



Budget Strategy Paper

Fiscal Year 2018-19

Finance Department
Government of Khyber Pakhtunkhwa

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FY 2018-19

The Budget Strategy Paper serves as a key instrument under the top-down component of Medium Term Budgetary Framework outlining the aggregate revenue and expenditure projections for the next term of three years i.e. 2018/21. Accordingly, it helps achieve aggregate fiscal discipline and strategic resource distribution via communication of three years indicative budgetary ceilings at sectoral level.

1) Overview of Budget Outturn Current FY 2017-18

This section provides an overview of the budget outturn during Fiscal Year 2017-18.

1. Aggregate Revenue Outturn	The aggregate revenue outturn remained 77% of the budget estimates for 2017-18. Fiscal Year 2017-18 witnessed a shortfall of about Rs. 81 billion against the revised revenue estimates. Foreign Project Assistance under Development Receipts has the greatest short fall to the tune of Rs. 27 billion with General Revenue Receipts recording a shortfall of Rs. 42 billion.																																																											
2. Revenue Outturn by Composition	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;">Head</th> <th style="width: 10%;">Budget Estimates 2017-18</th> <th style="width: 10%;">Revised Estimates 2017-18</th> <th style="width: 10%;">Actuals 2017-18</th> <th style="width: 10%;">Shortfall/ Excess</th> <th style="width: 10%;">Receipts as % of BE</th> </tr> </thead> <tbody> <tr> <td colspan="6" style="text-align: center;">A-General Revenue Receipts</td> </tr> <tr> <td>Federal Tax Assignment</td> <td>326.0</td> <td>319.9</td> <td>303.0</td> <td>-16.9</td> <td>93</td> </tr> <tr> <td>1 % for War on Terror</td> <td>39.2</td> <td>38.4</td> <td>36.4</td> <td>-2.0</td> <td>93</td> </tr> <tr> <td>Straight Transfers</td> <td>24.7</td> <td>22.7</td> <td>24.1</td> <td>1.4</td> <td>98</td> </tr> <tr> <td>Net Hydel Profit</td> <td>20.8</td> <td>21.2</td> <td>10.0</td> <td>-11.2</td> <td>48</td> </tr> <tr> <td>Arrears of NHP</td> <td>15.0</td> <td>41.8</td> <td>31.5</td> <td>-10.3</td> <td>210</td> </tr> <tr> <td>Provincial Own Receipts</td> <td>45.2</td> <td>34.3</td> <td>31.2</td> <td>-3.1</td> <td>69</td> </tr> <tr> <td>Total General Revenue Receipts (A)</td> <td>470.9</td> <td>478.3</td> <td>436.2</td> <td>-42.1</td> <td>93</td> </tr> </tbody> </table>						Head	Budget Estimates 2017-18	Revised Estimates 2017-18	Actuals 2017-18	Shortfall/ Excess	Receipts as % of BE	A-General Revenue Receipts						Federal Tax Assignment	326.0	319.9	303.0	-16.9	93	1 % for War on Terror	39.2	38.4	36.4	-2.0	93	Straight Transfers	24.7	22.7	24.1	1.4	98	Net Hydel Profit	20.8	21.2	10.0	-11.2	48	Arrears of NHP	15.0	41.8	31.5	-10.3	210	Provincial Own Receipts	45.2	34.3	31.2	-3.1	69	Total General Revenue Receipts (A)	470.9	478.3	436.2	-42.1	93
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Head	Budget Estimates 2017-18	Revised Estimates 2017-18	Actuals 2017-18	Shortfall/ Excess	Receipts as % of BE	
B- General Capital Receipts						
Capital Receipts	0.3	0.3	0.1	-0.2	40	
Recoveries from HDF	15.0	15.0	0.0	-15.0	0	
Borrowing Domestic Loan	10.0	0.0	0.0	0.0	0	
Total General Capital Receipts (B)	25.3	15.3	0.1	-15.2	0	
Foreign Projects Assistance	82.0	38.5	11.3	-27.2	14	
Cash Balance / Savings	24.9	12.2	16.1	3.9	65	
Total Development Receipts (C)	106.9	50.7	27.4	-23.3	26	
Grand Total (A+B+C) =	603.0	544.3	463.7	-80.6	77	
3. Aggregate Expenditure Outturn						
<p>The aggregate expenditure outturn remained 86% of the budget estimates and 91% of the Revised Estimates for 2017-18. Fiscal Year 2017-18 witnessed lowest utilization of the District Development Funds i.e. a utilization of 37% of the budget estimates The Foreign Project Assistance component of ADP also recorded significant underutilization i.e. a mere 9% of the budget estimates and 18% of the revised estimates for 2017-18 could be utilized.</p>						
4. Expenditure Outturn by Composition						
S.No	Expenditure Head	Budget Estimates 2017-18	Revised Estimates 2017-18	Expenditure	Exp as % of BE	Exp as % of RE
A	Current Expenditure	395.0	396.4	351.9	89	89
i	Salary	218.0	214.5	198.5	91	93
ii	Non-Salary	170.0	174.5	150.8	89	86
iii	Capital	7.0	7.4	2.6	37	35
B	ADP	126.0	108.5	107.3	85	99
i	Provincial	98.0	97.6	97.0	99	99
ii	District	28.0	10.9	10.3	37	94
Total (A+B)		521.0	504.9	459.2	88	91
iii	FPA	82.0	38.5	7.0	9	18
Grand Total		603.0	543.4	466.2	77	86
IV	PSDP	0.0	3.1	3.1	-	100



