# BUDGET BRIEF 2017-18

HEALTH DEPARTMENT, GOVERNMENT OF KHYBER PAKHTUNKHWA

## HIGHLIGHTS

- The total provincial budget outlay for FY 2017-18 is PKR 603 billion, which is 19.4% higher than last year's budget (PKR 505 billion during FY 2016-17)
- Health sector has been allocated PKR 66.5 billion which posts an increase of 22% over the previous year
- Development budget has reduced by 07% over last year including proportionate share of health sector in District ADP
- Current budget, on the contrary, increased by 37% over last year including proportionate share of health sector in District current budget owing to recruitment of doctors and other health staff
- Budget spending significantly improved during 2016-17 (102%) as against FY 2015-16 (79%)
- PKR 913 million has been allocated to procure medicines for FY 2017-18 declining the allocations by 03% over the last year
- Primary and preventive care assume highest share (61%) in the total development budget
- Early evidence is available suggesting de-concentration

## INTRODUCTION

The purpose of this paper is to present brief analysis of health sector allocations during FY 2017-18 viz. a viz. allocations during FY 2016-17. The district governments are now preparing their budgets (both current and development) however the timelines for budget planning and preparation are hardly met in any district. The Provincial Government of Khyber Pakhtunkhwa (GoKP) has mandated District Governments to allocate at least 10% in their development budget each year. The analyses are based on the assumption that this provision has been complied with by all districts.

## 1. WHAT CONSTITUTES A HEALTH CARE SECTOR?

For the purpose of this analysis, we define the health care sector as comprising of (i) Basic Health Units, (ii) Rural Health Centre, (iii) Tehsil Headquarter Hospitals, (iv) District Headquarter Hospitals, (v) the preventive programmes, (vi) Tertiary Care Hospitals, and (vii) Medical Education. Family Health Planning, which is embodied within the Health as per the

*Functional Classification* definition used in the provincial accounting system, is governed by a separate administrative department and is therefore beyond the scope of this paper.

## 2. WHAT IS THE HEALTH FINANCING ARRANGEMENT IN KP?

Broadly, the public-sector health function is financed through two channels: (a) government funding, and (b) self-generated funds of the autonomous bodies which mostly comprises of the Medical Teaching Institutions (MTIs). However, the analyses are restricted to only allocations and outflows pertaining to Provincial Consolidated Funds.

There are two general connotations used for financing streams i.e. Current and Development. Each of them can be further split into Provincial and District. In health sector context, these can be explained as under:

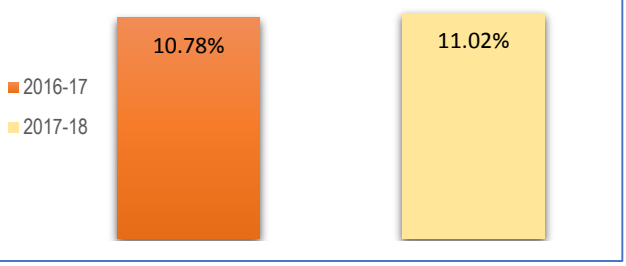
| | | |
|---|---|---|
| **CURRENT** | | |
| | Provincial Current Budget | This stream relates to funding provincial level functions e.g. the Drug Laboratories, office of the Director General Health Services, the District Head Quarter Hospitals, Tertiary Care Hospitals, and Medical Colleges and can include funds made available to the Provincial Health Department mainly for meeting its administrative expenses and so forth. The Provincial Government approves this budget. |
| | District Current Budget | This stream relates to funding district level health facilities i.e. Basic Health Units, Rural Health Centres, Civil Hospitals, Tehsil Headquarter Hospitals, Civil Dispensaries, TB Control, District EPI etc. This also includes administration costs such as employee related expenditures, running the office of the District Health Officer, and so forth. The respective District Government approves this budget. |
| **DEVELOPMENT** | | |
| | Provincial Development Budget | This stream relates to funding development programmes which can be executed at central level, district specific or province wide. Budget under this can be used for establishment of new facilities, expansion in existing, introduction of new systems, introduction of new technologies or approaches, procurement of machinery & equipment etc. Most of the preventive programmes are also funded through this stream of budget. The Provincial Government approves this budget. |
| | District Development Budget | This stream relates to funding development programmes which are executed at district level. Budget under this is mainly utilized in construction of additional |

| | | |
|---|---|---|
| | | rooms, repair and maintenance, electrification and provision of water supply in health facilities and procurement of small machinery and equipment etc. This budget is prepared and approved by respective District Government. |

