REPORT ON

2ND BIANNUAL MONITORING ON THE IMPLEMENTATION OF NFC AWARD

(January – June 2011)

Government of Pakistan
National Finance Commission Secretariat

LETTER OF TRANSMITTAL

MINISTRY OF FINANCE
ISLAMABAD

Dear Mr. Chairman,

As required by Article 160 3(B) of the Constitution of Islamic Republic of Pakistan, I am pleased to submit herewith the **Report on 2nd Biannual Monitoring on the Implementation of National Finance Commission (NFC) Award for the period January - June, 2011** of the Ministry of Finance, Government of Pakistan.

Yours Sincerely,

(Dr.Abdul Hafeez Shaikh)
Finance Minister
Government of Pakistan

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Dear Madam Speaker,

As required by Article 160 3(B) of the Constitution of Islamic Republic of Pakistan, I am pleased to submit herewith the **Report on 2nd Biannual Monitoring on the Implementation of National Finance Commission (NFC) Award for the period January – June, 2011** of the Ministry of Finance, Government of Pakistan.

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(Dr. Abdul Hafeez Shaikh)
Finance Minister
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LETTER OF TRANSMITTAL

MINISTRY OF FINANCE
ISLAMABAD

Dear Madam Speaker,

The 7th National Finance Commission signed the Award on 30^{th} December, 2009 and its recommendations were given legal cover with effect from 1^{st} July 2010 through President's Order No.5 of 2010 (Distribution of Revenues and Grants-in-Aid Order, 2010). The implementation of 7^{th} NFC Award has been started w.e.f. 1^{st} July, 2010. Clause 3(B) of Article 160 of the Constitution of Islamic Republic of Pakistan, it has been stated that:

> *"Federal Finance Minister and Provincial Finance Ministers shall monitor the implementation of the Award biannually and lay their report before both Houses of Majlis-e-Shoora (Parliament) and the Provincial Assemblies."*

2. In pursuance of the above provision in the Constitution, it is now imperative upon the Finance Ministers of the Federal and Provincial Governments to monitor implementation of the Award biannually and lay a report in this regard before the both Houses of the Parliament. The implementation status during the period January to June, 2011 was monitored by the Finance Ministers in Islamabad on 16^{th} December, 2011. The implementation status on each of the articles of the President's Order was deliberated upon and a report was finalized/approved for laying before both the Houses of the Parliament.

(Dr.Abdul Hafeez Shaikh)
Finance Minister
Government of Pakistan

INTRODUCTION

1.1: National Finance Commission (NFC)

1.1.1 Article 160 of the Constitution of Islamic Republic of Pakistan governs the National Finance Commission (NFC). The NFC is required to be set up at intervals not exceeding five years as required under clause (1) of the Article ibid. The NFC shall consists of the Federal Finance Minister, the Finance Ministers of the Provinces and such other members (historically one from each province) as appointed by the President in consultation with the Governors of the provinces. The mandate of the NFC as provided in clauses (2) and (3) of Article ibid. The recommendations of the NFC has been implemented through *"Distribution of Revenues and Grants-in-Aid Order 2010" (Annex-I)*.

1.1.2 Through the 18th Amendment in the Constitution, two new sub clauses i.e. clauses (3A) and (3B) have been inserted in the Article 160. Through clause (3A), it has been made binding for the NFC not to reduce the share of the provinces as compared to previous Award. Through clause (3B), the Federal and Provincial Finance Ministers have to monitor implementation of the Award biannually and lay a report in this regard in the both Houses of the Parliament.

1.2.2 The 8th NFC was constituted on 21st July, 2010 and its 1st meeting was held on 16-12-2011.

DIVISION OF DIVISIBLE POOL TAXES

Article 3 & 4 of President's Order No.5 of 2010

2.1: Distribution of Divisible Pool Taxes

2.1.1 Articles 3 and 4 of the President's Order i.e. Distribution of Revenues and Grants-in-Aid Order, 2010 (Award) regulates the distribution of divisible taxes between the Federal and Provincial Governments vertically and amongst the four provinces horizontally.

