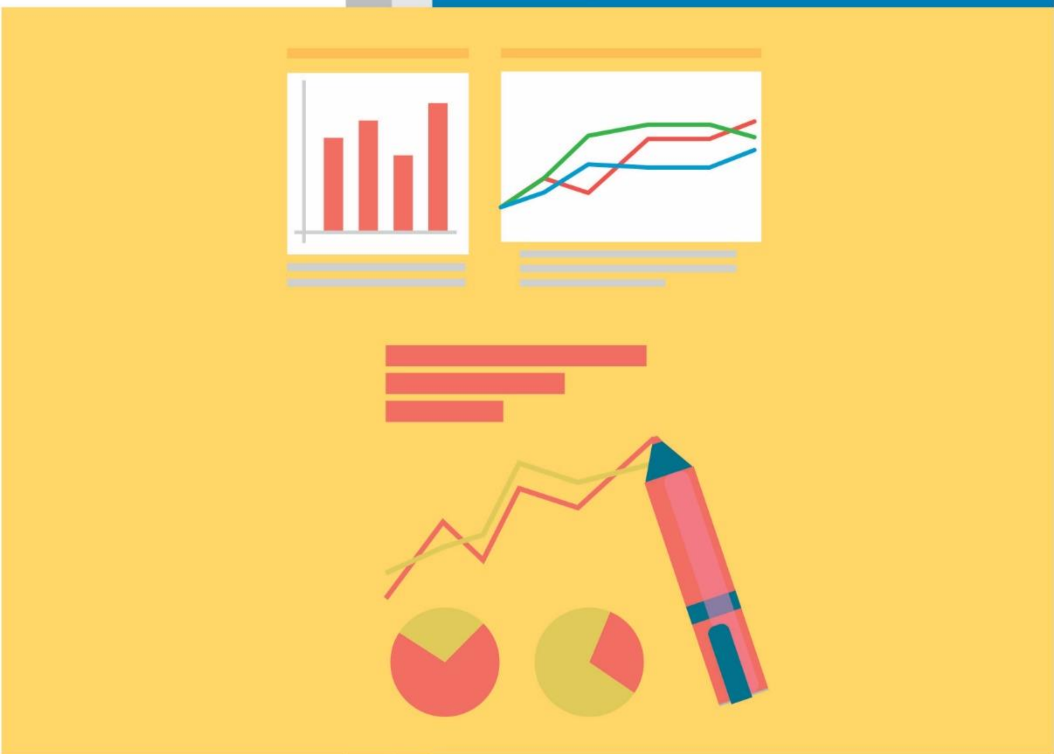

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Abbreviations and Acronyms

ABS	Annual Budget Statement
ADP	Annual Development Programme
AGB	Accountant General of Balochistan
AGP	Accountant General of Pakistan
BCC	Budget Call Circular
BCL	Budget Call Letter
BLGA	Balochistan Local Government Act, 2010
CPDI	Centre for Peace and Development Initiatives
DAO	District Accounts Officer
DCC	Divisional Coordination Committee
DDC	District Development Committee
DDO	Drawing and Disbursing Officer
DO (F&P)	District Officer (Finance and Planning)
FY	Financial Year
GST	General Sales Tax
KP	Khyber Pakhtunkhwa
KPLGA	Khyber Pakhtunkhwa Local Government Act, 2013
LCGC	Local Councils Grants Committee
MTBF	Medium-Term Budgetary Framework
MTFF	Medium-Term Fiscal Framework
NPCF	Net Provincial Consolidated Fund
PCF	Provincial Consolidated Fund
PFC	Provincial Finance Commission
PLGA	Punjab Local Government Act, 2013
PKR	Pakistani Rupees
PSDP	Public Sector Development Programme
SLGA	Sindh Local Government Act, 2013

Acknowledgements

This research study was carried out by Centre for Peace and Development Initiatives with the primary objective of discussing the local government systems and financial devolution mechanisms in place in the provinces of Pakistan. The study was necessitated because the local government system introduced in 2001 was uniform for all the provinces; however, after the passage of the 18th Constitutional Amendment in 2010, the provinces were entrusted with the responsibility of promulgating their own local government laws in line with their specific context and needs.

The study not only compares the provisions related to the budget making process and development project implementation in the local government laws of the four provinces, but also throws light on how the provincial governments have as yet not come to terms with the idea of financial devolution, as evident from the delay in the announcement of PFC Award and formulation of budgeting rules in pursuance of the respective local government law.

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Introduction

A budget is a fiscal plan outlining the estimated receipts and expenditure for the upcoming financial year. It provides a roadmap that allows a government to address both development and non-development issues. The budget also serves as a potent tool for communicating priorities, improving service delivery and measuring the performance of line departments, besides being the most valuable instrument for efficient utilisation of financial resources. Articles 80 and 120 of the Constitution of Pakistan mandate the federal government and the provincial governments, respectively, to present a statement of the estimated receipts and expenditure for each financial year in the assembly concerned.

Pakistan is a federation comprising four provinces that are unequal in size and population, as well as in the level of economic and social development. The primary function of all tiers of the government – federal, provincial and local – is to provide services in keeping with the spirit of the mandate of people, and fulfil their legal and regulatory obligations.

The local government system presents solutions to the problems of citizens at the grassroots level, thereby strengthening democracy. Moreover, it not only relieves the federal and provincial governments of some of their responsibilities but also effectively meets different needs of the citizens such as drinking water, sewerage, solid waste disposal, education, health and roads. Against this backdrop, martial law regimes have made several attempts to install robust local governments in all the provinces of Pakistan.

General Ayub Khan established the first local government system in Pakistan's history in 1959. Next, General Ziaul Haq upheld the spirit of basic democracy and finally General Pervez Musharraf introduced the most comprehensive local government system to date with the promulgation of the provincial local government ordinances in 2001. The 18th amendment to the Constitution, introduced in 2010, abolished the local government system introduced by General Musharraf; and entrusted the provincial governments with the responsibility to introduce a coherent local government system for economic development and leadership building at the grassroots level.

Article 160(1) of the Constitution of Pakistan deals with the annual distribution of resources among the provinces by the federal government through the National Finance Commission Award. Article 140-A of the Constitution states: "Each province shall, by law, establish a local government system and devolve political, administrative and financial responsibility and authority to the elected representatives of the local governments." The following sections give an overview of the local government system and the status of financial devolution in Balochistan, Khyber Pakhtunkhwa, Punjab and Sindh.

1. Local Government System and Financial Devolution in Balochistan

The Balochistan Local Government Act (BLGA), 2010, provides guidelines and procedures regarding the administrative and financial discipline of local councils in the province. The law also provides for the establishment of Provincial Finance Commission (PFC), called the Local Councils Grants Committee (LCGC) in Balochistan, to formulate fiscal transfers to the local councils. The local government structure in the province, as stipulated under Section 10 of the BLGA, 2010, is as follows:

a) Urban Areas:
   - Metropolitan Corporation (only for Quetta).
   - Municipal Corporations.
   - Municipal Committees.

b) Rural Areas:
   - District Councils.
   - Union Councils.

1.1. Local Councils Grants Committee

In pursuance of Section 120 of the BLGA, 2010, the provincial government formed the Local Councils Grants Committee – headed by the Finance Minister with the Secretaries of Finance, Local Government, and Planning and Development as its Members – to devise a formula for the distribution of Local Fund, established under Section 96 of the BLGA, 2010, for each financial year. However, the provincial government did not issue any subsequent notification to this effect and the LCGC's Rules of Business have as yet not been framed.

The Finance Department allocates a one-line lump sum amount, including funds for both development and non-development, as grant-in-aid for the local councils. In the absence of a precise methodology to determine the share of local councils, this amount is distributed among them in accordance with the formula agreed in the last LCGC meeting. The functions of the LCGC, as stipulated under Section 121 of the BLGA, 2010, include the following:

a) Making recommendations to the provincial government on:
   - The amount of Local Councils Grant out of the proceeds of Provincial Consolidated Fund (PCF) in a financial year in addition to the GST Grant (in lieu of Octroi and Zila Tax).
   - The formula for the distribution of Local Councils Grant among the local councils.
   - The amount of special grants with modalities and conditions for the local councils to access the facility.
   - Grants-in-aid to the local councils in need of assistance.
   - Matters relating to local council finance.

b) Taking into account the principles of need, capacity, effort and performance of local councils while making recommendations.

