Implementation of Non-Salary School Specific Budgets: Problems, Choices & Solutions

January 2013
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Implementation of Non-Salary School Specific Budgets: Problems, Choices & Solutions

Acronyms

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<tr>
<td>AEO</td>
<td>Assistant Education Officer</td>
</tr>
<tr>
<td>CBA</td>
<td>Cost Benefit Analysis</td>
</tr>
<tr>
<td>DCO</td>
<td>District Chief Officer</td>
</tr>
<tr>
<td>DDEO</td>
<td>Deputy District Education Officer</td>
</tr>
<tr>
<td>DDO</td>
<td>Drawing Disbursement Officer</td>
</tr>
<tr>
<td>DLI</td>
<td>Disbursement Linked Indicators</td>
</tr>
<tr>
<td>DMO</td>
<td>District Monitoring Officer</td>
</tr>
<tr>
<td>EDO (E)</td>
<td>Executive District Officer Education</td>
</tr>
<tr>
<td>EDO (F&amp;P)</td>
<td>Executive District Officer Finance and Planning</td>
</tr>
<tr>
<td>GOP</td>
<td>Government of Punjab</td>
</tr>
<tr>
<td>IFMIS</td>
<td>Integrated Financial Management Information System</td>
</tr>
<tr>
<td>MOU</td>
<td>Memorandum of Understanding</td>
</tr>
<tr>
<td>NS</td>
<td>Non-salary</td>
</tr>
<tr>
<td>NSB</td>
<td>Non-salary budget</td>
</tr>
<tr>
<td>NSE</td>
<td>Non-salary expenditure</td>
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<tr>
<td>PESP II</td>
<td>Punjab Education Sector Programme II</td>
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<td>PFM</td>
<td>Public Financial Management</td>
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<td>PMIU</td>
<td>Project Monitoring Implementation Unit</td>
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<td>SC</td>
<td>School Council</td>
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<td>SED</td>
<td>School Education Department</td>
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<td>SDA</td>
<td>Special Drawing Account</td>
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# Implementation of Non-Salary School Specific Budgets: Problems, Choices & Solutions

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Summary

Cambridge Education, part of the Mott MacDonald Group, is providing technical assistance to the Project Monitoring Implementation Unit, School Education Department Punjab, in delivering on specific disbursement linked indicators (DLIs) under the World Bank funded Punjab Education Sector Programme II (PESP II).

This report along with one other, titled ‘Non-Salary School Specific Budget’, are related to the following year 1 DLIs:

- **DLI 4: School non-salary budgets** – School-specific non-salary budgets for FY2013/14 prepared in accordance with agreed funding formula, and submitted for inclusion in FY2013/14 district budgets in at least 9 districts;

- **DLI 5: Decentralised resource management - Administrative and financial management powers devolved to Education Officers for middle schools and primary-school clusters in at least 9 districts.**

This report focuses on the implementation choices, problems and solutions in implementing the non-salary budget formula in all government schools in the nine pilot districts. Chapter 1 draws on the conducted public financial management situational analysis to propose four feasible options to implement the non-salary budget. Each option and its process are explained. Chapter 2 presents a qualitative cost benefit analysis for each option given the context of financial decentralisation in Punjab. The final chapter presents our preferred implementation option and recommendations.
1. Options for non-salary budget implementation

1.1 Introduction

This chapter identifies and appraises four NSB implementation options. Each option is consistent with Punjab’s decentralisation objectives and with the principles of formula funding but varies by the funding mechanism and channel employed and the degree of oversight, transparency, predictability, flexibility and administrative control.

1.2 Options

It is pertinent to begin this section with reference to year 1 DLI 5 on decentralization of resource management to schools:

*Administrative and financial management powers devolved to Education Officers for middle schools and primary-school clusters in at least 9 districts (World Bank PESP II Project Appraisal Document)*.

The above indicates that the World Bank prefers cluster formation, where the cluster head manages the administrative and financial powers on behalf of a group of schools, as the preferred option for NSB implementation. Based on this, the PMIU has produced a concept note and have tentatively completed the formation of clusters – high/higher schools are the cluster head for a group of middle and primary schools.