2) Medium Term Fiscal Framework

Rs. in Million

	Actuals 2016-17	B.E 2017-18	BSP-I 2018-19	BSP-II 2018-19	Forecast 2019-20	Forecast 2020-21
Total Revenue	452,938	603,000	563,000	648,000	651,327	689,350
Federal Transfers	315,231	389,854	468,647	426,095	468,705	515,575
Federal Tax Assignment	260,441	326,001	394,745	360,459	396,505	436,155
1% for War on Terror	31,294	39,171	44,078	43,312	47,643	52,408
Straight Transfers	23,496	24,682	29,824	22,324	24,556	27,012
Provincial Tax & Non Tax Revenue	28,347	45,215	37,279	41,262	45,388	49,927
Provincial Tax Receipts	16,052	22,307	21,525	23,823	26,205	28,826
Property tax	705	180	900	218	240	264
General Sales Tax on services	10,273	13,653	14,260	15,000	16,500	18,150
Excise duties	24	42	28	30	33	36
Stamp duties	956	900	1,183	1,230	1,353	1,488
Motor vehicles tax	981	1,300	1,171	1,225	1,347	1,482
Infrastructure Dev Cess	167	1,100	542	400	440	484
Other	2,946	5,132	3,441	5,720	6,292	6,921
Provincial Non-Tax Receipts	12,295	22,908	15,753	17,439	19,183	21,101
Interest	32	116	20	116	128	140
Irrigation	312	575	279	590	649	714
Hydel Own Generation	1,748	3,630	1,787	2,750	3,025	3,327
Commercialization of Govt. Property	-	8215	-	0	0	0
Others	10,203	10372	-	13983	15,381	16,919
Profits from Hydro electricity	16,423	20,785	13,667	28,781	41,984	44,083
Financing From HDF	15,000	15,000	21,824	0	0	0
Financing From Past Savings/Cash Balance and from low Expenditure Outturn	55,000	24,896	-	39,015	40,000	19,015
Grants	17,379	29,442	-	26,756	20,900	19,615
Incentive on Cash Balance	0	0	15,000	0	0	0
Other Non Development Grants from Federal	50	0	-	0	0	0
PSDP(Federal)	5728	0	-	0	0	0
Foreign Grants (PDMA)	610	0	-	0	0	0
Foreign Grants (FPA)	10,991	29,442	15,000	26,756	20,900	19,615
Capital Receipts	267	62,808	5,250	49,594	34,350	41,135
Recovery of Investment & loans	267	250	250	250	250	250
Domestic Loan		10000	-	5000	0	0
Foreign Loans (FPA)		52,558	5,000	44,344	34,100	40,885
NHP arrears	5,291	15,000	15,000	36,497	0	0
Total Expenditure	449,651	603,000	563,000	618,000	626,842	679,350