1.2. Budget Call Circular

The Balochistan Budget Manual 1987 explains in detail the manner in which the PCF should be managed and controlled. Para 3(23) of the Manual states that the Annual Budget Statement (ABS) and the Annual Development Programme (ADP), after they have been approved by the Council of Ministers, should be laid before the Provincial Assembly on a date fixed for the purpose which should be sufficiently earlier than the date of commencement of the financial year to which they relate; therefore, the whole process leading to the finalisation of ABS and ADP should be worked on the basis of the dates prescribed in the budget calendar *(Table 1.1)*.

Table 1.1: Budget Calendar of the Government of Balochistan	
Date	**Description**
7 July	Budgetary allocations for current financial year to be communicated to line departments by the Finance Department
15 July	Budgetary allocations for current financial year to be communicated to all subordinate offices by line departments
3 August	Distribution of Budget Manual Form-1 (used to collect estimates of receipts and expenditure for next financial year) by the Finance Department
1 September	Proposals for making continuing posts permanent due with the Finance Department
1 October	• Distribution of Budget Manual Form-2 by the Finance Department • Proposals regarding current expenditure in respect of ongoing and new activities due with the Finance Department
5 October	Submission of previous financial year's final accounts by the AGB
20 October	Submission of supplementary accounts by the AGB
16 November	• All line departments to submit actual receipts and expenditure for July-October • All line departments to submit actual receipts and expenditure for previous financial year
1 December	All line departments to send lists of ongoing and new ADP schemes (the latter in order of priority) to the Planning and Development Department and the Finance Department for next financial year
15 December	Finalisation of next financial year's hardcore ADP by the Planning and Development Department (also to be communicated to all line departments for preliminary implementation work for next financial year)
1 January	Budget and revised estimates under revenue heads (receipts) and budget estimates of current expenditure to be submitted to the Finance Department
15 January	All line departments to submit statements of receipts and expenditure for July-December
1-20 February	• Meetings in the Finance Department to finalise the Schedule of New Expenditure • Meetings in the Planning and Development Department to finalise the ADP
31 March	List of excesses and surrenders for current financial year due with the Finance Department
15 April	All line departments to submit statements of receipts and expenditure for July-March
30 April	Final abstract of revenue expenditure prepared by the Finance Department

The estimates of receipts and expenditure are collected from the line departments through the Budget Call Circular (BCC). This is done well ahead of time so that accurate estimates could be adopted for both outgoing and upcoming financial years. Studying this aspect of the budget phase, it was observed that most of the line departments do not understand the basic purpose of the BCC. For instance, they do not circulate the dates to their subordinate offices, as a result of which the Finance Department faces serious problems in assessing their actual needs and several deficiencies crop up in the provincial budget.

The Local Government and Rural Development Department issues the BCC on behalf of the local councils because it has as yet not framed the budget rules for them, as it is mandated to do under the BLGA, 2010, even though seven years have passed since the passage of the law. It was also observed that the local councils generally do not comply with the dates specified in the budget calendar.

1.3. Local Council Finance

Section 96 of the BLGA, 2010, mandates the provincial government to establish a Local Fund for every Local Council; and that all the revenues received by a local council from the following sources will be credited to the respective Local Fund:

a) Monies transferred by another local council under this Act.
b) Grants made or monies received from the provincial government or other authorities in Pakistan.
c) Proceeds of taxes, fees, rates or charges levied by a local council under this Act.
d) Rents and profits payable or accruing to a local council from immovable property vested in or controlled or managed by it.
e) Proceeds or any other profits from bank accounts and investments of a local council.
f) Gifts, grants or contributions by individuals or institutions.
g) Income accruing from markets or fairs regulated by a local council.
h) Fines imposed and recovered under this Act.
i) Proceeds from other sources of income that are placed at the disposal of a local council under directions of the provincial government.
j) All monies transferred to a local council by the provincial government including loans, if any.

The Local Councils Grant out of the proceeds of PCF stood at PKR 1,142.00 million in FY 2015-16; of which, an amount of PKR 5,000.00 million were reflected in the provincial Public-Sector Development Programme (PSDP) and transferred to the local councils through the Planning and Development Department. Since this amount was reflected in the PSDP as a lump sum grant, it was released to the local councils in the light of the formula devised by the LCGC.

In FY 2015-16, an increasing trend of block allocations for development schemes, such as the Chief Minister District Development Plan and the Chief Minister Programme for Improving Urban and Civic infrastructure, was witnessed.

1.4. Local Council Budget

The budget of a local council is covered under Section 100 of the BLGA, 2010, which states:

a) A Union Council will prepare and forward the budget for scrutiny and sanction to the District Council concerned.
b) A Municipal Committee will prepare and forward the budget for scrutiny and sanction to the Divisional Coordination Committee (DCC) concerned.
c) A Metropolitan Corporation, Municipal Corporation and District Council will prepare and forward the budget for scrutiny and authentication to the DCC concerned, which will, after scrutiny and authentication, forward it to the provincial government for final sanction.

The budget of a local council is first placed before the respective house for discussion and then submitted to the District Council or DCC concerned for scrutiny and sanction/authentication. The DCCs submit the approved budget of the division or district to the respective administrative department for further action. In the absence of the DCC, the budget is submitted to the respective Commissioner who, after scrutiny and authentication, forwards it to the provincial government for final sanction.

1.5. Budget Making Process at District Level

The budget making process is a continuous activity. The Budget Section of a local council is headed by the Chief Officer, who prepares the estimates of receipts and expenditure for each financial year. The budget at the local council level is mostly in the form of one-line grants for salaries and non-salaries. It is prepared without assigning proper functions to the demands because no particular Chart of Accounts is followed. This budget also lacks details of the demands, resulting in wrong estimation of the salary and non-salary components and problems in the provincial budget.

Elected representatives do not have any role to play in the preparation of non-development budget (salary and non-salary), which is solely the responsibility of government officials; however, they can identify and recommend schemes out of the development grant for local councils. After their recommendation, the Development Officers/Engineers of the Local Government and Rural Development Department finalise these schemes and submit them to the respective sanctioning forum for approval.

Both development and non-development budgets of the local councils are forwarded to the provincial government for approval and subsequent release of funds. The provincial government allocates a lump sum amount to the local councils and distributes it among them in the light of the distribution formula devised by the LCGC.

Section 130 of the BLGA, 2010, stipulates that there will a Divisional Coordination Committee in every division of the province to scrutinise, authenticate or sanction, as the case may be, the budget of the local councils concerned. The members of the DCC, which is chaired by the respective Commissioner, include: Mayor of Metropolitan Corporation; Chairpersons of Municipal Corporations, Municipal Committees and District Councils; heads of all nation-building departments of the provincial and federal governments; District Collector; and one representative each of special interest groups (peasants, workers and women).

The budget proposals of the local councils are discussed in the DCC concerned and decisions are taken regarding authenticating/sanctioning them or otherwise. The Committee is also authorised to approve the revised budget of the local councils concerned for the outgoing financial year. The budget proposals are approved as a lump sum grant on account of salary; non-salary; development grant for local councils; and expected own resources of local councils.

The approved budget is then forwarded to the provincial government for final approval and release of funds from the lump sum grant. It has been observed that the Commissioners do not hold quarterly meetings of the DCC concerned, as they are mandated to do under the BLGA, 2010. This generally results in delay in the presentation and approval of the respective local councils' budget.

1.6. Distribution Formula

In pursuance of Section 120 of the BLGA, 2010, the provincial government, through the LCGC, has devised the following distribution formula for the Local Councils Grant:

1.6.1. Salary Component

An incremental increase of 10% in the total salary released for the outgoing financial year, in addition to the salaries of the newly-created local councils.

1.6.2. Non-Salary Component

After deducting the amount agreed for the salary component from the total allocation for the Local Fund, the remaining amount is divided in: (a) non-salary component; and (b) development grant for local councils. The former is finalised by the LCGC as per a specific formula *(Table 1.2)*.