## 3. HOW DOES THE OVERALL BUDGET LOOK THIS YEAR?

**Share of health sector has slightly increased by 0.2% (FY 2017-18) in the overall budget of the KP government in comparison to FY 2017-18.** The total budget of the KP government for FY 2017-18 is PKR 603 billion (bn)[1]. The share of the health sector in the current FY is recorded at 11.02% when compared with the total budget (i.e. all sectors combined) of KP.

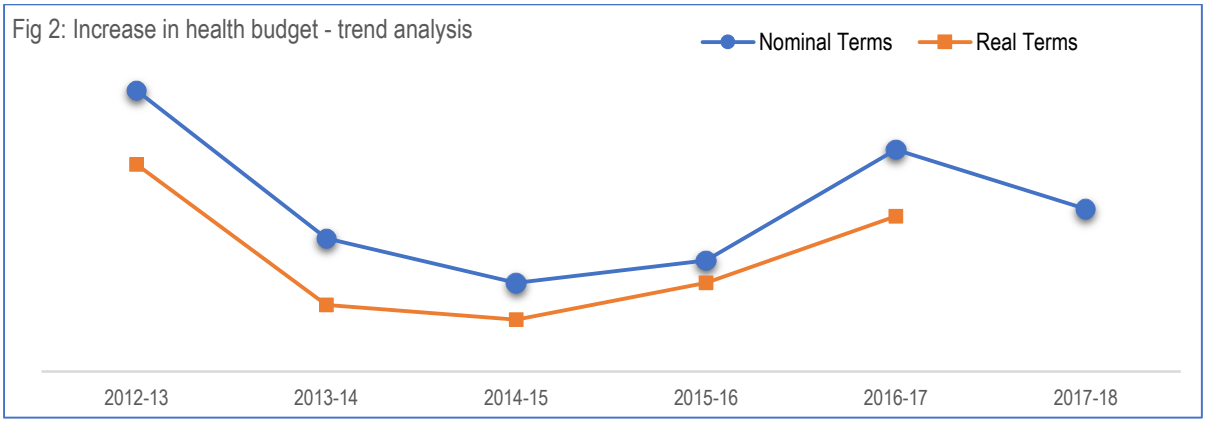
Fig 1: Share of health sector in total budget of KP




**Per-capita allocation has increased from remained from PKR 1,783 [2] ($17.0)[3] in FY 2016-17 to PKR 2,178 ($20.7)[4] in FY 2017-18.**

**The budget for the health sector has increased by 22% in fiscal year 2017-18 in comparison to the previous year.** The growth in budget can be seen both in nominal and real terms. A declining trend of gap between the nominal and real budget is witnessed in previous years, however, has widened during FY 2016-17. Total allocation for the health sector for FY 2017-18 is PKR 66 bn.

Fig 2: Increase in health budget - trend analysis




The increase in budget is third highest when compared to the last five years (figure 2). The increase in current years' allocation almost equates with the average growth (23%)[5] during last five years.

[1] Data from KP Citizens Budget, 2017, Government of KP.
[2] Using Provisional Population Statistics on the basis of Population Census 2017, Pakistan Bureau of Statistics
[3] Exchange rate as on June 30, 2016
[4] Exchange rate as on June 30, 2017

Combining the allocations under all the four streams the biggest chunk of money is allocated for stream 1 followed by stream 3 (figure 3 and table 1).

| Table 1: Budget allocation by streams– PKR (bn) | |
|---|---|
| **Stream** | **FY 2017-18** |
| Stream 1 – Provincial current budget | 35.50 |
| Stream 2 – District current budget | 13.78 |
| Stream 3 – Provincial development budget | 16.47 |
| Stream 4 – District development budget | 0.72 |
| **Total** | **66.47** |