2.1.2 During the financial year 2010-11, Federal Board of Revenues (FBR) has reported tax receipts of Rs.1558.55 billion. This includes receipts of some non-divisible pool components including income tax paid out of the Federal Consolidated Fund. The components of divisible pool taxes have been laid down in clause (1) of Article 3 of the Order. As against FBR tax receipts of Rs.1558.55 billion, the Gross divisible pool taxes worked out to be Rs.1470.53 billion as per details given below:

Rs. in Billion

	Financial Year 2010-11	2nd half of 2010 -11
Total Collection FBR Receipts	**1558.55**	**937.53**
Less Non-Divisible Pool Components	**88.02**	**61.67**
WWF	10.87	8.45
GST on Services	57.59	41.20
Excise Duty on Natural Gas	10.63	6.07
Export Development Surcharge	3.00	2.16
1% of Income Tax on account of Income Tax paid out of the Federal Consolidated Fund	**5.93**	**3.79**
Net Divisible Pool Tax	**1470.53**	**875.86**

2.2: Vertical Distribution

2.2.1 After subtracting the non-divisible pool components, the net divisible pool would be determined by deducting cost of collection (1% as recommended by the NFC). The entire proceeds have been distributed between the federation and provinces, exactly in accordance with the provisions of these two articles of the Order ibid. The details of vertical tax-wise distribution are as follows:

I. Position of Entire Financial Year-2010-11

Rs. in billion

	FBR Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% for WoT for Khyber Pakhtunkhwa	Balance Net Div. Pool	Prov. Share (56%)	Prov. Share with 1% WoT
Divisible Pool Taxes	**1470.53**	**14.76**	**1455.77**	**14.56**	**1441.21**	**807.08**	**821.64**
Income Tax	586.43	5.92	580.51	5.81	574.71	321.84	327.65
Wealth Tax	0	0	0	0	0	0	0
Capital Value Tax	0.08	0	0.08	0	0.08	0.04	0.04
Sales Tax (Excl.GST on Services)	574.09	5.74	568.35	5.68	562.67	315.09	320.77
Federal Excise (Excl. ED on NG)	128.26	1.28	126.98	1.27	125.71	70.40	71.67
Customs (Excl. Export Dev. Surcharge)	181.67	1.82	179.85	1.8	178.05	99.71	101.51

II. Position during 2nd Half (Jan. - June, 2011) of Financial Year-2010-11

(Rs in billion)

	FBR Receipts	Collection Charges (1%)	Net Div. Pool Taxes	1% for WoT for KPK	Balance Net Div. Pool	Prov. Share (56%)
Divisible Pool Taxes	**875.86**	**8.76**	**867.10**	**8.67**	**858.43**	**480.72**
Income Tax	375.32	3.75	371.57	3.72	367.85	206.0
Wealth Tax	0	0	0	0	0	0
Capital Value Tax	0.03	0	0.03	0	0.03	0.002
Sales Tax (Excl.GST on Services)	315.68	3.16	312.52	3.12	309.40	173.26
Federal Excise (Excl. ED on NG)	80.18	0.80	79.38	0.79	78.59	44.01
Customs (Excl. Export Dev. Surcharge)	104.65	1.05	103.60	1.04	102.56	57.43

2.3: Horizontal Distribution

2.3.1 The percentage share of each province in the provincial share of the Divisible Pool Taxes has been laid down in Clause (2) of Article 4. Further, Clause (3) of Article 4 of the Order ibid guarantees that the share of Balochistan province **shall receive the projection sum of eighty three billion rupees from the provincial share in the net proceed of divisible pool taxes in the first year of Award. Any shortfall in this amount shall be made up by the Federal Government from its own resources. This arrangement for Balochistan shall remain protected throughout the remaining four years of the Award based on annual budgetary projections. In**

order to match this guaranteed share, Federal Government has paid Rs.9.64 billion from its own resource to Government of Balochistan during the entire financial year. In the first half of the FY-2010-11 this was Rs.11.83 billion. However, due to improvement in FBR receipts, this additional burden reduced to Rs.9.64 billion. The details of horizontal tax-wise distribution are as follows:

I. Position of Entire Financial Year-2010-11

Rs. in billion

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	100%	51.74%	24.55%	14.62%	9.09%
Divisible Pool Taxes	**807.08**	**417.58**	**198.13**	**118.01**	**73.36**
Income Tax	321.85	166.52	79.01	47.06	29.26
Wealth Tax	0.00	0.00	0.00	0.00	0.00
Capital Value Tax	0.04	0.02	0.01	0.01	0.00
Sales Tax (Excl.GST on Services)	315.09	163.03	77.35	46.07	28.64
Federal Excise (Excl. ED on NG)	70.39	36.42	17.28	10.29	6.40
Customs (Excl. Export Dev. Surcharge)	99.71	51.59	24.48	14.58	9.06

In case of the provinces of Khyber Pakhtunkhwa and Balochistan, after catering for the 1% War on Terror and additionally provided by the Federal Government from its own resources to match the guaranteed figure, the position emerges as follows:

Khyber Pakhtunkhwa	**Rs in Billion**
Share in the Divisible Pool (14.62%)	118.01
1% War on Terror	14.56
Total:-	132.57
Balochistan	
Share in the Divisible Pool (9.09%)	73.36
Additionality provided by Federal Government	9.64
Total:-	83.00

II. Total Figures for 2nd Half (Jan. - June, 2011) of Financial Year-2010-11

(Rs in billion)

	Total	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
	100%	51.74%	24.55%	14.62%	9.09%
Divisible Pool Taxes	**480.71**	**248.72**	**118.00**	**70.29**	**43.70**
Income Tax	205.99	106.57	50.57	30.12	18.73
Wealth Tax	0.00	0.00	0.00	0.00	0.00
Capital Value Tax	0.02	0.01	0.00	0.01	0.00
Sales Tax (Excl.GST on Services)	173.26	89.65	42.53	25.33	15.75
Federal Excise (Excl. Excise Duty on NG)	44.00	22.77	10.80	6.43	4.00
Customs (Excl. Export Dev. Surcharge)	57.44	29.72	14.10	8.40	5.22

Khyber Pakhtunkhwa	**Rs in Billion**
Share in the Divisible Pool (14.62%)	70.29
1% War on Terror	8.67
Total:-	78.96
Balochistan	
Share in the Divisible Pool (9.09%)	43.70
Additionality provided by Federal Government	-2.19
Total:-	41.51

STRAIGHT TRANSFERS/GRANTS-IN-AID

Article 5, 6 & 7 of President's Order No.5 of 2010

3.1: Distribution of Royalty on Crude Oil

3.1.1 Article 5 of the Order (Award) relates to the distribution of Net Proceeds of Royalty on Crude Oil. M/o Petroleum and Natural Resources is responsible for collection of this levy who reports to Finance Division on a monthly basis the province-wise collection of royalty on crude oil for onward transfer to provinces. The entire net proceeds reported by M/o Petroleum and Natural Resources during the financial year 2010-11 have been distributed amongst the provinces in accordance with the provisions of the above article. Details are as follows:

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty on Crude Oil (FY-2010-11)	3.848	8.819	8.341	0.002	**21.010**
2nd half (Jan. - June,2011) of FY - 2010-11	1.661	5.904	5.273	0.000	**12.838**

3.2: Distribution of Gas Development Surcharge and Royalty on Natural Gas

3.2.1 Article 6 of the Order (Award) governs the distribution of Surcharge on Gas (GDS) and Royalty on Natural Gas. M/o Petroleum and Natural Resources is the collecting agency of these two levies. The proceeds so collected are reported to Finance Division on monthly basis for onward transfer to provinces. The entire net proceeds of Royalty and Surcharge on Gas reported by M/o Petroleum and Natural Resources have been distributed exactly in accordance with the above provisions of the Award. Details are as follows:

I. Total Figures for the Financial Year-2010-11

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty On NG	**1.393**	**26.881**	**3.814**	**3.922**	**36.010**
Gas Dev. Surcharge	1.955	17.061	2.979	7.753	29.748
Total	**3.348**	**43.942**	**6.793**	**11.675**	**65.758**

II. Total Figures for 2nd Half (Jan. - June, 2011) of Financial Year-2010-11

Rs in billion

	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan	Total
Royalty On NG	**0.600**	**14.919**	**2.009**	**0.591**	**18.119**
Gas Dev. Surcharge	**0.896**	**2.746**	**1.136**	**4.475**	**9.253**
Total	**1.496**	**17.665**	**3.145**	**5.066**	**27.372**

3.2.2 As per clause (2) of Article 6, GDS payable to Balochistan with effect from 01.07.2002 to 30.06.2010 based on the new formula was to be worked out and the arrears, subject to maximum of Rs.10 billion, were to be paid to Balochistan in five years. Federal Government has accordingly allocated Rs.2.0 billion for the purpose. Rs.2.0 billion have been paid to Government of Balochistan during the financial year.

