

PFC Award 2008-09

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CHAPTER-I

INTRODUCTION

Pakistan is a federation comprising four Provinces unequal in area and levels of economic and social development. The country now has three tiers of functional Governments, Federal, Provincial and Local. The prime function of all three governments is to deliver various services apart from fulfilling their regulatory role. Local Governments in Pakistan do not have any distinct status in 1973 Constitution but are established by Provincial Government Ordinances through Local Government Ordinance. In NWFP Local Governments were established through NWFP Local Government Ordinance, 2001 which determines their powers and responsibilities.

2. NWFP get more than 90% of their revenues through Federal Transfer comprising of Federal Tax assignment, straight transfer on account of Royalty on Oil and Gas, Excise duty/Development Surcharge on gas and Net Hydel profit.

3. Local Government fiscal decentralization is channellized through Provincial Finance Commission(PFC) which is a statutory body under Section 120-A of NWFP Local Government Ordinance, 2001. The PFC embodies its vision in the terms of an Award furnishing recommendations of a self-contained fiscal transfer system for the Provinces. The over all objective of an Award is to provide a transparent, formula based equitable and predictable inter-governmental revenue sharing system with a view to enable various local governments to improve their performance with regard to service delivery to people of this Province.

4. Award of the PFC speaks for two-level distribution of resources viz one between Province and Local Governments and 2 nd interse amongst all local governments. In the case of former, the

Provincial Pool is determined out of the proceeds of Provincial Consolidated Fund(PCF). After subtracting the Obligatory Expenditure, the net Proceed is bifurcated into Provincial Allocable Amount(PA) and Provincial Retained Amount(PR). The Provincial Allocable Amount is the share of all local governments.

5. All PFC Awards pronounced so far aimed at bringing about improvement in performance, service delivery of Local Governments vis-a-vis society besides ensuring equitable distribution of resources amongst Local Governments and Finance Department acts like a catalyst. In this way a smooth transaction has been steered by Finance Department from centralized planning and budgeting to a mechanism based on fiscal decentralization. Thus vision of the NRB envisaging decentralization of administrative and financial authority to the local government through institutionalization of popular participation stands vindicated.

CHAPTER-II

HISTORY OF PFC AWARDS

So far, four PFC Awards have been pronounced. Three of which were for interim nature while the 4th one was for 3 years(2005-06 to 2007-08). In all the Awards, the Local Governments got the due share from the net Divisible Pool. The inter-se distribution of Provincial Allocable Amount (Development and Non-Salary) funds in all interim Awards was made on the following formula:-

- I. *Population 50%*
- II. *Backwardness(Based on MICS) 25%*
- III. *Lag in Infrastructure 25%*

2. While recommending the 4 th 3 years Award, the same parameters were used but with change in term of % age as under:-

- I. *Population 60%*
- II. *Backwardness(Based on MICS) 20%*
- III. *Lag in Infrastructure 20%*

3. For the new 5 th PFC Award(2008-09 to 2010-11), the Commission in its meeting held on 18.12.2007 decided to continue the Allocation/distribution of funds on the basis of aforesaid formula.

4. A brief sum-up of the Awards shows that Provincial Allocable amount gradually increased since 2002:-

Rs.in billion

i) 1 st PFC Award 2002 15.162

ii) 2 nd PFC Award 2003 16.098

iii) 3 rd PFC Award 2004 18.773

iv) 4 th PFC Award 2005-2008 29.412

CHAPTER-III

COMPOSITION OF PFC

The composition of PFC as per section 120-B of NWFP Local Government Ordinance, 2001, is as under:-

i)	Minister for Finance, Government of NWFP	Chairman
ii)	Secretary to Government of NWFP, LG&RD Department, Peshawar .	Member
iii)	Secretary to Government of NWFP, P&D Department, Peshawar .	Member
iv)	Secretary to Government of NWFP, Finance Department, Peshawar .	Member/Secretary
v)	Dr. Muhammad Zubair Khan	Member
vi)	Mr. Saeed Ullah Jan	Member
vii)	Prof. (Rtd.)Rashid Ahmad Ghouri	Member
viii)	Sahibzada Tariqullah, Nazim District Dir (Upper).	Member
ix)	Mr. Niamatullah Khan, Nazim Town II Bannu.	Member
x)	Pir Khan Tanoli, Nazim Union Council, Pind Kargo Khan, Abbottabad.	Member

CHAPTER-IV

TERMS OF REFERENCE OF PFC

The functions, duties and powers of the Finance Commission shall be to make recommendations to the Governor for-

(a) a formula for distribution of resources including-

- *distribution between Government and the local governments out of the proceeds of the Provincial Consolidated Fund into a Provincial Retained Amount and a Provincial Allocable Amount, respectively:*