Nevertheless it is important to identify and appraise other options (some of which are presently being implemented in the education sector) to assess whether the proposed cluster formation is indeed the optimal option for Punjab. To achieve this, each presented option will be appraised against specific dimensions from the PFM cycle and fed into a qualitative cost benefit analysis – dimension are budget formulation, execution (predictability and control), accounting and reporting, external scrutiny and audit, transparency and credibility.

The options to be appraised are:

- Option 1: Transfer the entitlement direct from province to school's School Council bank account;
- Option 2: Transfer the entitlement from province via district to school's School Council bank account;
- Option 3: Transfer the entitlement from province via district to the cluster head;
- Option 4: Transfer the entitlement from province via district to each primary and elementary school.

1.2.1 Option 1: Transfer the entitlement direct from province to school's School Council bank account

In this option each school's non-salary entitlement will be disbursed directly from Provincial government to each school's School Council’s bank account. The Provincial Finance Department will communicate the total non-salary settlement to the PMIU/SED – one can assume the education allocation will be taken away from the PFC district grants.

The PMIU/SED will then calculate each school's non salary entitlement, using the NSB formula, and will send it directly to the Provincial Finance Department for transfer; the DCO, EDO (F&P) and EDO (E) from the respective districts will be copied in - this will include school-wise (EMIS) detail of bank accounts.
Upon receipt of this information, the Provincial Finance Department will send the transfer instructions to the Accounts Office for approval (copying in DCO, EDO (F&P) and EDO (E) of each district). The Provincial Accounts Office will record the transfer as expenditure (district-wise) in the main/central accounting system through account 1.

The government’s bank will then transfer the entitlement directly into the school’s School Council bank account and will report back to the Accounts Office, Provincial Finance and PMIU for reconciliation. Schools will spend their entitlement in accordance with the School Council Policy and/or other specific guidance given to schools - this will include procurement procedures, expost planning etc. Schools will reconcile the transfers to their accounts with the information from the Accounts Office/PMIU.

Schools will record their NSE in their own (manual) accounting records. This will be followed up with monthly bank reconciliations. Schools will prepare monthly expenditure reports and will submit to AEO/DDEO for monitoring. This will be subject to external audit by the Auditor General of Pakistan.

### 1.2.2 Option 2: Transfer entitlement from province via district to school’s School Council bank account

Provincial government will transfer the total calculated non-salary entitlement to each district. Districts will then subsequently disburse the entitlement directly to the school’s School Council bank account – this assumes districts will allocate the exact amount of the non salary entitlement from their PFC district grant.

The process is similar to option 1 up to point where the Provincial Finance Department sends transfer instructions to Accounts Office. After this point the process changes since the entitlement is now routed through district. Upon receipt of the transfer instruction, the Accounts Office will approve the transfer of the district entitlement to district account IV (copying in DCO, EDO (F&P) and EDO (E) of each district); the Provincial Accounts Office will record the transfer in the main accounting system.

The district government (DCO/EDO (F&P)/EDO (E)) will approve each school’s entitlement can be transferred to the school’s School Council bank account - District Accounts Office will record the transfer from Account IV to the school bank accounts.

The government’s bank will then transfer the entitlement directly to the school’s School Council bank account – the bank will report back to the District Finance, District Accounts and EDO (E) and will reconcile the statement (receipt/ payment) with the District Accounts Office. Upon the schools receiving the entitlement, the process there after, in terms of expenditure, accounting, reporting and auditing, are similar to option 1.

### 1.2.3 Option 3: Transfer entitlement from province via district to the cluster heads

Provincial government will transfer the total calculated non-salary entitlement to each district. Districts will then subsequently disburse the entitlement via the public accounting system down to the cluster heads (head teachers). Each cluster head will be the Drawing Disbursement Officer and will have its own budget code; the cluster heads will administer the funds on behalf of the schools.

The Provincial Finance Department will communicate the total non-salary settlement to the PMIU/SED – one can assume the NS settlement is part of the PFC district grant. The PMIU/SED will then calculate each school’s non salary entitlement, using the NSB formula, and will send it directly to the Provincial
Finance Department for transfer; the DCO, EDO (F&P) and EDO (E) from the respective districts will be copied in - this will include school-wise (EMIS) detail of bank accounts.