3.2.3 In addition to this, Rs.10 billion have been allocated as arrears prior to 1991 under Aghaz-e-Huqooq-e-Balochistan Package have been paid to Government of Balochistan during the financial year.

3.3: Distribution of Excise Duty on Natural Gas

3.3.1 As per Article 161 (1) of the Constitution of Islamic Republic of Pakistan, the excise duty on Natural Gas are required to be paid to the province in which the well head of Natural Gas is situated. FBR is the collecting agency of this levy. The proceeds so collected are reported to Finance Division on monthly basis for onward transfer to provinces. The entire net proceeds of have been distributed exactly in accordance with the constitutional provision. Details are as follows:

Rs in billion

	Punjab	Sindh	Khyber Paktunkhwa	Balochistan	Total
Excise Duty on Gas (FY-2010-11)	0.54	7.72	1.13	2.01	**11.40**
2nd half (Jan. - June,2011) of FY - 2010-11	0.33	4.68	0.72	1.20	**6.93**

3.4 Grants-in-Aid to Sindh Province

3.4.1 Under Articles 7 of the Order ibid (Award), the province of Sindh is entitled to receive a grants-in-aid equivalent to 0.66% of the provincial share in the divisible pool. A sum of Rs.6 billion has been allocated in the Federal Budget for the purpose. During the financial year, the provincial share in the divisible pool was Rs.807.08 billion. Accordingly, the grant-in-aid was worked out to be Rs.5.327 billion. The same amount has been paid to Government of Sindh.

GENERAL SALES TAX ON SERVICES

Article 8 of President's Order No.5 of 2010

4.1 Collection and Distribution of GST on Services

4.1.1 Through Article 8 of the Order ibid (Award), NFC accepted that Sales Tax on Services is a provincial subject under the Constitution and may be collected by the respective provinces, if they so desire.

4.1.2 Since this issue was linked with the implementation of Reformed GST, therefore, status-quo for its collection has been maintained for the time being by taking the provincial governments on board. Presently, the GST on Services is being collected by the Federal Government. The provincial Finance Secretaries in a meeting held at Islamabad while discussing the draft law on Reformed GST agreed to distribute the net proceeds of GST on Services provisionally based on the following ratio:

- GST (CE Mode) on the ratios provided by the telecom operators regarding revenue generation based on calls generated in view of the fact that bulk of the generation of CE mode comes from Telecom Sector. The ratios are:

Punjab	Sindh	Khyber PK	Balochistan	Total
53.9%	23.6%	13.5%	4.3%	95.3%

4.7% collection comes from ICT/FATA and as such would be retained by the Federal Government

- GST(Provincial) based on the formula devised for distribution of Group-III Services (Services requiring input/output adjustments) and given in the Record Note on Implementation of Reformed GST.

Punjab	Sindh	Khyber PK	Balochistan	Total
60.39%	50.00%	15.62%	10%	136.01%

4.1.3 The above arrangements of distribution of GST on Services are purely provisional and subject to adjustment based on final decision in the matter. Based on the above formula, the following distribution has been made so far:

I. Position of Entire Financial Year-2010-11

Rs in billion

Details	Gross	Net (Total Prov. Share)	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Group-1 Services	0.495	0.452	0.057	0.386	0.008	0.00
Group-I1 Services	50.849	47.975	27.134	11.880	6.796	2.165
Group-II1 Services	6.242	8.405	3.732	3.090	0.965	0.618
Total	57.586	56.832	30.923	15.356	7.769	2.783