Fig 3: (%) share of different streams in budget FY 2017-18

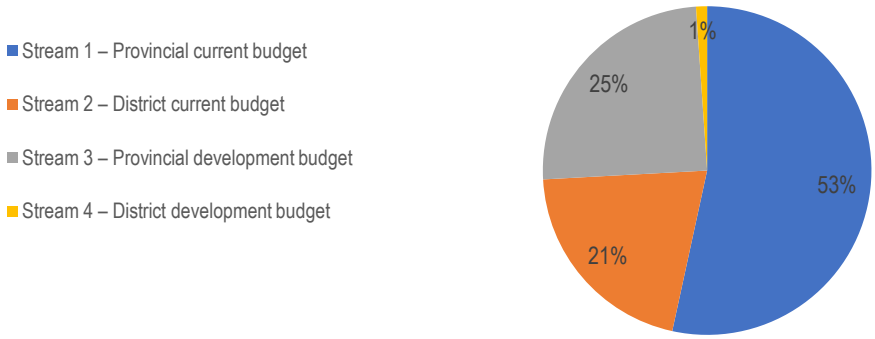



**Figure 3 above shows that approximately 78% of the health budget is still controlled from the provincial level.** However, this has improved from pre-devolution era where entire budget was controlled by the provincial level.

**In FY 2017-18, PKR 722M have been allocated for funding district level health development schemes[6]. This accounts to, however, only 4% of the total health development budget for KP.**

**Overall development budget for Health has reduced by 7% for FY2017-18 as compared to FY2016-17.** A major part of the overall budget (74%) is kept for meeting the current budget requirements i.e. to run the day to day affairs of the health sector, while the remaining will be used for funding the development programmes at provincial and district level. **The increase in the current budget is 37% in comparison with FY2016-17 mostly due to provision for recruitment of Medical Officers and other staff.**

| Table 2: Consolidated current and development budget – PKR (bn) – original budget estimates | | |
|---|---|---|
| **Budget – type** | **FY 2016-17** | **FY 2017-18** |
| Current | 36.4 | 49.2 |
| Development | 18.5 | 17.2 |

[5] Data from budget and expenditure analysis of health department for FY 2014-17, TRF+.
[6] At the time of preparing this report, all budgets have not been approved at the district level and yet to be uploaded in PIFRA system. This amount has been estimated using block figures provided in the white paper on budget, 2016.

| Total | 54.9 | 66.4 |
|---|---|---|

**55% of the allocation in the consolidated budget (i.e. all four streams combined) for the health sector is for paying salaries, followed by operating expenses (31%)[7].** Budget for paying operating expenses increased by only 8% from last year. There have been instances of booking budget under inappropriate accounting heads, therefore drawing an accurate analysis and drawing definite conclusion becomes difficult.

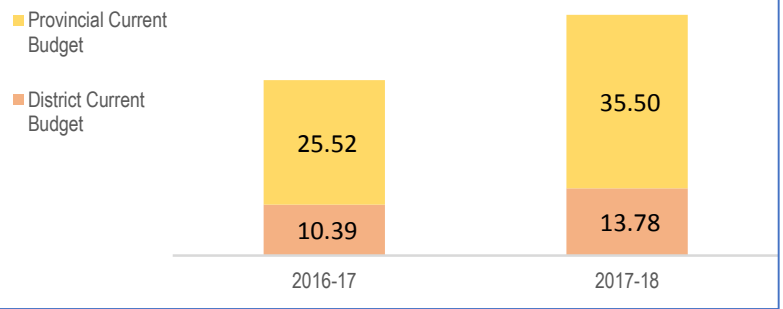
| Table 3: Consolidated allocations by major line items – PKR (bn) – original budget estimates | | |
|---|---|---|
| **Major line items** | **FY 2016-17** | **FY 2017-18** |
| Employee related expenses | 27.65 | 36.07 |
| Operating expenses | 19.51 | 20.15 |
| Grants[8] | 1.52 | 1.85 |
| Transfers [9] | 1.45 | 3.04 |
| Physical assets | 0.07 | 2.00 |
| Civil works | 4.68 | 2.85 |
| Repairs and maintenance | 0.06 | 0.06 |
| **Total** | **54.94** | **66.02** |