1.6.3. Development Grant for Local Councils

In FY 2016-17, the distribution formula based on 50% population and 50% equal share was applied to the development grant of PKR 5,000.00 million to determine the share of the local councils *(Table 1.3)*. Because the provincial government has as yet not devised any specific formula for allocating this amount as a lump sum grant to the local councils, the same is finalised by the Finance Department while considering its own financial resources and constraints.

Table 1.2: Formula for Finalisation of Non-Salary Budget in Balochistan		
Local Council	**Number**	**Formula**
Quetta Metropolitan Corporation	1	10% of total available non-salary funds
Municipal Corporation	5	9% of total available non-salary funds to be distributed among the Municipal Corporations on the basis of 50% population and 50% equal share
Municipal Committee	53	38% of total available non-salary funds to be distributed among the Municipal Committees on the basis of 50% population and 50% equal share
District Council	32	19% of total available non-salary funds to be distributed among the District Councils on the basis of 50% population and 50% equal share
Union Council-Category A	4	1% of total available non-salary funds to be equally distributed among the Union Councils
Union Council-Category B	630	9.5% of total available non-salary funds to be distributed among the Union Councils on the basis of 50% population and 50% equal share
Balochistan Local Government Board	1	1.2% of total available non-salary funds
Balochistan Local Councils Election Cell	1	0.2% of total available non-salary funds
Divisional Local Government Board	6	0.6% of total available non-salary funds
Honorarium and Performance Grant	-	11.5% of total available non-salary funds

Table 1.3: Formula for Finalisation of Development Grant for Local Councils in Balochistan		
Local Council	**Share**	**Amount (in PKR)**
Quetta Metropolitan Corporation	10%	500.00 million
Municipal Corporation	5.9%	294.80 million
Municipal Committee	33.92%	1,696.00 million
District Council	24.78%	1,239.20 million
Union Council-Category A	0.16%	8.00 million
Union Council-Category B	25.24%	1,262.00 million
Total	**100.00%**	**5,000.00 million**

1.7. Funds Release Process

All the funds collected by a local council from its own sources or received from the PCF or any other source are part of the Local Fund. Section 97(2) of the BLGA, 2010, makes it mandatory on the provincial government to formulate rules for operating the Local Fund; however, even after the passage of seven years, the Local Government and Rural Development Department has not framed these rules.

Although Section 102 of the BLGA, 2010, has a clear provision for the audit of accounts, the local government system lacks an appropriate mechanism to carry out pre- or post-audit of the expenditure claims by the local councils. The main reason for this is that the funds released to the local councils are directly transferred to their bank accounts, bypassing district treasury.

Section 101 of the BLGA, 2010, provides detailed guidelines for maintaining the accounts of local councils but the same have also not been followed by the provincial government. Against this backdrop, the system lacks proper scrutiny of the expenditure made by local councils, resulting in mismanagement and misappropriation of funds. In the absence of relevant rules, the State Bank of Pakistan, on the advice of the Finance Department, releases funds to the local councils through direct transfers to their bank accounts out of the lump sum grant. A copy of debit and transfer of funds is then forwarded to the Finance Department and the Accountant General of Balochistan (AGB) for accounting out of the PCF.

1.8. Execution of Local Government Budget

The application of funds is elaborated under Section 99 of the BLGA, 2010, which puts restrictions on incurring expenditure approved for one head on another. However, because the funds released to the local councils are directly transferred to their bank accounts, they can incur expenditure at will. They can also choose to ignore the ratio of development works and other expenditures agreed in the last LCGC meeting. Though the local councils are supposed to document the expenditure incurred by them, as well as carry out an internal audit, there are no checks on them in the absence of proper rules for audit.

The salary and non-salary budget of a local council is executed through a bank account jointly operated by the Chief Officer (government official) and Chairperson (elected representative). The development grant for the local councils, as approved by the DCC in the light of the distribution formula devised by the LCGC, is executed by the Chief Officer, in consultation with the Chairperson, through his or her technical staff; while the bank account having funds for this purpose is jointly operated by the Chief Officer and the Chairperson.

The schemes funded out of the provincial PSDP (other than the development grant for the local councils) are executed by the Chief Officer of the local council concerned or Development Officer of the Local Government and Rural Development Department, provided funds are accordingly released by the Planning and Development Department. This bank account is solely operated by the Drawing and Disbursing Officer (DDO) since the funds are drawn against the PCF from Non-Food Account-1 of the provincial government through the District Accounts Office. The rules for the execution, monitoring and reporting of development schemes are the same as for other schemes executed under the guidelines of the provincial government or the Planning Commission of Pakistan.

1.9. Monitoring of Development Projects

Contrary to the established accounting practices, the budget estimates of the local councils are demanded as a lump sum amount for salaries, non-salaries and development schemes. Therefore, starting from the identification of expenditure up to reporting, completion and monitoring of targets, there is little or no room for check and balance by any provincial government authority. Because of the shortcut adopted for the release of funds, the amounts directly drawn from the bank accounts are not liable to any scrutiny, pre-audit or check for rules and regulations. This is in stark comparison to the releases made for other departments through the AGB or district treasuries.

For the estimation of development schemes, the Composite Schedule of Rates, 1998, is followed all over the province. To implement uniform rates, the provincial government has put in place scrutiny channels at different levels; however, the expenditure of the local councils funded out of the allocated grant is not routed through any such forum, resulting in duplication, overestimation and/or underestimation. In addition, a proper monitoring mechanism does not exist at the local council level; the projects are unofficially monitored by elected representatives without proper reporting to any quarter. At most, one-line progress reports are submitted to the Local Government and Rural Development Department and its respective divisional/district offices.

The actual funds release and expenditure position against the grant for both development and non-development (salary and non-salary) budgets is recorded at the local council level. The revenue generated by the local councils out of their own sources are also credited to the same bank accounts, making it difficult for the Finance Department and respective administrative department to assess the actual expenditure on development schemes.

In this scenario, they are left with no choice but to rely on the reports submitted by the local councils. The AGB maintains the releases for accounting purposes, on the advice of the Finance Department made through a release order. Because the funds released to the local councils are not routed through the AGB, no record of the actual expenditure exists and the released amount is presumed to be fully utilised.

2. Local Government System and Financial Devolution in Khyber Pakhtunkhwa

The Khyber Pakhtunkhwa Local Government Act (KPLGA), 2013, provides guidelines and procedures regarding the administrative and financial discipline of local governments in the province. The law also provides for the establishment of PFC to formulate fiscal transfers to the local governments. The local government structure in the province, as stipulated under Section 5 of the KPLGA, 2013, is as follows:

a) Urban Areas:
   - City District Council (only for Peshawar).
   - Town Municipal Councils.
   - Neighbourhood Councils.

b) Rural Areas:
   - District Councils.
   - Tehsil Councils.
   - Village Councils.

2.1. Provincial Finance Commission

The members of the PFC, a statutory body established by the provincial government under Section 110 of the KPLGA, 2013, include: (a) Finance Minister [Chairperson]; (b) Local Government, Elections and Rural Development Minister; (c) Two Provincial Assembly members, one each nominated by the Chief Minister and Leader of the Opposition; (d) Finance Secretary; (e) Planning and Development Secretary; (f) Local Government, Elections and Rural Development Secretary; (g) Law, Parliamentary Affairs and Human Rights Secretary; (h) Two District Council Nazims (elected by Nazims of District Councils in the province); and (i) Two Tehsil Council Nazims (elected by Nazims of Tehsil Councils in the province).

The resource distribution through the PFC Award is done at two levels: (a) between the province and the local governments; and (b) among the local governments. For this purpose, a Provincial Pool is determined out of the proceeds of the Provincial Consolidated Fund. Obligatory expenditure, being common to both the provincial government and the local governments, is subtracted from the Provincial Pool to determine the Divisible Pool.