II. Position during 2nd Half (Jan. - June, 2011) of Financial Year-2010-11

Rs in billion

Details	Gross	Net (Total Prov. Share)	Punjab	Sindh	Khyber Pakhtunkhwa	Balochistan
Group-1 Services	0.495	0.451	0.057	0.386	0.008	0.000
Group-I1 Services	21.694	20.468	11.576	5.069	2.899	0.924
Group-II1 Services	3.151	4.242	1.884	1.560	0.487	0.311
Total	25.340	25.161	13.517	7.015	3.394	1.235

MISCELLANEOUS PROVISIONS OF THE AWARD

Article 9 of President's Order No.5 of 2010

5.1: Increase in Rate of Excise Duty on Natural Gas

5.1.1 NFC recommended increase in the rate of excise duty on natural gas to Rs.10.0 per MMBTU. The rate of excise duty on natural gas has accordingly been enhanced to Rs. 10/- per MMBTU through Finance Bill, 2010.

5.2: Increase in Tax to GDP Ratio

5.2.1 The NFC recommended that the Federal Government and Provincial Government should streamline their tax collection systems to reduce leakages and increase their revenues through efforts to improve taxation in order to achieve a 15% tax to GDP ratio by the terminal year i.e. 2014-15. NFC also recommended that provinces to initiate steps to effectively tax the agriculture and real estate sectors.

5.3: Performance in the First Half

5.3.1 It may further be pointed out that FBR tax receipt for the first year of the Award was fixed as Rs.1,667.0 billion against the NFC projection of Rs.1,710.0 billion. The budget estimates of the provinces are according to projections of NFC. The realization of tax receipts during the second half of the financial year vis-à-vis budget estimates are tabulated as follows:

	BE 2010-11	Progressive 2010-11	% age over BE	2nd half of FY-2010-11 (Jan. - June, 2011)	% age over BE
FBR Receipts	1,667.00	1,558.55	93.49%	937.53	56.24%
Provinces (combined)	76.54	65.00	84.92%	37.12	48.50%
Punjab	40.63	☆40.4	97.5%	18.06	44.45%
Sindh	31.48	27.50	87.36%	15.82	50.25%
KPK	3.20	4.06	126.88%	2.59	80.94%
Balochistan	1.23	1.08	87.80%	0.65	52.85%

GST (Provincial) is not included in Provincial Tax Receipt
☆ *This figure includes Rs.3.69 billion on account of Electricity Duty and adjusted by PEPCO.*

5.3.2 As evident from the above, the tax collection both at Federal and Provincial level is not encouraging and if this state of affairs continues it may not be possible to achieve 15% tax to GDP ratio by the terminal year i.e. 2014-15.

5.4: Steps being taken by Federal/Provincial Governments

5.4.1 The NFC recommended that Federal and provincial governments would develop and enforce mechanism for maintaining fiscal discipline at the federal and provincial levels through legislative and administrative measures. A report in the matter received from FBR is at Annex-II. The efforts being taken by the Provincial Governments are as follows:

Province of Punjab

Revenue Generation (clause-2 of Article-9)

- Government, through Punjab Finance Act 2010, introduced valuation tables in rural areas of Punjab through amendment in Stamp Act, 1899 and Land Revenue Act, 1967. Through this structural change in provincial taxation, the government has plugged an important area of tax evasion that was exploited in cases of property transfer in rural areas. The reform had a positive impact on tax collection during the FY 2010-11. This reform contributed to 23.9% and 21.0% growth respectively in Land Revenue and Stamp Duty during FY-2010-11.
- Government levied Capital Value Tax (CVT) on property transactions @ 2% of the value of property. This tax showed good results and government collected an amount of Rs.2.30 billion from this tax as compared to BE 2010-11 of Rs.1.5 billion.
- Government, through Punjab Finance Act, 2011, has introduced following new taxes:
  - Tax on Farm Houses;
  - Tax on swimming pools; and
  - Tax on Education Cess on Clubs.

  The above taxes are expected to yield significant amount of revenue for the government.
- Government has increase the rate of token tax for private cars/vehicles exceeding engine strength of 1000 CC. the detail of these changes in taxation structure may be seen in Finance Act, 2011.
- Government has also levied toll on 04 newly constructed highways in the province which is expected to yield revenue in excess of 500.00 million per annum.
- The rate of vaccines, insemination fees, semen of all breeds and other livestock products were enhanced.