**Allocation for drugs and medicines declined by 03% in FY 2017-18 when compared with allocations made during last year.** The allocation for purchasing drugs and medicines in FY 2017-18 is PKR 913 mn (PKR 943 mn in FY 2016-17) and account for 2% of the total current budget and 07% of the non-salary budget. **The allocation for medicines is alarmingly low, e.g. Punjab allocated 11% of the total budget and 23% of the non-salary budget for procuring medicines for primary and secondary health care in budget for FY2016-17.**

## 4. HOW HAS THE CURRENT BUDGET GROWN IN COMPARISON TO PREVIOUS YEAR (ORIGINAL BUDGET ESTIMATES)?

**The overall current budget in FY 2017-18 (province and district combined) has grown by 37% in comparison to last year (figure 4).** Whereas the provincial current budget increased by 39% and the district current budget grew by 33%[10].

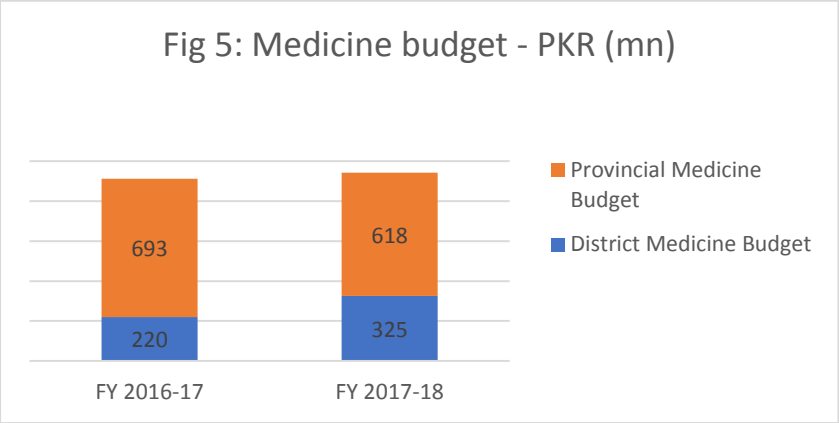
Fig 4: Current budget - PKR (bn)




[7] The PIFRA online information system has not yet captured district current budget Charsadda. However, the aggregate current budget comparisons are made on the bases of allocations to district governments as per ABS.
[8] Grants are used for transferring money from province to districts, making payments to the family of deceased, payment of subsidies and writing off loans.
[9] Transfers are used to record scholarships (stipends to PG trainees and other are also recorded here), payments to international agencies e.g. procurement of vaccines from UNICEF and payments for entertainment and gifts.

The share between salary and non-salary allocations has slightly changed during FY 2017-18 as compared with FY 2016-17. The split between salary and non-salary allocations was recorded at 76% and 24% in FY 2017-18 as compared to 74% and 26% respectively in FY 2016-17.

In FY 2017-18 funds allocated to procure medicines in the consolidated current budget (i.e. province and districts combined) were 3% more in comparison to FY 2016-17 (figure 5). **This means that in relative terms, the allocation in medicines budget in FY 2017-18 have not been increased as per the % increase in total current budget i.e. 37% when compared to FY 2016-17.**




**At the provincial level allocation for purchasing medicines decreased by 11% in FY 2017-18 in comparison to FY 2016-17, whereas at district level the increase is recorded at 48%.** The usual practice of under or over estimation, in case of budgeting for medicines, has remarkably curtailed as the revised medicine budget in FY 2016-17 had a modest variation of 10%.