Upon receipt of this information, the Provincial Finance Department will send the transfer instruction for the total PFC grant to the Accounts Office for approval into District Account IV (copying in DCO, EDO (F&P) and EDO (E) of each district). The Provincial Accounts Office will record the transfer as expenditure in the main/central accounting system through account 1 - this will be recorded district-wise.

District government (DCO/EDO (F&P) and EDO (E)) will incorporate the non salary entitlement in their budgets for each cluster head (DDO). The entitlement will be communicated to all the lower formations/cluster heads and schools on the basis of EMIS information.

The entitlement will also be communicated to the district accounts office for pre audit and payment. The school will submit claims to the cluster head for reimbursement of bills. In the case of already paid expenditures by the school, the cluster head prepares the claim (with supporting documents) and submits to district accounts office for reimbursement (Accounts Office conducts the pre audit, makes payment to the cluster head and records the expenditure).

Requisitions for schools will be submitted through demands; these will be procured centrally by the DDO based on monthly/ QTR plans. The cluster head procures items keeping in view the procurement rules, school demands and entitlement. They then prepare the claims for procurement and submit to District Accounts Office; the office will conduct the pre audit, make the payment through government’s bank account and records the expenditure.

Cluster head records the expenditure for bills and demands, school wise, and reconciles the expenditure with the accounts office on a monthly basis. The school will record the expenditure in their own accounting record (manual) and reconcile with the cluster head.

The Government bank reports back to the District Finance, District Accounts for reconciliation. The expenditure at cluster head (DDO) will be subject to external audit by the Auditor General of Pakistan.

1.2.4 Option 4: Transfer entitlement from province via district to each primary and elementary school

Provincial government will transfer the total calculated non-salary entitlement to each district. Districts will then subsequently disburse the entitlement via the public accounting system down to each primary/middle school. Each school will be the Drawing Disbursement Officer and will have its own budget code; they will manage and administer the funds on behalf of the schools.

The process is similar to Option 3 but now with primary/middle head teachers replacing cluster heads as DDOs.
2. Cost Benefit Analysis

2.1 Introduction

As stated in the previous chapter, the four implementation options will be appraised against specific dimensions from the PFM cycle and fed into a qualitative cost benefit analysis. The analysis is underpinned by a situational analysis which provides an overview of the PFM arrangements in delivering education at district level (annex a) and acts as a benchmark to predict the likely constraints, challenges and bottlenecks to effectively implement NSB in all government schools in Punjab.

2.1.1 NSB effects on the PFM cycle

Before each option is appraised, it is important to understand some of the ‘automatic’ impacts of NSB implementation on the PFM system:

Separation of budget formulation and planning
In bottom-up budgeting the spending entity i.e. schools, drafts their budget based on their expected service commitments and workplans before the start of the fiscal year; their budget is formulated and planned at the same time. The NSB formula creates a wedge between these two processes; schools are now informed of what their entitlement is (budget formulation) and then plan on what goods and services to spend on (budget planning) – usually after the budget has been approved;

Changes to the Budget Calendar
The NSB formula causes the budget planning process to be delayed until after the NS settlement has been approved (and appropriated). The budget formulation process will still occur prior to start of the fiscal year but will be limited to the PMIU/SED having negotiations with FD to receive an indicative global NS amount;

Single line entry
The NSB formula produces a single financial entitlement value for each school. Schools have full discretion on how to allocate and spend this entitlement – schools will be able to see how the entitlement was derived, the various components in the formula, but they are not bound to spend on these areas and in the exact proportions. This philosophy should be reflected in the budgeting systems as single line entry in the IFMIS. Schools then produce financial reports based on a recommended template (usually produce in collaboration with the audit department) which are submitted to local/central government for monitoring and benchmarking purposes.