Fiscal Discipline Measures (clause-3 of Article-9)

- The size of ADP 2010-11 was reduced from Rs.182.00 billion to Rs.128.00 billion;
- During FY-2010-11, government released development funds on quarterly basis in order to match transfer of development funds with that the fiscal space available to Punjab Government.
- Government imposed a 10% cut on non-salary, non-obligatory expenditure of department and district governments during FY 2010-11. Further government tried to remove redundancies in the government by abolishing/merging departments and abolishing a number of posts. The above measures resulted in an approximate savings of Rs.6.0 billion during FY 2010-11.
- Government employed strict austerity measures to reduce it expenditure on purchase of durable goods during FY 2010-11. These measures are expected to be continued during FY 2011-12 as well. Through this measures, purchase of all durable goods was subjected to clearance of the high level austerity committee headed by Finance Minister.
- The Government discontinued project allowances for civil servants working in the development projects/project management units/companies. The measure is expected to yield substantial saving for the government every year.
- Release of development funds was strictly monitored alongwith actual expenditure against the released amounts to avoid unnecessary parking of funds;
- The government developed a robust system for cash balance management during FY 2010-11. In this system, the liabilities of the government, accruing against budgeted/authorized amounts, are monitored at three stages i.e. bill generation, receipt of cheques in treasury office and authorization of payment and withdrawal of cash from the government account.

Province of Sindh

- Reconciliation on monthly basis of receipts of each revenue generating department (tax/non tax) with civil accounts maintaining in Accountant General Sindh Office.
- Monitoring of receipts of each department with budget estimates on monthly basis.
- Complete ban on purchase of Luxury Vehicles.
- Purchase of other vehicles allowed in exceptional cases.
- New expenditure (SNE) is being allowed only in cases of strong need.
- Lump sum provisions are withheld and released only in case of urgent demand.

- ADs have been instructed not to create any liability beyond budgetary authorization.
- Foreign visits/training on Government expenses have been curtailed.

Province of Khyber Pakhtunkhwa

- Budget Deficit target is kept at 0.
- New revenue initiatives are approved by the provincial assembly which will bring additional resources of Rs.850.0 million. The Federal Government had always demanded of the provinces to raise the provincial revenue by 12%, however the position of Khyber Pakhtunkhwa had always been that due to the security circumstances, the provincial revenue can only be enhanced by 6%. However for the budget year 2011-12, for the first time provincial revenue is projected to increase by 12%.
- Finance Department carried an exercise to identify which positions and offices will be redundant post 18th Amendment. A paper was thus developed and approved. As a result Finance Department has started rationalization of positions.
- More than 50% of payroll goes to education department. The government on its own cannot meet the MDG targets. Therefore to ease out pressure on government resources, it is important to bring in private sector for sharing the burden of service delivery. This year a fund of Rs.500.0 million is created to facilitate public private partnership in Khyber Pakhtunkhwa.
- As a policy, the government of Khyber Pakhtunkhwa is reducing its dependence n foreign loans.

Financial Reforms

- In the pattern of Federal Government, the Government of Khyber Pakhtunkhwa is implementing medium term budgeting framework. Each year, budget strategy paper is submitted to the cabinet for approval. Medium term fiscal framework and ceilings are prepared and approved by the Cabinet. These are important tools of fiscal discipline.
- Output based budget was prepared for 12 departments. It is now planned to extend the methodology to more departments.
- In principle approval of establishing Internal Audit Function is given by the Cabinet.
- Legal cover will be provided to financial reforms through an activity of preparing the new budget rules. This will include first a financial management law and then rules to complement the law.
- Payroll audit is planned to rationalize the ever increasing payroll of provincial government.