The net proceeds thus emerging are shared between the provincial government and the local governments as 'Provincial Retained Amount' (40%) and 'Provincial Allocable Amount' (60%). The Provincial Allocable Amount is further distributed among the local governments. The PFC Secretariat communicates the respective share of the local governments to them. The functions of the PFC, as stipulated under Section 53 of the KPLGA, 2013, include the following:

a) Making recommendations to the provincial government on:
   - The amount of grant for the local governments out of the proceeds of the PCF in a financial year in addition to the grant in lieu of Octroi and Zila Tax.
   - The formula for the distribution of the grant among the local governments.
   - The amount of special grants for the local governments with modalities and conditions to access the facility.
   - Grants-in-aid to the local governments in need of assistance.
   - Matters relating to local government finance.

b) Taking into account the fiscal needs, capacity, efforts and performance of the local governments while making recommendations.

c) Taking into consideration poverty, population, lag in infrastructure and revenue base of the local governments as factors while formulating recommendations.

d) Presenting to the provincial government an annual report on the analysis of fiscal transfers, the situation of own-source revenue of the local governments, and the reach and quality of the services provided by the local governments.

As per the 6th PFC Award, announced in May 2016, the Provincial Allocable Amount is to be distributed among the local governments under the heads of: (a) salary; (b) non-salary; (c) development; and (d) grant to local governments. To cater to development needs of the local governments, the distribution of District Development Share out of the Provincial Allocable Amount is to be done based on the following formula:

a) Population: 50%.
b) Poverty: 25%.
c) Lag in infrastructure: 20%.
d) Revenue base: 5%.

2.2. Budget Call Circular

The provincial government, in exercise of the powers conferred under Section 112(1) of the KPLGA, 2013, notified the Khyber Pakhtunkhwa District or City District Government (Budget) Rules in January 2016. As stipulated under Section 13 of these Rules, the District Officer (Finance and Planning) – DO (F&P) – issues the BCC, which calls for the submission of detailed needs-assessment/cost estimates and PC-1 documents against the specific allocation from the Planning and Development Department, as per the budget calendar *(Table 2.1)*.

Table 2.1: Budget Calendar of District/City District Governments in Khyber Pakhtunkhwa

Date	Description
30 October	Communication of three-year indicative district share based on the projections of MTFF-I by the PFC Secretariat
15 November	Issuance of the BCC and ADP guidelines by the DO (F&P)
30 November	Review of the goals, outcomes, outputs and performance indicators of the Office by the Head of Offices and DDOs
30 November	Approval to prepare project proposal by the DDC
10 December	Strategic allocation of indicative ceilings by outcomes, outputs and Funds Centres/Spending Units/DDOs by the Head of Offices
15 December	Issuance of indicative ceilings along with prescribed Budget Forms to all the Funds Centers/ Spending Units/DDOs by the Head of Offices
31 December	Consolidation and review of the schemes submitted by the District Council and other stakeholders by the DDC and Deputy District Officer (Planning)
31 December	Preparation of project proposals by the Head of Offices and DDOs
15 January	Approval of project proposals by the DDC
15 February	Preparation of detailed estimates and accordance of technical sanction by the Head of Offices and DDO (Planning)
End February	Completion and submission of prescribed Budget Forms to the Head of Offices by the DDOs
15 March	Review and consolidation of Budget Forms and pre-budget meetings by the Head of Offices
31 March	Submission of consolidated draft budget proposals by the Head of Offices

20 April	Review, consolidation and pre-budget meetings by the Deputy Commissioner
30 April	Review of draft budget (current and development) by the District Council
20 May	Communication of district share as firmed up based on the MTFF-II by the PFC Secretariat
25 May	Communication of changes in indicative budgetary ceilings to district offices by the DO (F&P)
1 June	Revision and changes in budget proposals and their submission to the Finance and Budget Officer and Deputy District Officer (Planning) by the Head of Offices and DDOs
June	Submission of final budget to the District Council by the DO (F&P)
June	Approval of final budget by the District Council
June	Authentication of the Schedule of Authorised Expenditure by the District Council Nazim
July	Communication of the budget by the DO (F&P)

The BCC is finalised after consultation with relevant stakeholders, including elected local government representatives, district offices of line departments, community members, women's organisations, the private sector, non-governmental organisations, community-based organisations and other groups. The DO (F&P) and the Deputy District Officer (Planning) consolidate the priorities identified during the stakeholder consultation in the draft BCC and ADP guidelines, respectively.

Next, the DO (F&P) develops three-year forecasts on fiscal space and expenditure requirements based on the identified needs, and firms up the indicative budgetary ceilings for both current and development budgets. The draft BCC and ADP guidelines are forwarded to the District Council Nazim for approval, to serve as a basis for the formulation of the annual budget. After the District Council Nazim's approval, the DO (F&P) and the Deputy District Officer (Planning) issue the BCC and ADP guidelines (including the budget calendar and indicative budgetary ceilings for three years), respectively, to all the Head of Offices.

2.3. Local Government Finance

As per Section 30(1) of the KPLGA, 2013, a District Fund, a Tehsil Fund or a Village/Neighbourhood Fund, as the case may be, will be established for each respective local government. Section 30(2) stipulates that all the revenues received by a local government from the following sources will be credited to the respective Fund:

a) Monies transferred by another local government under this Act.
b) Grants made or monies received from the provincial government or other authorities in Pakistan.
c) Proceeds of taxes levied by the local government under this Act.
d) Rents and profits payable or accruing to the local government from immovable property vested in or controlled or managed by it.
e) Proceeds or any other profits from bank accounts and investments of the local government.
f) Gifts, grants or contributions by individuals or institutions.
g) Income accruing from markets or fairs regulated by the local government.
h) Fines imposed and recovered under this Act.
i) Proceeds from other sources of income that are placed at the disposal of the local government under directions of the provincial government.

2.4. Local Government Budget

Section 52(1) of the District or City District Government (Budget) Rules, 2016, states that the resources made available to the District Government through fiscal transfers from the provincial government will comprise share of receipts of the local government concerned and constitute part of the District Fund; while Section 52(2) of the Rules stipulates that the share of each District Government will be in accordance with the PFC Award. As per Section 34 of the KPLGA, 2013, the annual budget of a local government will contain estimates of the following:

a) Grants-in-aid from the provincial government.
b) Amounts available in the respective Fund.
c) Receipts for the next financial year.
d) Expenditure to be incurred in the next financial year.

Before the start of each financial year, the Nazims will present the budget for the consideration and approval of the respective local council (District Council, Tehsil Council or Village/Neighbourhood Council). The budget of a local government will be approved by a simple majority of the total membership of the respective House. In case the budget is not approved by the local government before the start of the financial year to which it relates, the provincial government will prepare, approve and authenticate the budget for the local government.

2.5. Budget Making Process at District Level

The budget making process is a continuous activity. At the district level, this activity starts each year with the issuance of BCC by the DO (F&P), who heads the budget making process. Following this, the DO (F&P) organises discussion sessions with key stakeholders and compiles the development draft, as well as the estimates of receipts and expenditure. The District Development Committee (DDC) finalises the draft development budget after discussion and revisions, if needed.

The District Council Nazim convenes a meeting of the District Government Development Committee under his or her chairpersonship to discuss the project proposals in respect of the needs-assessment by the respective line departments. After the Committee's approval, the schemes are presented before the District Council for approval. Thereafter, a meeting of the DDC is held under the chairpersonship of the Deputy Commissioner for discussion and administrative approval. The Deputy Commissioner, being the Principal Accounting Officer of the district, ensures timely release of funds to the line departments.

2.6. Distribution Formula

The Sixth PFC Award, announced in May 2016, made the following recommendations with regard to the transfer of funds to local governments:

2.6.1. Salary Share

For the salary share, the PFC recommended an increase of 5% over the revised estimates of FY 2015-16 for the devolved departments to cover the normal increase on account of annual increment in FY 2016-17. To allow for the anticipated increase in salary by the federal government and maintain the level of indicative budgetary ceiling for each grant under the Medium-Term Budgetary Framework (MTBF), the Commission proposed a lump sum provision of PKR 10,256 million for the salary share in FY 2016-17.

2.6.2. Non-Salary Share

The PFC recommended that the non-salary share be determined on the basis of 7.16% increase over the allocation for FY 2015-16, in accordance with the indicative budgetary ceiling under the MTBF. However, given the actual requirements of each district, the Commission proposed a separate block allocation of PKR 11,757.204 million for certain items of expenditure at the district level *(Table 2.2)*.