2.2 Qualitative Cost Benefit Analysis

It is evident from chapter 1 that the options vary by the funding mechanism, the number of administrative layers and the extent to which entitlements are routed through the national accounting system. In effect there is a visible trade-off between flexibility and control. Channelling the entitlement to school’s School Council bank accounts (options 1 and 2) will give schools autonomy over its expenditure but is likely to increase the risk of misappropriation of funds and have reduced transparency. On the other hand, channelling the entitlement through the national accounting system (options 3 and 4) will ensure appropriate safeguards are in place, but increases bureaucracy and unpredictability fund disbursement. Hence a balance needs to be struck to give schools autonomy in spending but have appropriate safeguards in place to ensure judicious and efficient spending. Table 1.1 summaries the CBA of the options.
Option 4 is likely to be the most desirable in the long-term; channelling entitlements through the national accountings system will ensure, amongst other things, transparency and robust internal controls. Each primary and middle school will have their own budget code (DDO responsibility) which will record either a single transfer amount or disaggregated by spending type for each school. This will allow funds to be tracked to school level and reduces the threat of the entitlement not being honoured during budget execution stage. However, with an estimated 15,000 budget codes required, this sheer volume of codes would render it extremely difficult and expensive to manage the budgeting and accounting process, notably at the district accounting office. In addition, the cost of training every primary and elementary school in financial management will be a very high long-term cost for the GOP.

Given the present uncertainty over the total NS settlement and NSB being in its first year of implementation, one cannot be certain that the marginal benefit in terms of the amount of the school entitlement will be greater than the marginal cost of delivering training, additional recruitment and organisational changes under option 4.

Option 3 helps to mitigate some of the above issues – and reduces the lower marginal cost. The cluster approach will in effect reduce the number of codes, training requirements and volume of processing by at least ten fold – one cluster head will manage on average 10 primary/middle schools. However one needs to question whether transferring the DDO function from DDEO male/female to secondary head teachers will address the underlying issues of corruption and low levels of disbursement. Will it just be replicated at a lower level?

Furthermore, there is a need to clarify the governance arrangements for non-salary budgets at district level. All the options only (and indirectly) remove the non-salary budget function away from DDEOs male/female – they still retain the management, administration and budgeting of the salary budget. Under Option 3 it is given to another administrative tier in another stream within government\(^1\); i.e. headteachers from high/higher secondary schools stream. This raises the following issues: what is the role of DEO male/female and DEO secondary for non-salary budget? Who will hold primary/middle headteachers to account for judicious salary and non-salary spending? Will cluster heads be incentivised to undertake this new role? Will DDEO male/female remuneration change given they are now doing a reduced role?

Option 1 is a streamlined version of Option 2. The removal of district level bureaucracy will undoubtedly fasttrack the disbursement of the school entitlement but is likely to go against the spirit of decentralisation. District governments are responsible for the delivery of education through the EDO Education office; the amount of financial resources the education sector attracts is determined by local context (demographics, capital programme etc.) and in consultation with the education cadre (DMOs, AMOs, head teachers etc.) Bypassing this layer will lose this intimate knowledge and may result in inefficient allocations between and within the sector.

Options 1 and 2 propose the channelling of the entitlement directly into the school’s School Council Bank account. This removes the unpredictability nature of when and how much of the entitlement will be disbursed to schools. Schools will be able to purchase goods and services in confidence that the funds are sitting in their bank account. However, this approach is not utopia as evident in the school council review (2010) which found a significant percentage of schools did not receive funds until quarter 3 and 4, and a large percentage of schools did not utilise. In addition, the audit function will need to be clarified given the

\(^1\) Option 4 avoids the dilution of streams issue since each primary and middle school will have their own budget code.
contradictory statements by the DPI and the Audit department. The former exempts schools council grants from external audit whereas as the latter states it is mandatory under the constitution of the country.

As discussed in chapter 2, NSB creates a wedge between budget formulation and budget planning process. The rigidity of the IFMIS requires the entitlement to be disaggregated into economic classification before the budget is approved. This result in schools having to plan the budget (allocate the entitlement into the respective budget lines) based on an indicative ceiling and then run the risk of arbitrary cuts during budget negotiations. Exploring the feasibility of single line entries in the IFMIS will make options 3 and 4 more desirable.