Province of Balochistan

- Government of Balochistan implements "Economy/Austerity Measures" in letter and spirit as per policy.
- Audit of Accounts is part of "Budget Cycle" each year under Budget Manual 1987 which ensures financial discipline and detects any misappropriation. Besides, finance department also seeks Audit Inspection Report as and when feel necessary in any case.
- Under new PIFRA computerized mechanism, Finance Department keeps vigil on expenditure of the spending department before granting any additional funds under any head of expenditure.
- Finance Department while releasing budget stresses on spending departments/agencies that maintenance of fiscal discipline may be ensured. Besides, finance department also emphasizes on Principal Accounting Officers that it may ensure that fiscal discipline is maintained, operation of offices is done effectively and strict vigil is kept firmly on expenditures of the department, attached departments and subordinate offices.
- Finance Department advises spending departments time to time that financial discipline may be maintained as such advice is part of Finance Manual.
- Finance Department seeks "Reconciled Expenditures" duly verified by the Accountant General Balochistan/District Accounts Officers on monthly basis as part of check on expenditures.
- For controlling the constantly rising expenditures on policing, Government of Balochistan, revived centuries old community-based policing system of Levies Force. In this regard, operational expenses of Police Department have been reduced/capped which otherwise would have gone very high.
- The Provincial Government has imposed ban on creation of new posts in Police Department for the coming five fiscal years. The Government has issued an "Order" that as many as 1440 posts of various grades from BPS-20 of Class-IV shall stand abolished in Police Department whenever the incumbents retire from service or leave Police Department. Out of these posts, 215 posts of different grades in various offices of Police Department will be abolished during the current month. Consequently, this initiative will further reduce employees' related expenses in the current budget.
- The Provincial Government enacted the new Local Government Law (Local Government Act-2010) in the Province. The tier of Tehsil Municipal Administration has been abolished altogether.
- The grades of the DCOs and EDOs (Revenue) which were BPS-20 and BPS-19 respectively in devolved system have now been replaced with the Deputy Commissioner (B-19) and Additional Deputy Commissioner (Revenue)(B-18).

Measures to control expenditures in Recurrent Budget

- No re-appropriation is made/allowed from or to the establishment charges.
- All the additional allowances being drawn by the employees working in the Governor House, Chief Minister Secretariat, and Provincial Assembly Secretariat in addition to those allowances admissible to other employees remain discontinued.
- Complete ban on foreign treatment, participation in Seminars Conferences, Workshops and Training courses abroad except needed or emergency basis has been imposed.
- Complete ban is imposed on printing of Calendars, Diaries and Greeting Cards.
- Complete ban is imposed on holding of meetings and functions in hotels and serving of entertainments.
- Complete ban is also imposed on serving of Lunches and Dinners in official meetings and decorative lights on the buildings except on very few occasions.
- Additional grants/releases are being made after examining thoroughly needs of the Administrative Departments.
- Complete ban is imposed on installation of more than one FAX machine in a Department for Minister/Secretary.
- Over time of session allowances are not allowed.

Enforcement of above measures lead to turning the Rs.7.100 billion deficit budget of 2010-11 into a surplus of Rs.0.790 billion by the end of the fiscal year. The non-development budget of Rs.83.444 billion (B.E.) was reduced to Rs.74.292 billion (R.E.) whereas size of development budget increased from Rs.26.754 billion to Rs.34.664 billion making it to the largest PSDP in the history of the province.

5.5: Grants in times of unforeseen calamities

5.5.1 The NFC recommended that Federal Government may assist the provinces through specific grants in times of unforeseen calamities. Federal Government extended following grants to the provincial government during the period under report:

i. Rs.3.900 billion has been released to Govt. of KPK on account of expenditures incurred on Law and Order in the province.

ii. Rs.3.958 billion has been released to Govt. of Balochistan for further payment to SBP on account of over draft of the province.

iii. Rs.0.740 billion has been released to Govt. of Balochistan for meeting the pay and allowances of 5000 posts under Aghaz-e-Huqooq-e-Balochistan Package.

5.6: Holding of NFC Meetings to Monitor Implementation of the Award

5.6.1 The NFC recommended that meetings of the NFC may be convened regularly on a quarterly basis to monitor implementation of the award in letter and spirit. It is stated that the 7th NFC was set up in July 2005 and as such its tenure expired in July 2010.The 8th NFC was notified in July 2010 owing to pending nomination of non-statutory members from provinces, hence the meeting of the NFC could not be convened due to incomplete composition thereof. After receipt of nominations from all the four provinces, the non-statutory members were notified in August 2011. After the completion of the composition, the first meeting of NFC was scheduled in November but later on rescheduled for 16th December 2011. In future such meeting will be arranged as per decision in quarterly basis.