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Current Expenditure	305,167	388,000	427,557	430,000	473,863	519,459
Salary	63,543	96,622	108,703	116,000	127,600	140,360
Pension	44,529	53,000	58,300	60,088	65,000	70,000
Non-Salary O&M and Contingency	42,858	51,892	57,824	64,462	70,928	78,041
Subsidy	2,900	2,900	2,900	3,100	3,100	3,100
Investment and Committed contributions	21,007	28,000	28,000	7,500	10,500	11,550
Interest Payments	5,382	8,000	8,800	9,000	9,900	10,890
Transfer to Local Government	124,948	147,586	163,030	169,850	186,835	205,518
Transfers to Local Councils	2,799	5,187	5,706	6,706	7,377	8,114
Transfers to Local Governments (District Salary)	108,263	121,378	134,201	140,000	154,000	169,400
Transfers to Local Governments (District Non Salary)	13,886	21,021	23,123	23,144	25,458	28,004
Capital Expenditure	6,244	7,000	7,141	8,000	8,800	9,680
Domestic Debt	-	0	-	0	0	0
Federal Debt	-	0	-	0	0	0
Debt Servicing - Account I	6,171	6,410	7,051	7,790	8,590	9,470
Loans & Advances - Account I	73	590	90	210	210	210
Fiscal Space	141,527	208,000	128,302	210,000	168,664	160,211
Development Expenditure	138,240	208,000	128,302	180,000	144,179	150,211
ADP(Provincial)	102,108	98,000	75,811	79,555	62,425	62,798
ADP(Districts)	24,897	28,000	32,491	29,345	26,754	26,913
PSDP	2795	0	-	0	0	0
Foreign Project Assistance	8,440	82,000	20,000	71,100	55,000	60,500
Total Revenue	452,938	603,000	563,000	648,000	651,327	689,350
Total Expenditure	449,651	603,000	563,000	618,000	626,842	679,350
Surplus /Deficit	3,287	0	-	30,000	24,485	10,000

Assumptions & Basis of Medium Term Projections

The total budget size for 2018-19 anticipates 7% reduction from the budget 2017-18 mainly attributable to Foreign Project Assistance (FPA) for BRT Project; ambitious Provincial Own Source Revenue and Borrowings during 2017-18.

Revenue	1. Federal Transfers	Federal Tax Assignment, 1% for war on terror and Straight Transfers are based on relevant macro-economic indicators including the average growth in GDP, Inflation, Unemployment and Tax-to-GDP ratio, under BSP-I However, as part of the finalization of revenue estimates under BSP-II, FTA, 1% War on Terror and Straight Transfers record an overall variation of 9% from 2017-18.
	2. Provincial Tax & Non-Tax Revenue	The Provincial Own Source Revenue is anticipated to be 82% of the budget estimates for 2017-18 because of excluding the Rs. 8 billion revenue target under Commercialization of Government Property during 2018-19. This underpins a more realistic revenue forecast, as no realization could be effected during 2017-18 under the subject head.
	3. Profits from Hydro Electricity	5% growth is expected due to additional production of electricity in the Province.