Options 1 and 2 have the potential to create synergies with other government initiatives, notably DLI 7, School Councils. The opportunity of piggybacking on the ongoing training networks and building on existing documentation will lower transaction costs and avoid training fatigue. Though closer coordination and cooperation is desirable it must not undermine each sub-programme’s objectives and/or create unintended consequences. E.g. Will the channelling of NSB funds crowd-out SC grant funding? Will the SC grant be subject to the same financial procedures as NSB? Will the NSB funds be disbursed lumpsum at the start of the financial year as SC grants?

One of the major threats to the success and sustainability of NSB is the honouring of the school entitlement. This can be mitigated by making the formula and the entitlement transparent to all stakeholders. Each school must be made aware of how their entitlement has been calculated and how to claim for any shortfalls. This can be achieved very easily and at low cost by the PMIU/SED sending out notifications to the head teachers and/or having a simplified entitlement calculator on the PMIU website.

All the four options begin with the initial assumption that the NSB will be funded out from the PFC grant; this implies that districts no longer have full discretion on how to spend their grant, a certain percentage has now been predetermined. Then depending on the selected option it will either be deducted at source (option 1) or districts will disburse it onwards (options 2, 3 and 4). This assumption may not hold true given the historically low NSB spending and competing demands from other sectors. If we do assume it holds, and then there is a risk under Options 2, 3 and 4 the entitlement may not be honoured. One mitigation tool could be for the entitlements to be channelled through SDA and have districts sign MOU.

If the assumption does not hold, then the PMIU/SED will need to lobby the provincial government to request additional funds. If successful, this will allow the funds to be ring fenced and mitigate the threat of the entitlement not being honoured.
### Table 2.1: Qualitative cost benefit analysis

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<th>Options</th>
<th>Benefits</th>
<th>Costs</th>
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<tbody>
<tr>
<td>1</td>
<td>Non-salary budget allocated on ‘real’ needs basis of schools – better link between policy and budgets</td>
<td>Limited opportunities for schools to benefit from economies of scale (procurement); each school can purpose their own materials.</td>
</tr>
<tr>
<td></td>
<td>Entitlement guaranteed at the start of the fiscal year.</td>
<td>Misappropriation/ mismanagement of funds at the school level. – the School Council Survey (2010) reported the financial management capacity in schools was low and therefore issues with budget execution.</td>
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<td></td>
<td>Greater predictability (and speed) of funds being released in timely manner to the school’s School Council bank accounts.</td>
<td>Reduced transparency of disaggregated spending. The central accounting system will only record entitlement given to school and not on what they will/have spent it on.</td>
</tr>
<tr>
<td></td>
<td>Entitlement deposited into the school’s bank account will result in the entitlement to be a non lapsable grant; hence schools can better plan, spend and build by surpluses according to their needs.</td>
<td>Accountant General has weaker control since there is no pre audit process for expenditures at the school spending level.</td>
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<td></td>
<td>Greater propensity of the entitlement being spent promptly by schools (responsiveness).</td>
<td>Reluctance for schools to spend due to the lack of understanding of the audit/expenditure process.</td>
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<tr>
<td></td>
<td>Lower levels of bureaucracy and transaction costs since the district administrative layer is omitted and funds are not routed through the accounting system.</td>
<td>Increased number of audit formations.</td>
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<tr>
<td>2</td>
<td>Same as in option 1 above plus:</td>
<td>Same as in option 1 plus:</td>
</tr>
<tr>
<td></td>
<td>Tried and tested system (School Council grants currently being channelled through this mechanism)</td>
<td>Entitlement guarantee may not be honoured at district level due to entitlement being part of PFC. The School Council Survey (2010) reported 45% of school councils do not get their current entitlement.</td>
</tr>
<tr>
<td></td>
<td>Consistent with the decentralisation (local government) vision/policy.</td>
<td>Additional bureaucracy due it being routed through district administration</td>
</tr>
<tr>
<td>3</td>
<td>Non salary budget now allocated on ‘real’ needs basis of schools – better link between policy and budgets</td>
<td>Less predictability of entitlement, flow of funds, to schools.</td>
</tr>
<tr>
<td></td>
<td>A lower risk of ‘misappropriation’ of funds due to more internal controls.</td>
<td>New codes will have to be created in the system for non salary budget of cluster heads.</td>
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Consistent with the international aid agenda of channelling funds through national accounting systems.