2.6.3. Grant to Local Councils in lieu of Octroi and Zila Tax

The grant in lieu of Octroi and Zila Tax, which was equal to one-sixth of the Sales Tax share of the provincial government in the Federal Consolidated Fund, was discontinued by the federal government after the announcement of the Seventh National Finance Commission Award in 2010. Thereafter, the provincial government continued to provide a grant to the local governments in lieu of Octroi and Zila Tax from its own resources. However, the provision of this grant became a permanent liability and the provincial government renamed it as 'Grant to Local Councils' in the budget documents for FY 2016-17, allocating an amount of PKR 4,715.849 million under this head.

Table 2.2: Block Allocation for Items of Expenditure in Khyber Pakhtunkhwa		
Sr. No.	**Item of Expenditure**	**Amount (in PKR)**
1.	Need-Based Grant	1,000.000 million
2.	Conditional Grant for Health and Education Sectors	8,000.204 million
3.	Grant for Emergency Medicines in Basic Health Units	425.000 million
4.	Grant for Maintenance and Repair of Water Supply Schemes	500.000 million
5.	Grant for Electricity Charges on Need Basis	500.000 million
6.	Grant for Financial Assistance/Martyrs' Packages	200.000 million
7.	Grant for Advertisement Charges	20.000 million
8.	Grant for Autonomy to Higher Secondary Schools	600.000 million
9.	Grant for Enrolment Campaign (Elementary and Secondary Education)	12.000 million
10.	Maintenance and Repair of Roads and Buildings	500.000 million
	Total	**11,757.204 million**

2.6.4. District Development Share

Section 53 of the KPLGA, 2013, stipulates that the development grant to local governments will not be less than 30% of the total development budget of the province in a financial year. The amount earmarked for the ADP in FY 2016-17 was PKR 125.000 billion, of which PKR 12.200 billion were loans and PKR 18.700 billion remained dormant (subject to actual materialisation of resources). Consequently, the provincial government allocated an amount of PKR 33.900 billion as District ADP, of which an amount of PKR 5.670 billion were subject to actual materialisation of resources and the remaining PKR 28.230 billion were transferrable to the local governments as the District Development Grant *(Table 2.3)*.

Table 2.3: Tier-wise Break Down of District Development Funds in Khyber Pakhtunkhwa		
Tier of Local Government	**Budget Estimate 2016-17**	**Transferrable**
District	PKR 10.400 billion	PKR 8.660 billion
Tehsil	PKR 10.400 billion	PKR 8.660 billion
Village/Neighbourhood Council	PKR 13.100 billion	PKR 10.910 billion
Total	**PKR 33.900 billion**	**PKR 28.230 billion**

Furthermore, the PFC decided to continue the distribution of District Development Grant on the basis of the existing mechanism/previous PFC Awards (2008-09 to 2010-11) because of the non-availability of district-wise data for determining factors under the approved formula. Table 2.4 presents the details of resources intended to be transferred to the local governments from the Divisible Pool, which is arrived at after deducting the obligatory expenditure from the Provincial Pool, in FY 2016-17.

Table 2.4: Distribution of Provincial Consolidated Fund in Khyber Pakhtunkhwa (in PKR)		
Sr. No.	**Component**	**Budget Estimate FY 2016-17**
A. Provincial Pool		
1.	Revenue Assignment from Federal Divisible Pool	293,694.328 million
2.	1% of Divisible Pool for War on Terror	35,289.471 million
3.	Straight Transfers	17,199.980 million
4.	GST on Services (Provincial)	10,000.000 million
5.	Provincial Own Receipts (Tax and Non-Tax)	35,877.000 million
6.	Net Profits from Hydel Power	18,704.000 million
7.	Arrears of Net Hydel Profit	15,000.000 million
8.	Hydel Power Own Generation	3,630.000 million
9.	Incentive Bonus on Cash Balance	300.000 million
	Total A	**429,694.779 million**
B. Obligatory Expenditure		
1.	Debt Servicing Mark-up	
	(i) Mark-up (interest)	*13,000.000 million*
	(ii) Principal Amount	*10,910.000 million*
	Total	*23,910.000 million*
2.	Pension	40,905.310 million
3.	Subsidy on Wheat	2,900.000 million
4.	Contribution to General Provident Fund	4,000.000 million
5.	Hydel Development Fund	3,000.000 million
6.	Home, Police and Civil Defence	34,488.308 million
7.	Charge Expenditure (Khyber Pakhtunkhwa Provincial Assembly, Peshawar High Court, Khyber Pakhtunkhwa Governor's House/Secretariat and Khyber Pakhtunkhwa Accountability Commission)	2,757.095 million
	Total B	**111,960.713 million**
C. Divisible Pool		
1.	Provincial Pool	429,694.779 million
2.	Provincial Obligatory Expenditure	123,960.713 million
	Net Divisible Pool (A-B)	**305,734.066 million**
	(i) Provincial Allocable Amount (60%)	*183,440.440 million*
	(ii) Provincial Retained Amount (40%)	*122,293.626 million*
D. Amount Allocated to Districts		
1.	Salary	112,584.605 million
2.	Non-Salary	17,440.064 million
3.	Development	33,900.000 million
4.	Grant to Local Councils	4,715.849 million
	Total (Percentage of Net Divisible Pool)	**168,640.518 million (55.16%)**

2.7. Funds Release Process

As per Section 36(1) of the KPLGA, 2013, the accounts of receipts and expenditure of the local governments will be kept in such form and in accordance with such principles and methods as the Auditor General of Pakistan (AGP) may prescribe. Section 36(2) of the Act stipulates the following arrangement for maintaining the accounts of the local governments:

a) The District Accounts Officer (DAO) will maintain the accounts of the District Government.
b) The Tehsil Accounts Officer will maintain the accounts of the Tehsil Municipal Administration.
c) The Village Accountant will maintain the accounts of the Village Council.
d) The Neighbourhood Accountant will maintain the accounts of the Neighbourhood Council.
e) The Accounts Officers mentioned in clauses (a), (b), (c) and (d) will perform pre-audit of all the payments from the respective Fund before approving the disbursement of monies.

The DAO will separately consolidate the accounts of all the local governments in the district on quarterly and annual basis for receipts from the provincial government and local resources, as well as send a copy of the same to the provincial government, AGP and District Council Nazim. The local governments will also publish annual accounts for public information; while the Accounts Committees of the respective local councils will hold public hearings to consider audit reports and objections to the statement of accounts with a view to recommending appropriate action.

The funds are transferred from the Finance Department to its district offices under a pre-defined share intimated by the PFC. The Finance Department releases the funds to the State Bank of Pakistan from District Account-IV after fulfilling all the codal formalities. The salary funds are released on a monthly basis, while the non-salary and development funds on a quarterly basis. The DO (F&P) releases the grants to the DDO, who matures the expenditures by submitting bills after fulfilling all the codal formalities.

2.8. Execution of Local Government Budget

The application of funds is elaborated under Section 33 of the KPLGA, 2013, which states that the monies credited to the Fund of a local government will be expended in accordance with the annual budget approved by the respective local council. Moreover, a local government will not transfer monies to a higher level of provincial government except by way of repayment of debts, for carrying out deposit works or as provided in the Act.

2.9. Monitoring of Development Projects

Section 47 of the Khyber Pakhtunkhwa District or City District Government (Budget) Rules, 2016, stipulates that expenditure can only be incurred on those development projects for which administrative approval and technical sanction (for works) has been accorded; and which have been included in the budget approved by the District Council. The respective executing agency will be responsible for the execution of development projects as per the parameters fixed in the approved PC-I. Additionally, the executing agency will rigorously follow the PC-III format for the monitoring of development projects.

The internal monitoring of development projects will be carried out by community members, elected representatives and Deputy District Officer (Planning); while external monitoring by the Planning and Development Department through the Divisional Directorate of Monitoring and Evaluation.

For ongoing development projects, the executing agency will submit monthly progress reports to the Deputy District Officer (Planning), DO (F&P) and Monitoring Committee by the 10^{th} of each succeeding month. For projects in the far-flung and remote areas, pictorial data will also be provided. Such reports, where possible, will also include gender-disaggregated data to track allocations and utilisation of funds for girls and women.

3. Local Government System and Financial Devolution in Punjab

The Punjab Local Government Act (PLGA), 2013, provides guidelines and procedures regarding the administrative and financial discipline of local governments in the province. The law also provides for the establishment of PFC to formulate fiscal transfers to the local governments. The local government structure in the province, as stipulated under Section 11 of the PLGA, 2013, is as follows:

c) Urban Areas:
- Metropolitan Corporation (only for Lahore).
- Municipal Corporations.
- Municipal Committees.

d) Rural Areas:
- District Councils.
- Union Councils.