**Allocation for repair and maintenance remains only 0.1% of the total budget.** This is a consistent pattern over the last many years. 67% of the current budget at the provincial level has been kept to pay for salaries followed by payment for operating expenses (23%). Largest increase was seen in the budget for transfer payments which has more than doubled from PKR 1.449 bn to PKR 3.04 bn.

| Table 4: Provincial Current Budget allocations by major line items – PKR (mn) | | |
|---|---|---|
| **Major line items** | **FY 2016-17** | **FY 2017-18** |
| Employee related expenses | 17,534.84 | 23,623.37 |
| Operating expenses | 5,999.33 | 8,136.82 |
| Grants | 484.92 | 662.51 |
| Transfers | 1,449.61 | 3,040.70 |
| Physical assets | 16.96 | 2.33 |
| Civil works | 0.00 | 0.00 |
| Repairs and maintenance | 35.99 | 30.65 |
| **Total** | **25,521.65** | **35,496.38** |

[10] Note: while this report was being prepared the district, allocations were still being updated, however, it is anticipated that the changes in the budget will not be significant to change the findings of this analysis.

**Lion's share (93%) of the district current budget is allocated in the FY 2017-18 for paying salaries, followed by making payments for operating expenses (6%).** This leaves little or no room for the districts to improve and increase service delivery at district level. Repairs and maintenance is allocated only 0.3% of the total budget. There is an immediate need to re-think the district budget allocation structure and improving the overall budgeting and financing functions at the district level.

| Table 5: District Current Budget allocations by major line items – PKR (mn) | | |
|---|---|---|
| **Major line items** | **FY 2016-17** | **FY 2017-18[11]** |
| Employee related expenses | 9,599.66 | 12,856.54 |
| Operating expenses | 746.38 | 873.14 |
| Grants | 5.27 | 9.24 |
| Transfers | 0.02 | 0.02 |
| Physical assets | 9.03 | 27.55 |
| Repairs and maintenance | 27.10 | 36.27 |
| **Total** | **10,387.46** | **13,802.76** |

The district receives medicines from different sources i.e. the provincial development budget through different development programmes e.g. the integrated health programme provides medicines for implementing the Minimum Health Service Delivery Package (MHSDP) and districts' own current budget. Here we are discussing the medicine procurement by using district own current budget. **At district level the budget for purchasing medicines increased by a remarkable 48%, however, constitutes only 2.3% of the total district budget.** There seems to be a gradual shift of allocations in medicines budget from province to districts as the relative share of medicines in provincial budget has reduced by 1% in FY 2017-18 as compared to 2016-17.

**Eleven districts posted an increase on their budget at least by 50%, in other words increase of health budget in FY 2017-18 was at least 50% in 42% of the districts of KP[12].** Three districts, however, posted decline on their respective health budget when compared with the previous year (table 6)[13]. At present, it is difficult to analyse how the increase in district health budget has been made. For example, we analysed average increase by zones i.e. South, Centre and North[14]. We found that the average increase 52%[15], 41% and 31% respectively in Centre, North, and South. This is an inconsistent trend; however, the Centre always gets high proportion. A possible reason can be an apparent lack of central guiding policy that can assist budget allocation decisions at the district level. Whatever reason may

[11] Excluding Charsadda

[12] Number of districts are assumed now to be 26 as the PIFRA has bifurcated the budget of Kohistan in to two districts, i.e. Kohistan (Lower) and Kohistan at Dassu.

[13] Note: while this report was being prepared the district, allocations were still being updated, however, it is anticipated that the changes in the budget will not be significant to change the findings of this analysis.

[14] Definition of Centre, South and North is taken based on divisions as used by the development partners and EPI programme. **(1) Centre:** Mardan, Nowshwera, Swabi, Peshawar, Charsadda – **(2) North:** Abbottabad, Batagram, Haripur, Mansehra, Kohistan, Tor Ghar, Buner, Chitral, Malakand, Lower Dir, Upper Dir, Shangla, Swat – **(3) South:** Hangu, Kohat, Karak, Bannu, Lakki Marwat, Dera Ismail Khan, Tank.