Greater transparency as the information (in respect of detailed objects) is available in the central accounting system: disaggregated budget/expenditure for each cluster head.

Cluster heads (secondary head teachers) are already aware of the DDO rules.

Better planning due to schools needing to submit plans to the cluster head – part of budget formulation process/execution. Schools gradual involvement in planning and financial management in line with long term vision.

Greater transparency as each school has their own budget code.

Reduced opportunity for cluster heads to misappropriate/not honouring the entitlement as each school manages and administers their own budget.

<table>
<thead>
<tr>
<th>4</th>
<th>Same as option 4 plus:</th>
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<td></td>
<td>Greater transparency as each school has their own budget code.</td>
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<td></td>
<td>Reduced opportunity for cluster heads to misappropriate/not honouring the entitlement as each school manages and administers their own budget.</td>
</tr>
<tr>
<td></td>
<td>Significant increase in the number of budget codes and in-turn the increased administration activities of district accounts office.</td>
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<td></td>
<td>Cluster role will need to change since the DDO function is now at each primary and elementary schools – assuming the cluster philosophy is continued with.</td>
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<td>Significant capacity building in financial management is required in all the 15,000 primary and middle schools.</td>
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3. Recommendations

3.1 Introduction

Chapter 2 discussed the relative strengths and weaknesses of the four options under an objective appraisal framework. This firstly allowed the nuance between options 1 and 2, and 3 and 4 to become evident and secondly, to assess which option is suitable given Punjab’s context. This chapter now proposes a single preferred implementation option for NSB.

3.2 Recommendations

We recommend option 2, the transfer of the entitlement from province via district to school’s School Council bank account, to be the preferred option for the following reasons:

Two uncertainties: NSB formula is its infancy in Punjab; significant amounts of lobbying and canvassing are required by PMIU/SED to make the province understand this new resource allocation approach and its associated merits, and ultimately, to secure the NS settlement as projected by the needs assessment survey, Rs 5 billion. This creates the first type of uncertainty.

The second type of uncertainty is on the roll out of the new implementation option; changing the way in which NSB has been traditionally disbursed (the status quo) will create unforeseen, unintended consequences which any risk averse government would like to avoid. Option 2 helps to mitigate the second set of uncertainties since this option is not alien to the government and to the education sector - this is presently being used by government to disburse school council grants since 200X. This will provide some assurance to the government since they know what to expect from this option - and many of the ‘teething problems’, bottlenecks have been identified and addressed. In this way, the PMIU/SED can concentrate on the first set of uncertainties, i.e. securing the Rs 5 billion NS settlement.

Sub-programme synergies, the channelling of NSB monies to school’s School Council Bank should allow cooperation and coordination with DLJ 7, School Council. The opportunity of piggy backing on the ongoing trainings and building on existing documentation will allow synergies between the DLIs and lower transaction costs. E.g. The PMIU/SED should explore the updating of the school council manual to include the positive/negative expenditure lists, financial reporting templates, procurement procedures etc.

Predictable guaranteed entitlement, the transfer of the NS entitlement to each school will be recorded as a one line entry in account IV. This makes each school’s entitlement transparent in IFMIS and allows schools to be held to account. In addition, receiving the entitlement into the bank account (see consolidation point below) will allow schools to effectively with the confidence that the funds are sitting in their bank account.

Flexibility, it was noted above that the transfer of the NS entitlement to each school will be recorded as a one line entry in account IV. This approach is consistent with NSB principles as each school has flexibility on how to spend their funds - to ensure appropriate financial monitoring, benchmarking and value for money analysis, it is recommended that schools submit regular financial reports which show how they have spent their entitlement (by economic classifications).

Consolidation, though we acknowledge the NS settlement is uncertain, the probability of each school receiving higher than the present school grant allocation is high. Since NSB and school grants will be deposited into a school’s bank account it is recommended that the NSB are now subject to same financial
procedures, disbursement cycle and audit as school grants (or vice versa). This will avoid confusion at the school level and will begin the desirable option of consolidating revenue streams.