4. Capital Receipts	Mainly comprising of Foreign Project Assistance and average actualization of FPA is about 20 to 25%, so 25% FPA of 2017-18 has been projected for 2018-19.	
The total current budget comprising of revenue and capital components is projected with a growth of 9% over last year budget for 2018-19. This growth rate is assumed on the basis of enhancement of salary package, creation of new posts, and price hikes in utilities etc.		
Expenditure	1. Wages	Inclusive of provision for regular/sanctioned positions as well as creation of new posts in the medium term, 20% increase in basic pay on account of pay revision 2017, effect of annual increment, provision for expected pay increase.
	2. Pension	10% increase projected on account of enhancement in pension and new pensioners
	3. O&M and Contingency	Inclusive of provision for regular/on-going as well as new expenditures in the medium term. Aggregate 11% increase resulted from projections at detailed level.
	4. Transfer to Local Governments	The Lumpsum Provision of BE 2017-18 (Rs.11.657 billion) distributed amongst the Districts on the basis of their respective salary share and added with their existing provision.10% provision for the expected pay increase has also been added. Similarly, the non-salary provision has enhanced by 10% as resulted from the detail level projection.
	5. Debt Management	Comprises of interest and domestic and foreign debt payments. The Federal debt has already been retired but 10% increase has been added to provision for repayment of new foreign loans.
	6. Investment & Committed Contributions	Capped at the existing level.

3) Revised Budget Call Circular

The Budget Call Circular (BCC) for FY 2018/19 (Annex-I) is premised on the principles of simplicity, standardization, and optimal use of Government Financial Management Information System. Salient features of the revised BCC include:

- i. An improved and all inclusive structural layout
- ii. Entails broader guidelines on a) Budget Strategy Paper & Indicative Budgetary Ceilings; b) Economy Measures; c) Parameters for Re-appropriations, Budget Estimates and Revised Estimates; d) Business Processes for budgeting Receipts and Salary, Non-Salary and Development portfolios; and e) Guidelines for Output Based Budgeting
- iii. Reduced and improved Budget Forms & Formats
- iv. A more logical and consistent budget calendar
- v. Creation of Specialize Help Desks within Finance Department to support departments during budget preparation cycle

4) Result Oriented Budgeting – Institutional Framework

Optimal realization of the socio-economic outcomes of the Province via attainment of aggregate fiscal discipline and value for money warrants an institutional framework to foster credible, realistic, accountable and responsive budgeting system. In this backdrop, the following sub-components to complement the existing system effective FY 2018/19:



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- i. The revenue mobilization measures of the Government will be complemented with the following pre-requisites:
 - a. Finalization of assessment studies regarding potential revenue by each revenue generating department latest by end of Mar, 2018. This is to serve as the basis for revision of fiscal forecasts under Medium Term Fiscal Framework-II 2018/21. The conventional incremental approaches to revenue forecasts for own source revenue did not help to realize the province own revenue from tax and non-tax sources up to their full potential.
 - b. Initiation of Revenue Audit under Internal Audit Functionality as specialized audit function on pilot basis in Excise & Taxation Department including KP Revenue Authority during FY 2018/19 with subsequent roll-out/scale-up.
 - c. Instilling institutional framework to integrate the own source revenue regime with well-defined horizontal linkages to help optimally realize the revenue potential of the Province.
- ii. The Value for Money (VfM) perspective to annual planning and budgeting requires oversight mechanism to review and guide the sectoral performance against performance benchmarks committed under Output Based Budgeting. A two layered oversight mechanism to be made effective from FY 2018/19.
 - a. Regular/continuous performance review of all sectors by Finance Department to make informed decision making around all budgetary matters based on delivery of results by each sector.
 - b. Quarterly review under the Chair of Chief Secretary to take stock of progress update of each sector based on the input/guidance of Finance Department.
- iii. Attainment of aggregate fiscal discipline and prioritized resource distribution require a consistent and well complied approach to the Medium Term Fiscal Framework. Hence, the budgetary proposals to ordinarily stand restricted within the aggregate fiscal constraint.
- iv. No re-appropriations/budgetary adjustments in the development budget will be permissible during the first quarter of FY 2018/19.