3.1. Provincial Finance Commission

The members of the PFC, a statutory body established by the provincial government under Section 51 of the PLGA, 2013, include: Finance Minister (Chairperson); Local Government Minister (Co-Chairperson); Seven Provincial Assembly members, five of which, including at least one female, to be nominated by the Chief Minister and two of which, including at least one female, to be nominated by the Leader of the Opposition; Mayor of Metropolitan Corporation; One Mayor of Municipal Corporation, one Chairperson of Municipal Committee, one Chairperson of District Council and one Chairperson of Union Council to be nominated by the provincial government; Finance Secretary; Planning and Development Secretary; Local Government and Community Development Secretary; and two professional members from the private sector to be nominated by the provincial government.

The Net Provincial Consolidated Fund (NPCF) is divided among the local governments as per the Interim PFC Award, 2017, announced on the recommendations of the Interim Provincial Finance Committee. The horizontal distribution of the NPCF is currently based on a multi-factor formula wherein 75% weightage is given to population; and 25% to poverty, expenditure needs and cost of service delivery in each district. The Finance Department communicates the respective share of local governments to them.

The functions of the PFC, as stipulated under Section 112 of the PLGA, 2013, include the following:

a) Making recommendations to the provincial government on:
- Formula for resource distribution including: (i) distribution between the provincial government and the local governments out of the proceeds of the PCF into Provincial Retained Amount and Provincial Allocable Amount; (ii) distribution of Provincial Allocable Amount among the local governments; and (iii) distribution of amounts received by the provincial government in lieu of Octroi and Zila Tax among the local governments.
- Matters relating to local government finance referred to the PFC by the provincial government or a local government.

b) Taking into account population, backwardness, need and performance of the local governments while making recommendations.

c) Presenting to the provincial government an annual report on the analysis of fiscal transfers, the situation of own-source revenue of the local governments, and the reach and quality of the services provided by the local governments.

As per the Interim PFC Award, 2017, the Provincial Retained Amount and the Provincial Allocable Amount will be 62.5% and 37.5%, respectively, of the net proceeds of the PCF. The Provincial Allocable Amount will also include proceeds of 2.5% GST in lieu of Octroi and Zila tax reduced by the share, as may be calculated by the provincial government on the basis of population of Cantonment Boards, for transfer to Cantonment Boards. In addition, special grants up to 6.5% of net proceeds of the PCF may be earmarked for local government functions from the Provincial Retained Amount during the currency of the Interim PFC Award.

3.2. Budget Call Letter

The provincial government, in exercise of the powers conferred under Section 144 of the PLGA, 2013, notified the Punjab Local Governments (Budget) Rules in February 2017. As stipulated under Section 5 of the Rules, the Head of Finance Office [Metropolitan Officer (Finance)/Municipal Officer (Finance)/ District Officer (Finance)] issues the Budget Call Letter (BCL).

The Head of Finance Office is also responsible for coordination of the budgetary process, consolidation and preparation of budget documents, and management of receipts and expenditure of the local government. The BCL contains: (a) date-wise budget calendar *[see Tables 3.1 and 3.2]*; (b) instructions for preparation of the budget; and (c) forms to be used in preparation of the budget.

Table 3.1: Budget Calendar of Local Governments in Punjab (Current/Development Budget)

Date	Description
September	BCL and guidelines issued to the offices concerned
1 March	• Excesses and Surrenders Statement • Revised estimates and supplementary budget, if required • Statement of New Expenditure • Consolidation of draft Budget (current and development) for next financial year. Finalisation by Mayor/Chairperson
March	Inclusion of draft taxation proposal in draft budget
1 April	Submission of draft budget to the House based on initial estimates provided by the provincial government
April	Review of draft budget and discussion on taxation proposal by the House
1 May	Taxation proposal sent to the provincial government for vetting after incorporating decisions of the House
1 May	Taxation proposal published in newspapers for obtaining public views
1 May-1 June	Inputs from provincial government and public on the proposals agreed by the House
1 June	Vetting by the provincial government completed and suggestions from the public received
May-June	Revisions and changes by the Head of Offices before finalisation of budget
June	Taxation proposal included in the budget submitted to the House for approval
June	Submission of final budget to the House based on final estimates of receipts provided by the provincial government
June	Approval of final budget by the House
July	Communication of current budget grants to the Offices concerned, including Accounts Offices
October	Final accounts of previous financial year compiled

Table 3.2: Budget Calendar of Local Governments in Punjab (Development Budget)

Date	Description

August-January	Processing of development schemes by the provincial government • Submission of schemes by the House and other stakeholders. • Review of proposals by the offices concerned • Approval of the Mayor/Chairperson concerned to prepare project proposal • Preparation of project proposal by the offices concerned • Administrative approval of project proposal by the respective Development Committee • Preparation of detailed estimates and accordance of technical sanction
April	Inclusion of projects in the ADP and submission with draft budget
June	Approval of the budget by the House
July	Implementation of projects by executing agencies

The BCL is finalised in consultation with relevant stakeholders under the guidance of the Mayor/ Chairperson, who also identifies needs of the local area and disadvantaged groups with the help of other Council members. The Head of Finance Office prepares the estimates of receipts and expenditure, including for the proposed ADP.

3.3. Local Government Finance

As per Section 100 of the PLGA, 2013, every local government will establish a Local Fund and all the revenues received by from the following sources will be credited to the respective Fund:

a) Proceeds of taxes, tolls, fees, rates or charges levied by the local government.
b) Grants made to or monies received by the local government from another local government or other sources.
c) Rents and profits payable or accruing to the local government from immovable property vested in or controlled or managed by it.
d) Proceeds or any other profits from any investment.
e) Gifts, grants or contributions to the local government by individuals or institutions.
f) Income accruing from markets or fairs regulated by the local government.
g) Fines and penalties imposed under this Act.
h) Proceeds from other sources of income that are placed at the disposal of the local government under directions of the provincial government.
i) All monies transferred to the local government by the provincial government.
j) Monies transferred by another local government under this Act.

Besides other grants, the PFC Award also includes Development Grant for local governments that can only be used for meeting their uplift needs. At the district level, development schemes are simultaneously identified, approved and implemented by the local governments and the provincial government. A development budget of PKR 15.0 billion has been earmarked only for the Lahore Metropolitan Corporation in FY 2017-18.

3.4. Local Government Budget

Section 48(1) of the Punjab Local Governments (Budget) Rules, 2017, states that the resources placed at the disposal of the local government through fiscal transfers from the provincial government will comprise share of the local government concerned from the Provincial Allocable Amount and provincial government grants; while Section 49 of the Rules stipulates that the share of each local government from the Provincial Allocable Amount will be in accordance with the PFC Award. As per Section 104(1) of the PLGA, 2013, the annual budget of a local government will contain estimates of the following:

a) Grants from the provincial government.
b) Amounts available in the Local Fund.
c) Receipts for the next financial year.

d) Expenditure to be incurred in the next financial year.

As per Section 33 of the Punjab Local Governments (Budget) Rules, 2017, before the commencement of next financial year, the Mayor/Chairperson of will present the budget for consideration and approval of the House. This Mayors of Metropolitan Corporations/Municipal Corporations, the Chairpersons of Municipal Committees/District Councils and the Chief Executive Officers of District Health/Education Authorities are empowered to approve the respective development schemes with a simple majority.

On the other hand, the development schemes of the provincial government are approved at different fora. The development schemes costing up to PKR 50 million are approved in the District Development Sub-Committee, while the development schemes ranging from PKR 50 million to PKR 200 million are approved in the Divisional Development Working Party. All the schemes up to PKR 400 million are approved by the Departmental Development Sub-Committee. The Provincial Development Working Party approves schemes ranging from PKR 400 million to PKR 10,000 million. All the schemes beyond PKR 10,000 will be presented in the Central Development Working Party.