[15] Excluding Charsadda

be, this will greatly affect how services are delivered at the district level. This, however, shall also be kept in mind that District Governments have liberty in non-salary budget allocations. Authority for creation or abolition of new posts or variations in pay and allowances rates still exist at Provincial level.

| Table 6: Classification of districts by range of increase in health budget | | | | |
|---|---|---|---|---|
| **Increase more than 80%** | **Increase in between 50% to 80%** | **Increase in between 20% to 50%** | **Increase in between 0% to 20%** | **Negative growth** |
| Lakki, Haripur, Kohat, and Peshawar | Chitral, Buner, Tor Ghar, Shangla, Mardan, and Abbotabad | Nowshera, Dir Upper, Dera Ismail Khan, Bannu, Batagram, Dir Lower, Hungu, and Swabi | Mansehra and Swat | Tank, Kohistan Upper, Malakand, Karak, and Kohistan |

## 5. HOW HAS THE DEVELOPMENT BUDGET GROWN IN COMPARISON TO PREVIOUS YEAR AND WHAT IS CONTAINED IN THIS YEAR'S ANNUAL DEVELOPMENT PROGRAMME?

**The size of the development budget has declined when FY 2017-18 is compared with FY 2016-17. This decline amounts to a shortfall of PKR 1.32 billion in comparison to the previous year. This decline is witnessed both in Provincial as well as District development budget.** In relative terms the decline is 28% in comparison to last year. As the local government system continues to thrive, the districts have been given development budget for the third consecutive year to plan and implement health related schemes at district level.

**Allocation for physical assets has gone rocketed with an allocation of PKR 1,973mn in FY 2017-18 as compared to PKR 50mn only in FY 2016-17, highest growth rate attained in comparison to other category of expenditures for FY 2017-18 (table 7).** Most of these are transfers to tertiary care hospitals for implementing development schemes. Second highest increase was recorded in grants and subsidies with 181% growth.

**Allocation for civil work has posted a decrease by 46% from previous year.** It is hard to determine if this decrease is a change in policy of acquiring fewer assets this year or it is simply an issue linked to poor capacity to develop budget estimates.

**A major portion of the development budget (65%)** has been allocated for paying operating expenses, followed by carrying out civil works (17%). These together constitute 82% of the total development budget in FY 2017-18.

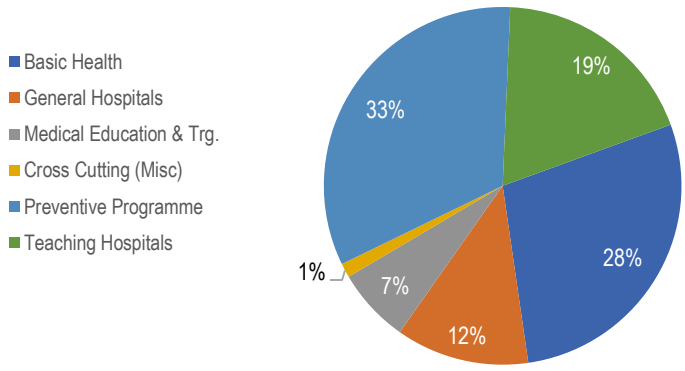
The overall impression from analysing development budget is that in most of the cases for convenience, allocations are made against the major accounting code. This results in not being able to analyse where the actual money will be spent.

| Table 7: Development allocations by major line items – PKR (bn) | | |
|---|---|---|
| Major line items | **FY 2017-18** | **FY 2016-17** |
| Operating expenses | 12.77 | 11.20 |
| Grants | 1.02 | 1.18 |
| Physical assets | 0.05 | 1.97 |
| Civil works | 4.68 | 2.85 |
| **Total** | **18.52** | **17.20** |

Health sector continues to enjoy high proportion of shares in provincial development budget outlay, however, these investments will have a significant impact on recurrent operational costs to sustain these investments on a longer-term horizon. **A simplistic assessment suggests that this can result in a requirement of additional funding of approximately PKR 680mn per annum, representing 4% of the existing current budget. If these recurrent costs are not met, the investment made will be at risk of being lost.**

**Owing to the issues of poor budgeting, it is not possible to estimate how much money is being spent to purchase drugs and pay salaries from the development budget.** Anecdotal evidence suggests, that a good amount of money from the development budget is used for both, i.e. paying salaries and procuring drugs.