Provided that in no case shall the Provincial Allocable Amount shall be so determined that it is less than the funds transferred to local governments in the financial year 2001-2002 and the establishment charges budgeted for the functions of local governments in the same year, excluding transfers in lieu of Octroi and Zilla Taxes:

Provided further that all the monies received by Government in lieu of Octroi and Zilla Taxes shall be added to the Provincial Allocable Amount separately; and

(ii) distribution of the Provincial Allocable Amount amongst the District Governments, Tehsil and Town Municipal Administrations and the Union Administrations as shares;

(b) the making of grants in aid by Government to the local governments from the Provincial Retained Amount; and

(c) any other matter relating to finance for and of the local government referred to the Finance Commission by the Governor, or Government, or by a local government.

(2) The recommendations shall be based on the principles of fiscal need, fiscal capacity, fiscal effort and performance.

CHAPTER-V

PFC RECOMMENDATIONS

PFC met thrice during the current financial year 2007-08 and after due deliberation has given, the following recommendations for sharing of Allocable Amount amongst Local Government.

1. PROVINCIAL POOL

2. There will be a Provincial Pool comprising of the following revenue proceeds:-

i) Revenue Assignment from Federal Divisible Pool

ii) G.S.T. on Services.

- Royalty on Crude Oil.
- Royalty on Natural Gas.
- Gas Development surcharge/Excise duty.

vi) Net Hydel Profits.

vii) Special Grant.

viii) Provincial Own Receipts.

ix) 1/6 th of Sales Tax

2. PROVINCIAL OBLIGATORY EXPENDITURE

3. The Provincial obligatory expenditure shall be:-

i) Debt Servicing including payment of the principal amount of loans.

ii) Pensions.

- Subsidy on wheat.

iv) Contribution to G.P.Fund and Pension Fund.

v) Charged expenditure of the Governor House, Provincial Assembly and High Court.

vi) Law and Order.

4. These priority expenditure which are common both to Provincial and District Governments will be subtracted from the Provincial Pool to arrive at net Divisible Pool.

• DIVISIBLE POOL

The Divisible Pool will be the balance amount determined after subtracting the obligatory expenditures from the Provincial Pool .

- **SHARING PROCEED**

The Divisible Pool will be shared between the Provincial and Local Governments as Provincial Retained Amount and Provincial Allocable amount respectively. The Provincial Allocable Amount will be subject to fiscal need, fiscal capacity, fiscal efforts & performance and subject to change on account of Provincialization of Departments from devolved to non-devolved setup.

5. DISTRIBUTION OF PROVINCIAL ALLOCABLE AMOUNT

5. The Provincial Allocable Amount will be distributed amongst the Local Governments to meet the following expenditure :-

i) Salary

ii) Non-Salary

iii) Development

iv) Grant in lieu of OZT

6. FORMULA INTER-SE DISTRIBUTION OF FUNDS

6. The inter-se distribution Development share of Provincial Allocable Amount shall be on the basis of the following formula to cater for development need of the districts only:-

i) Population 60%

ii) Backwardness based on Multi-Indicators 20%

Clusters survey

iii) Lag in Infrastructure 20%

7. Distribution weightage %age of the above formula is at **(Annex-I)** .

7. TRANSFERS OF FUNDS TO LOCAL GOVERNMENTS

8. The proceeds of the Provincial Allocable Amount **(Annex-II)** will be transferred to districts for meeting following expenditures:-

a) Salary

- The Salary share has been increased by 10% in each year of Award.

- The salary budget shall continue to be transferred by the Provincial Govt. through Account-IV as usual on actual basis. District will provide actual expenditure figure of the preceding month in the 3rd quarter of the ensuing month for the purpose of Transfer of salary.
- The District governments can make adjustment within the Salary Component in accordance with released amount. However, Salary budget will not be diverted for any other purpose.
- The increase in salary, if any, will be allowed by the Provincial Government on the basis of criteria/ratio determined by the Federal Government and the availability of resources.

b) Non-Salary

i) According to existing Award, the non-salary component was formula based. The Commission observed that the requirement of the districts varies due to actual needs of each District especially in Electricity, M&R(Roads) and Medicines etc. Besides various Reforms program have been initiated in the Districts in Education and Health Sectors as such the application of PFC formula become ineffective so it has been decided distribution of non-salary shares should be on need basis

ii) A 12% increase has been provided in the non salary in first year of Award, while tentative 10% increase is proposed in the subsequent years. However, this will subject to review every year.

iii) The Transfer of Funds will be in a single line and District Governments will make their budget according to their requirement.

iv) Separate budget for M&R(Roads) has been recommended. However, this amount will not be diverted for any other purpose. The amount so allocated shall be utilized by the Districts in consultation with Works & Services Department/Frontier Highways Authority.

v) The funds for Payment of Electricity have been allocated in accordance with the recommendation of EMC, Finance Department and this allocation will not be diverted for any other purpose. The balance if any will be carried over to next year for the same purpose.

vi) Each District Government have been allocated separate funds allocation for the family of deceased government Servant, as death compensation which shall be paid in accordance with the policy of the Government.