3.5. Budget Making Process at District Level

The budget making process is a continuous activity. At the district level, this activity starts each year with the issuance of BCL by the Head of Finance Office and the Finance Secretary. The respective Mayor/ Chairperson, along with the government officers concerned, compiles the ABS, including the estimated receipts in the Local Fund and the estimated expenditure therefrom for the financial year.

The respective Mayor/Chairperson also identifies the development schemes of a local government after stakeholder consultation. Finally, the local government budget having details of all the development projects/schemes, including their status, cost, gestation period and fund allocation, is prepared and presented in the respective House for approval.

Of the net PFC, 62.5% (Provincial Retained Amount) is for provincial departments while the remaining 37.5% (Provincial Allocable Amount) is for the local governments. The development schemes, which should ideally have been taken up by the local governments, have been included in the Provincial ADP 2017-18 as an ad hoc arrangement under the heading of ‘Local Development Programme’. The Planning and Development Department is custodian of only the development budget of the province. For the current budget, all entities directly approach the Finance Department.

The Chief Officer, being the Principal Accounting Officer, ensures that the budget proposals are feasible, sustainable and in line with the priorities set by the local government. S/He also ensures timely preparation of budget estimates and, after approval, their distribution among the Heads of Offices for utilisation. The Head of Finance Office [Metropolitan Officer (Finance)/Municipal Officer (Finance)/ District Officer (Finance)] does all the processing for budget making at the local government level.

3.6. Distribution Formula

According to the Interim PFC Award, 2017, the amount assigned to the local governments out of the Provincial Allocable Amount will be distributed among the District Education Authorities, District Health Authorities, Metropolitan Corporation, Municipal Corporations, Municipal committees, District Councils and Union Councils on the basis of the shares as specified against each tier in Table 3.3.

Table 3.3: Share of Local Governments in Punjab by Tier

Local Government Tier	Share
District Education Authority	66.9%
District Health Authority	16.0%
Metropolitan Corporation, Municipal Corporation, Municipal Committee and District Council	12.8%

Union Council	4.3%

The amounts assigned to each tier of the local government will be distributed through a grant system on the basis of the shares as specified against each grant in Table 3.4. The share of District Councils in the General-Purpose Grant for 'Municipal Corporations, Municipal Committees and District Councils' will be equal to half of the share of rural population in the district. The balance will be divided among the Municipal Committees and Municipal Corporations on the basis of their share in the number of Union Councils/Wards in the district.

Table 3.4: Share of Local Governments in Punjab by Grant

Grant Type	District Education Authorities	District Health Authorities	Metropolitan Corporations, Municipal Corporations, Municipal Committees and District Councils	Union Councils	Total
General Purpose	57.0%	13.0%	9.0%	3.0%	**82.0%**
Development	5.2%	2.0%	2.5%	1.3%	**11.0%**
Transition	4.7%	1.0%	1.3%	0.0%	**7.0%**
Total	**66.9%**	**16.0%**	**12.8%**	**4.3%**	**100.0%**

The Transition Grant for all tiers of the local government, except Union Council, will be calculated on the basis of shortfalls, if any, between their baseline expenditure and the share allocated to them under the General-Purpose Grant. Any amount left under the Transition Grant after addressing the shortfall of the respective local government will be distributed on the basis of the formula used for computation of the General-Purpose Grant.

The Development Grant for all tiers of the local government, except Union Council, will be computed on the basis of the formula used for computation of the General-Purpose Grant. The share of 'Metropolitan Corporations, Municipal Corporations, Municipal Committees and District Councils' will be distributed among them in the same manner as described for the General-Purpose Grant. The Union Councils will receive a fixed grant of PKR 300,000 per month from their share in the General-Purpose Grant and Development Grant as explained above.

3.7. Funds Release Process

As per Section 107(1) of the PLGA, 2013, the accounts of all receipts and expenditure of a local government will be kept in such form and in accordance with such principles and methods as may be prescribed by the AGP. Section 107(2) of the Act stipulates that in addition to the maintenance of accounts by a local government, the Director of the Local Fund Audit of the provincial government will also maintain the accounts of the local governments, and the District Education and Health Authorities.

As per the Interim PFC Award, 2017, the Finance Department will directly transfer funds to the accounts (Local Fund) of the respective local governments being operated by their Mayors/Chairpersons. On the other hand, the Deputy Commissioners will demand funds from the Planning and Development Department. The latter will issue a release advice to the Finance Department, which will in turn directly transfer funds to the accounts of Deputy Commissioners.

3.8. Execution of Local Government Budget

The application of funds is elaborated under Section 103 of the PLGA, 2013, which states that the monies credited to a Local Fund will be expended in accordance with the annual budget and revised budget estimates approved by the local government. Moreover, a local government will not transfer monies to any other local government except by way of payment of debts, for carrying out deposit works or for such other purposes as may be prescribed.

The schemes approved by the District Development Sub-Committee and Divisional Development Working Party are executed by the Deputy Commissioners. With the help of Deputy Director (Development) in each district, they assign projects to implementing agencies/contractors, disburse funds, monitor implementation and report progress to the Planning and Development Department.

3.9. Monitoring of Development Projects

The Deputy Commissioners submit a monthly progress report on project implementation to the respective provincial departments. The Planning and Development Department receives a monthly progress report on project implementation from the respective provincial departments and conducts a quarterly review with the respective secretaries. The schemes being implementing by the local governments are regularly monitored by their concerned official staff and through quarterly reviews by the respective Mayor/ Chairperson/Chief Executive Officer.

All the executing agencies submit a monthly progress report to the Chief Officers of the local government, and the Chief Executive Officers of the Education and Health Authorities, though it is also assumed that the monitoring of development projects will be carried out by the community and elected representatives using participatory monitoring and evaluation techniques. The monthly progress report contains project-wise details of allocated, released and utilised funds, as well as remarks on physical progress of projects.

The Planning and Development Department is entrusted with the responsibility of compiling the monthly progress reports of all the development projects reflected in the provincial ADP; while the Chief Executive Officer of Education and Health Authorities have the same responsibility concerning their projects. The PC-IV pro forma of all the development projects being implemented under the supervision of Deputy Commissioners is prepared and submitted to the Planning and Development Department through the respective provincial departments. At the provincial level, the Planning and Development Department issues the release advice, following which the Finance Department issues the funds release order.

4. Local Government System and Financial Devolution in Sindh

The Sindh Local Government Act (SLGA), 2013, provides guidelines and procedures regarding the administrative and financial discipline of councils in the province. Moreover, the law provides for the establishment of PFC to formulate fiscal transfers to the councils. The local government structure in the province, as stipulated under Section 15(1) of the SLGA, 2013, is as follows:

a) Urban Areas:
   - Metropolitan Corporation (only for Karachi).
   - District Municipal Corporations.
   - Municipal Corporations.
   - Municipal Committees.
   - Town Committees.
   - Union Committees.

b) Rural Areas:
   - District Councils.
   - Union Councils.

4.1. Provincial Finance Commission

As per Section 112(1) of the SLGA, 2013, the PFC will comprise 13 members, with the Finance Minister as its Chairperson and the Minister for Local Government as its Co-Chairperson. Other members of the Commission will include two members of the Provincial Assembly, one each nominated by Leader of the House and Leader of the Opposition; secretaries of Finance, Planning and Development, and Local Government; four elected representatives to be nominated by the provincial government (Mayor of Metropolitan Corporation, Mayor of a Corporation, Chairperson of a District Council and Chairperson of a Municipal Committee); and two professional members from the private sector.

Under Section 113(7) of the SLGA, 2013, the PFC Award will be announced every four years for the vertical distribution of PCF between the provincial government and the councils; and for the horizontal distribution of Provincial Allocable Amount among the councils. However, the PFC Award and multi-factor formula for the distribution of funds has not been announced in Sindh even four years after the passage of the local government law. The functions of the PFC, as stipulated under Section 113(1) of the SLGA, 2013, include the following:

a) Making recommendations to the provincial government on:
   - Formula for resource distribution including: (i) distribution between the provincial government and the councils out of the proceeds of the PCF into Provincial Retained Amount and Provincial Allocable Amount to be called the PFC Award; and (ii) distribution of Provincial Allocable Amount among the councils.
   - Matters relating to finances of the councils referred to the PFC by the provincial government or a council.

b) Taking into account population, backwardness, need and performance of the councils.

c) Presenting to the provincial government an annual report on the analysis of fiscal transfers, the situation of own-source revenue of the local councils, and the reach and quality of the services provided by the local councils.