Fig 6: (%) categorisation of ADP for FY 2017-18




**It is encouraging to note that 61% of the provincial ADP has been allocated to fund development schemes related to the basic health and preventive care programmes amounting to PKR 10.51bn which was 58% last year.** However, it is also important to mention here that out of this PKR 6.81bn is funded through foreign assistance.

**More than 71% of the ADP has been allocated to fund centrally run development programmes, such as (i) provision of missing equipment at different facilities, (ii) upgradation and renovation of facilities, (iii) strengthening of the expanded programme for immunisation, (iv) establishing strategic units and so forth.** The remaining 29% of the ADP can be allocated against districts as it contains district specific schemes amounting to PKR 4.94bn. Peshawar has the highest allocation amounting to PKR 1.94 bn.

**Allocation for districts in Centre of the province is almost two and a half times in comparison to the combined allocation for districts in North and South.** Average allocation per district for Centre is almost PKR700mn, for South is PKR 271 million and for North it is PKR 62 million.

## 6. WHAT ARE THE ALLOCATIONS FOR MATERNAL AND CHILD HEALTH INCLUDING NUTRITION?

Though, the Functional Classification in vogue for accounting and reporting has explicit identification for maternal and child health, the existing practice is to classify these functions under a general category along with other expenditures like basic health units, rural health centres etc. Thus, the way existing budgets are recorded, it is very difficult to answer this question. Maternal and child health are being funded through all the budget streams, however, it is very difficult to track the exact allocations under the current budget. **Based on directly trackable budget data from district current budget an estimated PKR 53 million will be spent for providing mother and child health services during FY 2017-18. This accounts for 0.4% of the overall district health budget.** However, the actual spending from district current budget will be more than this as a major chunk of cost can termed as 'health systems shared costs'.

**Approximately 24% of the ADP is allocated to improve maternal and child health services amounting to PKR 4.18bn**. These are the allocations which can be directly attributed to providing maternal and child health services. There are other schemes as well which will contribute to improving reproductive health services however attributing them is a complex and difficult process, e.g. upgradation of basic health units or secondary hospitals, implementing infection prevention programmes and so forth.

To conclude, approximate minimum spending on maternal and child health services will be around PKR 4.23 billion in FY 2017-18.

## 7. IS THE BUDGET EVIDENT OF ANY DE-CONCENTRATION?

Health is a devolved subject, therefore, some of the functions falls under the jurisdictions of district governments. This, however, is important to note that policy decisions are still made at provincial level bearing budgetary impacts at district level. Recruitment of Doctors and other health staff, though, are made at Provincial level however has impacts on district budgets. **The analysis, however, continues to find some evidences of de-concentration which is encouraging to note, however, is limited to operational level service delivery matters only.** We analysed three factors to come to this conclusion which are explained below.

a. **Actual expenditures, as percentage of budget allocations, is higher for districts as compared to province.** This is because preliminary allocations for new hiring is initially made in provincial budget which is then subsequently re-appropriated to respective districts. As evident from Figure 7 below, the provincially controlled budget execution rate was 119% which is low if compared with that of district controlled budget which was 138%.

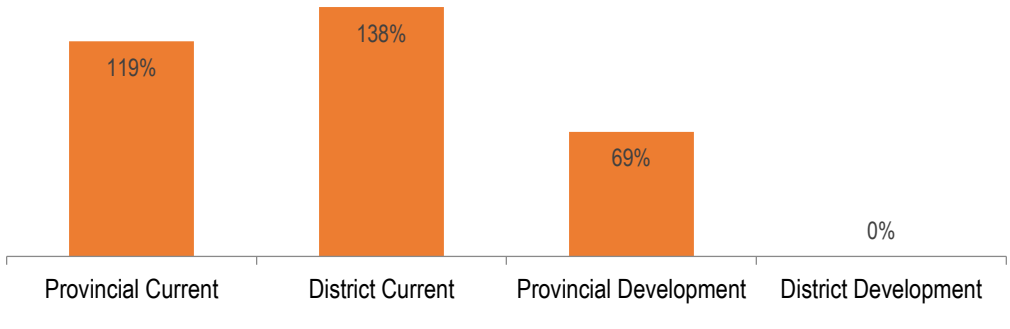
b. **There is an increase of 48% in the district controlled budget for drugs and medicines whereas on the other hand provincially controlled budget is showing a decline of 11% in the same head when FY 2017-18 is compared with FY 2016-17.**

c. **District budget records a growth of 44% when FY 2017-18 allocations were compared with FY 2016-17 whereas for province this growth is 21% only.**