- Rs. 63.479 million has been provided for the Performance Based Budgeting for 10 Districts.
- The block allocation made for Health and Education Sectors will be transferred to District on the recommendation of these Departments. However, the District will ensure to make provision for Medicines, Petty Repair and Class Room Consumable material in Health and Education Sectors in accordance with the existing criteria.

- Matching grant will be available as per following existing criteria:-
- *Generation of more resources by the Districts as compared to the previous year, 50 % of additional amount so generated will be provided by provincial government as matching grant.*
- *Additional amount incurred on medicines and Roads over and above the PFC allocation, 100% of additional amount will be provided as matching grant.*
- Lump sum allocation for payment of Advertisement Charges has been made. The District will not delay the payment for want of funds.

C) Development Budget

- Due to less utilization trend of Development Funds by the District, the share of Development Funds has been increased by 1% in 3 years Award.
- The Development Share of the District will be formula based.
- 15% of Development funds will be for Chief Minister's and Finance Minister's directives to be shared @ 10 and 5 %, respectively.
- The remaining funds will be apportioned between the district governments and the Tehsil/Town Municipal Administration(s) @ 70:30 ratio respectively. The TMA's share will be on the numbers of Union Council in each TMA.
- Funds for Citizen Community Board (C.C.B) will be allocated as prescribed in the Ordinance.

D) GRANT IN LIEU OF OCTROI AND ZILLA TAX

- The grant will be transferred to the local governments in the following manner:-
 - 10% increase each year has been provided in Octroi grant in 3 years Award (**Annex-III**) .
 - ii) A block allocation is made separately for TMAs on need basis as usual.
 - iii) Where TMAs and Cantonment Boards had an octroi sharing, the Provincial Government will transfer the latter's share directly as per existing terms and conditions.
 - The 4 CB's i.e. Risalpur, Nowshera, Havelian and Murree Gullies having no sharing arrangement of octroi with TMA will also be provided grant as usual in light of Presidential Order No.1 of 2006.

- The historical share of each district in Zila Tax will be increased by 10% over existing allocation in each year of Award (**Annex-IV**) . The Districts will retain 10% share of Zilla Council and remaining 90% amount will be transferred at flat rate amongst the Union Councils.

E) TERM OF THE AWARD

The Commission recommended the Award for a term of 3 years (2008-09 to 2010-11). However, it will be reviewed annually.

8. OTHERS RECOMMENDATIONS

a) In case of any at source deduction/adjustment from the revenue assignment of the Province by the Federal Government/PESCO on account of outstanding electricity charges of PESCO against a District Government or Tehsil/Town Administration, proportionate at source deductions will be made from the share of the respective Districts/Tehsils/Towns. Further any District Govt./Tehsil or Town Administration fails to make prompt monthly payment of electricity dues to PESCO, the Finance Department shall make such payment direct to PESCO and adjust the same from District Government accounts. Similarly such adjustment will be made from accounts of the Tehsil/Town as the case may be.

b) The Provincial Government will take up the matter with Federal Government for recovery of user charges on account of Indus water used by other Provinces from the share of NWFP over the years.

c) The Commission has recommended Rules for the conduct of Business by the Commission and establishment of an independent PFC Secretariat.

d) In view of weak capacity at District Governments level the subject of Construction of Primary Schools shall continue to remain with the Schools & Literacy Department at Provincial level. A Committee has been constituted to examine this matter and make appropriate recommendations for future.

• ACKNOWLEDGEMENT

PFC appreciated the contribution of members and officers/officials of Finance Department, need due vote of thanks in completion of this Award.

GOVERNMENT OF NORTH WEST FRONTIER PROVINCE

FINANCE DEPARTMENT

Dated Peshawar , the 11/08/2008

ORDER

NO.BO(PFC-I)/FD/1-2/2007-08/Vol-III. WHEREAS, in pursuance of section 120-A of the North West Frontier Province Local Government Ordinance, 2001(N.W.F.P Ordinance No.XIV of 2001), the Governor of NWFP constituted a Provincial Finance Commission(PFC) to make recommendations among other matters, as to the distribution of resources between the Provincial Government and Local Governments and Local Governments inter se of the net proceeds of the Provincial Government in a financial year in accordance with the provisions of Section 120-D of the said Ordinance.

AND WHEREAS, the Provincial Finance Commission has submitted its recommendations with regard to the said distribution.