4.2. Budget Call Circular

The budget rules under the SLGA, 2013, have so far not been framed and the district budget is currently being formulated at the provincial level. The local functionaries have not been delegated responsibilities under the local government act, though they can help identify development schemes. The budget calendar issued by the Finance Department provides a detailed mechanism for the budget making process; however, it does not mention what role elected representatives would play in it *(Table 4.1)*.

Table 4.1: Budget Calendar of the Government of Sindh (Current and Development)	
Date	**Description**
15 November	Submission of proposals for the Schedule of New Expenditure by administrative departments
7 January	Issuance of the draft budget strategy paper and indicative budget ceilings for development and current budgets by the Finance and the Planning and Development Departments
19 February	Submission of the first edition of proposed ADP to the Planning and Development and the Finance Departments by administrative departments
20 February	• Submission of the estimates of regular receipts by administrative departments • Submission of the forecast of MTBF receipts for FY 2019-20 to FY 2020-21 by the MTBF Secretariat and administrative departments
20 February	Identification of potential sectors for taxation and review of existing taxes/fees by administrative departments
20 February	• Submission of the estimates of regular expenditure by administrative departments • Submission of the forecast of MTBF expenditure for FY 2019-20 to FY 2020-21 by the MTBF Secretariat and administrative departments
20 February	Submission of revised estimates/final list of Excesses and Surrenders by departments
26 February	First edition of the ADP to be made available to the Planning and Development Department by the Finance Department
5-16 March	Inter-Departmental Priority Committee meetings by the Planning and Development Department for the clearance of tentative ADP
30 March	Review of collection of receipts and recoveries by the Finance Department
2 April	ADP communication to the Finance Department by Planning and Development Department
9 April	Supply of tentative ADP to Planning and Development Department by Finance Department
16 April	Last date for the incorporation of any modification in the ADP by the Planning and Development and the Finance Departments (for the Annual Plan Coordination Committee)
20 April	Finalisation of the current budget’s revised estimates for ongoing financial year, and budget estimates and Schedule of New Expenditure for next financial year by Finance Department
20 April	Finalisation of the MTBF (FY 2019-20 to FY 2020-21) by the Finance Department, the MTBF Secretariat and administrative departments
End April	Annual Plan Coordination Committee meeting by the Planning and Development Department, the Finance Department and administrative departments
30 April	Finalisation of new taxation proposals and review of existing taxes by Finance Department
1st Week of May	National Economic Council meeting (Planning and Development and Finance Departments)
16 May	Finalisation of the ADP by the Planning and Development and Finance Departments

28 May	Completion of all budget documents, schedules and summaries by the Finance Department
June	Presentation of the budget to the Cabinet and Provincial Assembly by the Finance Minister
15 June	Submission of Surrender of Savings by administrative departments

4.3. Local Council Finance

Section 104(1) of the SLGA, 2013, mandates the provincial government to form a Local Fund to be called:

a) ‘Corporation Fund’ in the case of a Corporation.
b) ‘Municipal Committee Fund’ in the case of a Municipal Committee.
c) ‘Town Committee Fund’ in the case of Town Committee.
d) ‘Union Committee Fund’ in the case of Union Committee.
e) ‘District Council Fund’ in the case of a District Council.
f) ‘Union Council Fund’ in the case of a Union Council.

Section 104(2) of the act stipulates that the Local Fund will consist of the following:

a) Balance of such funds that are at the disposal of the Council on the coming into force of this Act.
b) Proceeds of all taxes, tolls, rates, fees, cess and other charges levied and moneys recovered for utilisation or services rendered by the Council under this Act or any other law.
c) All rents and profits payable or accruing to the Council from and sale proceeds of the property vested in or managed by the Council.
d) All sums contributed by individuals or institutions or other Councils or Local Authorities.
e) All sums of moneys received from the provincial government.
f) All receipts accruing from the trusts placed under the management of the Council.
g) All loans raised and all interests and profits accruing or arising from investments or transactions.
h) All fines imposed under this Act.
i) Proceeds from such sources of income as the provincial Government may direct to be placed at the disposal of the Council.
j) all other sums receivable by the Council.

4.4. Local Council Budget

As per Section 109(1) of the SLGA, 2013, the annual budget of a council will contain the estimates of:

a) Grants from the provincial government.
b) Amount available in the Local Fund.
c) Receipts for the next financial year.
d) Expenditure to be incurred in the next financial year.

Section 109(2) mandates the provincial government to, sufficiently before the beginning of each financial year, notify the provisional share that may be credited to the Local Fund of a council from the Provincial Allocable Amount. Section 110 (1) states that a council will prepare and sanction, before the start of each financial year, a statement of its estimated receipts and expenditure (budget) and forward a copy thereof to the provincial government.

Despite the passage of the SLGA, 2013, new rules have so far not been framed to execute the budget making function at the district level and financial matters are still being dealt under the Sindh Council Budget Rules, 1985. Consequently, the budget making process at the district level is being hampered in the absence of budget rules in line with the needs of the SLGA, 2013.

4.5. Budget Making Process at District Level

The budget making process is a continuous activity. At the district level, this activity starts each year with the issuance of BCC by the Finance Department. As per the SLGA, 2013, the Chief Executives of councils are entrusted with the responsibility of identifying development schemes and compiling the annual budget; however, details are still sketchy in this regard in the absence of relevant budget rules despite the passage of almost five years.

The SLGA, 2013, mandates the elected representatives (Mayor, Deputy Mayor, Chairperson and Vice Chairperson) to watch over the financial and executive administration of the Council; while the Chief Executives of councils ('Secretary' in the case of Union Council and Union Committee; 'Chief Officer' in the case of District Council; 'Town Officer' in the case of Town Committee; 'Chief Municipal Officer' in the case of Municipal Committee; and 'Municipal Commissioner' in the case of Corporation) are mandated to, before the start of each financial year, prepare and sanction its budget, which is also to be forwarded to the provincial government for inclusion of its development component in the ADP.

The councils currently do not enjoy much control over the budget making process and the priorities and schemes identified by them are submitted to the Planning and Development Department through the Local Government Department for inclusion in the provincial budget and ADP. These schemes are approved by different sanctioning fora depending on their size.

4.6. Funds Release Process

Currently, the funds remain with the provincial government and are not transferred to the councils. For the development expenditure, the Planning and Development Department issues a release advice to the Finance Department, which in turn directly transfers funds to the respective administrative departments to implement their schemes.

4.7. Execution of Local Government Budget

The application of funds is elaborated under Section 107 of the SLGA, 2013, which states that the monies credited to the Local Fund will be expended in accordance with the annual budget and revised budget estimates approved by the council. Moreover, a council will not transfer monies to any other council except by way of repayment of debts, for carrying out deposit works or for such other works as may be prescribed.

4.8. Monitoring of Development Projects

As per the SLGA, 2013, the Chief Executives of councils will identify development schemes in consultation with the Local Government Department, Planning and Development Department, and Finance Department under the categories of: (a) primary, middle and secondary schools; (b) rural health centres; (c) basic health units; (d) family welfare clinics; (e) piped water supply; (f) potable water storage tanks; (g) hand pumps; (h) sanitation; and (i) rural roads. The Local Councils will submit periodic progress reports to the provincial Planning and Development Department on the implementation of development projects at different levels in the district.

At the provincial level, local schemes are approved by the Deputy Commissioners, who in turn assign projects to different implementing agencies, disburse funds, monitor the implementation and report progress to the Planning and Development Department. Moreover, the Secretary of the respective administrative department and the Sindh Planning and Development Board approve and monitor development schemes. The schemes approved by the Chief Executives of councils are assigned to different implementing agencies, and subsequently funds are disbursed and implementation is monitored.

The Deputy Commissioners submit monthly progress reports on project implementation to the respective provincial departments. The Planning and Development Department receives the monthly progress report from provincial departments and conduct a quarterly review with the respective Secretaries. The schemes implemented by the councils are regularly monitored by the Chief Executives concerned. At the closure of the projects supervised by the Deputy Commissioners, PC-IV pro forma is prepared and submitted through the respective provincial departments to the Planning and Development Department.

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