## 8. HOW MUCH WAS SPENT IN FY 2016-17?

**Against the total original allocation of PKR 54.9bn (combining all the funding streams) a total of PKR 56.93bn was spent, registering a utilisation rate of 102% whereas utilization rate against revised budget remained 87%.** Utilisation rate by each funding stream against allocation is presented in figure 7 below.

Fig 7: Utilisation rate for FY-2016-17




**The highest share in consolidated expenditure was recorded for payment for employee salaries (36%), followed by transfer payment (35%), these two form 71% of the total spending.** An interesting point to note is that structure of budget changed substantially when it was spent, e.g. in the original budget share of salaries was 50% and transfer payment was 3%. Actual spent on transfer payments increased more than 11 times in comparison to what was budgeted. To establish the reason for this will need further investigations, however, based on available data – the impression is that unspent balances at the yearend are being transferred to the spending units so that the amounts don't lapse. There is a risk that this amount may not be spent by the year end but recorded as spent.

**A point of concern, however, is that utilization from district development stream remained nil.** There is a conceived perception that local representatives do not give priority

to social sectors other than water supply and sanitation. Provincial Government has mandated district governments to allocate at least 10% of the district ADP to health sector. However, as releases to districts fell short of original PFC allocations (for instance, only 50% of the PFC Allocations for FY 2015-16 were released to district), there is tendency among local representatives to spend the initial released funds as per their discretion (55% of the development budget of a District can be allocated to any sector as per the discretion of local representatives). Mostly (if not all), this discretion favour water supply and sanitation sector for utilization.

At the district level, lion's share of expenditure was for payment of district salaries (93%), followed by paying operation expenses (6%), the two, thus exhausting all the executed budget. Spending on repair and maintenance, or alternatively put as safeguarding the investments in physical assets, is a mere 0.2% of the total spending at the district level.

## CONCLUSION

Various initiatives in health sector, for instance 24/7 health services provision or Sehat Insaf Cards or autonomy to health teaching institutes etc., has rendered greater share for health sector in the overall budget of KP – signifying urge amongst political leadership to reform health systems for greater relief to masses. Decentralization of health functions at district level promises efficiencies in health service deliveries, however, is greatly undermined as existing level of allocations will hardly be able to meet the financial requirement of existing level of operations (in some cases that seems difficult as well). The prime reason being that more than 90% of the budget will be used for payment of salaries. The recent recruitment at Provincial level will trickle down its budgetary impacts at district level thus furthering this gravity of inefficient split of funds between provincial and districts. Huge development funds are allocated in health sector, though witnessing decline over previous year, meaning thereby that considerable additional resources will need to be made available at the district level to sustain these investments in the near future, which apparently seems not to be on radar for the policy makers.

The issues with poor quality of budget estimation is critical from both funding the health system and enabling policy and decision makers to assess the actual situation and take informed decisions. Large amounts summed for Block Projects at provincial level seriously risks transparency besides favouring central districts for disproportionate developmental allocations. Decentralization continues to thrive thus providing consistent evidence of de-concentration, however, for this to actualise a lot of capacity building and system strengthening initiatives should take place at the district level.

Lastly, without compromising the importance of budgets, actual expenditures are at the end what translates into outcomes. For FY 2016-17, actual expenditures exhaust the original

allocations and were 5% more. However, variations within items of expenditures are beyond explanation. Employee related expenditure at provincial level remained only 41% of original allocations whereas transfers (mostly comprising of grants to autonomous bodies i.e. health teaching institutions) outsized the original allocations by 2 times.