NOW, THEREFORE, in pursuance of the provisions contained in sub-section(6) of Section 120-D of the said Ordinance, the Governor of the North West Frontier Province is pleased to make the following order:-

1. PROVINCIAL POOL :- There will be a Provincial Pool comprising of the following revenue proceeds:-

i) Federal Tax Assignment.

ii) G.S.T. on Services.

• Straight Transfer.

iv) Net Hydel Profits.

v) Special Grant(Grant-in-Aid).

vi) Provincial Own Receipts.

ix) 1/6 th of Sales Tax

2. PROVINCIAL OBLIGATORY EXPENDITURE:- The Provincial obligatory expenditure shall be:-

i) Debt Servicing including payment of the principal amount of loans.

ii) Pensions.

- Subsidy on wheat.

iv) Contribution to G.P.Fund and Pension Fund.

v) Charged expenditure of the Governor House, Provincial Assembly and High Court.

vi) Law and Order.

These priority expenditure which are common both to Provincial and District Governments will be subtracted from the Provincial Pool to arrive at net Divisible Pool.

- **DIVISIBLE POOL** :- The Divisible Pool will be the balance amount determined after subtracting the obligatory expenditures from the Provincial Pool .

- **SHARING PROCEED**:- The Divisible Pool will be shared between the Provincial and Local Governments as Provincial Retained Amount and Provincial Allocable amount respectively. The Provincial Allocable Amount will be subject to fiscal need, fiscal capacity, fiscal efforts & performance and subject to change on account of Provincialization of Departments from devolved to non-devolved setup.

5. DISTRIBUTION OF PROVINCIAL ALLOCABLE AMOUNT:- The Provincial Allocable Amount will be distributed amongst the Local Governments to meet the following expenditure :-

i) Salary

ii) Non-Salary

iii) Development

iv) Grant in lieu of Octroi & Zilla Tax

6. FORMULA INTER-SE DISTRIBUTION OF FUNDS:- The inter-se distribution Development share of Provincial Allocable Amount shall be on the basis of the following formula to cater for development need of the districts:-

i) Population 60%

ii) Backwardness based on Multi-Indicators 20%

Clusters survey(MICS)

iii) Lag in Infrastructure 20%

7. TRANSFERS OF FUNDS TO LOCAL GOVERNMENTS:- The proceeds of the Provincial Allocable Amount will be transferred to districts for meeting following expenditures:-

a) Salary

- The Salary share has been increased by 10% in each year of Award.
- The salary budget shall continue to be transferred by the Provincial Govt. through Account-IV as usual on actual basis.
- The District governments can make adjustment within the Salary Component in accordance with released amount. However, Salary budget will not be diverted for any other purpose.
- The increase in salary, if any, will be allowed by the Provincial Government on the basis of criteria/ratio determined by the Federal Government and the availability of resources.

b) Non-Salary

- i) A 12% increase has been provided in the non salary budget in first year of Award, while tentative 10% increase is provided in the subsequent years.
- ii) The Transfer of Funds will be in a single line and District Governments will make their budget according to their requirement.

c) Development Budget

- i) 15% of Developmental funds will be retained by the Provincial Government. Out of these funds 10% will be distributed by the Chief Minister, NWFP and 5% by Minister for Finance among the Districts.
- ii) 85% of developmental funds will be transferred to the District Governments and the Tehsil/Town Municipal Administration(s) @ 70:30 ratio, respectively. The TMA's share within the district will be on the basis of numbers of Union Council in each TMA.
- iii) The District share in the developmental funds is based on the formula as mentioned in clause 6 of the Order.
- iv) Funds for Citizen Community Board (C.C.B) will be allocated by the Local Governments as prescribed in the Ordinance.

D) GRANT IN LIEU OF OCTROI AND ZILLA TAX :- The grant will be transferred to the local governments in the following manner:-

- 10% increase each year has been provided in Octroi grant in 3 years Award.

ii) A block allocation is made separately for TMAs on need basis.

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8. TERM OF THE AWARD:- The Commission recommended the Award for a term of 3 years (2008-09 to 2010-11). However, it will be reviewed annually.

9. OTHERS:- In case of any at source deduction/adjustment from the revenue assignment of the Province by the Federal Government/PESCO on account of outstanding electricity charges of PESCO against a District Government or Tehsil/Town Administration, proportionate at source deductions will be made from the share of the respective Districts/Tehsils/Towns. Further any District Govt./Tehsil or Town Administration fails to make prompt monthly payment of electricity dues to PESCO, the Finance Department shall make such payment direct to PESCO and adjust the same from District Government accounts. Similarly such adjustment will be made from accounts of the Tehsil/Town as the case may be.

**SECRETARY TO GOVERNMENT OF N.W.F.P
FINANCE DEPARTMENT**