In conclusion, given the uncertainty over NSB settlement and its acceptance, the fast approaching budget formulation deadlines and macroeconomic, geo-political events (fiscal deficit, indebtedness and general elections) it is recommended that option 2 is selected in the short-term – shifting the pendulum towards flexibility. As uncertainties reduce, outcomes observed and lessons are learned, the government can then explore other options, and slowly shift, if desirable, the pendulum towards control.
Annexes

Annex A: Situation Analysis

Annex B: EDO

Annex C: Personnel met in these offices and their role:
Annex A: Situation Analysis

This situational analysis highlights the current system, practices and issues in public financial management for delivering education at district level. This will allow the reader to arrive at a common understanding on the mobilisation of revenue, the allocation of these funds to various education activities, and expenditure and accounting for spent funds before changes are discussed and implemented in accordance with DLI 4 and 5.

This analysis is divided into the following sections i) district structure ii) budget formulation, iii) budget execution, iv) accounting and reporting and v) external oversight. Each section will make commentary on the non-salary component of the recurrent expenditure only. Where appropriate, comment on the development budget and/or on the salary component of the recurrent will be made for completeness.

1.1 District Structure

The structure of district governments in Punjab generally follows the same pattern. District Coordination Officer (DCO) is the administrative head of the district. This office is the final authority with regards to the approval of the district budget – the DCO is defined as the Principal Accounting Officer and District Collector (Revenue) as per LGO 2102. District variations do exist on who is assigned the PAO function. In Sargodha, the district Budget is approved by the DCO and EDO (F&P); as per rules of business, EDO Finance and Planning performs the functions of Principal Accounting Officer and Departmental Accounting Officer.

The DCO coordinates all the activities of the EDOs. Each EDO is responsible for delivering specific goods and/or services (groups of activities) to particular sectors within the district - schedule 1 and 2 of the LGO lists the groups of EDO offices and the distribution of business amongst them. The main EDO groups within a typical district are:

- EDO Revenue (Additional district collector, revenue);
- EDO Education;
- EDO Community development;
- EDO Law;
- EDO IT;
- EDO Finance and Planning;
- EDO Agriculture;
- EDO Health;
- EDO Works and Services.

For the education sector, EDO (F&P) and EDO Education offices are responsible for financing and delivering education at district level. EDO (F&P) Finance and Planning is responsible for performing the following functions with regards to budgeting and expenditure:

1. Formulation, distribution and monitoring of district budget (current and development). The education sector budget is formulated and monitored at DDO level by DO Accounts in EDO F&P office;
2. Examination and scrutiny of proposals for re-appropriation and supplementary grants, and their approval by the competent authority/forum. (All re appropriations and supplementary by DO Finance);
3. Examination of schemes of new expenditures. (DO accounts);
4. Functions of Principal Accounting Officers and Departmental Accounting Officers;

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2 – there are certain exceptions with regards to the administrative requirements of each district.
5. Preparation, communication and execution of financial sanctions in accordance with the Delegation of Financial Power Rules. (The Delegation of Financial Powers of Government of Punjab are being followed);
6. Examination and advice on matters directly or indirectly affecting the district finances.
7. Maintenance of district, Tehsil and town provincial accounts and reconciliation;
   Tehsil are maintaining bank accounts with BOP and NBP as commercial accounts;
8. Monitoring of ways and means position/accounts of the district, Tehsil and town government with the SBP/NBP, and coordination with the Provincial Finance Department. Budget is lapse able however the funds in account 4 remain in this account and do not revert back to the provincial government account 1;
9. Financial management and control of offices of departments of the district government;
10. Liaison with the Pakistan Audit department for the disposal of audit observation. Matters regarding Departmental Accounts Committee/public Accounts Committee business;
11. Purchase of stores and capital goods for departments of the district government, as prescribed under the purchase manual.

EDO Education is responsible for education policy, administration and delivery in all government boys and girls schools in the district - it also has responsibility for technical and vocational education, sports education and continuing education.

EDO Education and its sub offices (DEO and DDEO) have the following role in public financial management (see annex b for the sub offices under the EDO):

**EDO Education**
1. Purchase of stores and capital goods for school and colleges;
2. Formulation of district education budget (both development and non-development), reconciliation/monitoring of expenditure and audit matters.
3. Matters related to School Councils;
4. Postings and transfers within the district, except those failing in the purview of S&GAD attached department and administrative Department.

**DEO**
DEO acts as DDO for the financial management of his/her own office while performing their core duties. This office sends budget demands to the EDO (F&P) and gets allocations against the same. Subsequently the expenditures are incurred, paid and recorded by this office. This is followed up by monthly reconciliation with the district accounts office and monitoring of expenditures against the budget allocations.

With regards to FM of the lower formations, they are responsible for consolidation of the budget demands and forwarding the same to EDO(F&P). Further they also monitor the expenditures against budget allocations in respect of the lower formations.

**DDEO**
DDEO at the tehsil level, DDEO (Education) Male and Female perform the functions of DDO for their own office’s administrative expenditures and the expenditures of the primary and elementary schools within their jurisdiction.

This office sends budget demands to the EDO (F&P) for their own office and schools (Primary and Elementary) and gets allocations against the same. Subsequently the expenditures are incurred, paid and recorded by this office. The expenditures to schools are paid once the bills are received from them and
forwarded to the accounts office for reimbursement. Certain goods are procured centrally by the DDEO office on behalf of the Schools. The goods are provided to the schools and expenditures claimed from the accounts office.

All the expenditures are recorded by this office which is then followed up by monthly reconciliation with the district accounts office. The DDEO office also performs monitoring of expenditures against the budget allocations for their own office and Schools.

AEO:
AEO operate at the Markaz level, AEOs do not have any role in PFM.

HM: at Secondary School level:
HMs of Secondary/ Higher Secondary School acts as DDO for the purposes of the financial management while performing their core duties. This office sends budget demands to the EDO (F&P) and gets allocations against the same. Subsequently the expenditures are incurred, paid and recorded by this office. This is followed up by monthly reconciliation with the district accounts office and monitoring of expenditures against the budget allocations.

Budget Formulation

District governments are heavily dependent on revenue from provincial government to meet their development and current expenditures – allocated via the PFC formula. However the total funds available to the district are still inadequate to meet their needs and hence, districts allocate their funding primarily to current expenditures (in addition to requesting supplementary grants) and rely on the provincial Finance Department to fund development schemes through tied grants, such as the national literacy programme.

For the FY 2011-12 Sargodha’s IGR was Rs 18m compared to Rs 6,108m received from PFC allocation (Punjab government white paper). Less than 10% of the total allocation was allocated to the development budget (PIFRA 2012).

Budget preparation

The Finance and planning department issues Budget Call Circular (letter form) in last quarter of the calendar year (Oct- Dec) for the upcoming fiscal year, 1st July to 30th June. This is issued to the all EDOs including the EDO education. The guidelines for the preparation of budget are mentioned in the letter (BCC).The ceilings for spending are not communicated through this document and the spending entities resort to incremental budgeting; the budget demands are prepared on the basis of previous year’s figures – there is very little evidence to suggest districts allocate funding to the education sector based on any strategic document..

The EDO office forwards the BCC to their respective DEOs (DEO/SE, DEO/ EE/M, DEO /EE/W) who in turn forward it to their respective sub offices who are acting as DDOs for budget formulation and execution (expenditure incurrence) i.e. in case of Secondary education DEO (SE) forwards it to the Principals/ HM of Secondary/ Higher Secondary school and in case of Elementary education the DEOs (EE/M, EE/W) forward it to their DDEOs.

The HM of SS/ HSS prepares the budget estimates for their school on the forms mentioned in the BCC and sent them to EDO (F&P) through the DEO office, which is consolidated by them.
DDEOs (Elementary Education) prepare the budget estimates for their own office (administration) and the schools operating under their jurisdiction separately and send them to EDO (F&P) through DEO/ EDO office. The DDEOs have got the record in respect of all the teaching and non teaching staff working under their jurisdiction. These include the sanctioned posts and people actually working on ground. Same information is updated and available the Accounts office who prepare and disburse salaries.

For Non salary expenditures an incremental budgeting approach is adopted and there is no consultation/negotiation process with the schools. Hence the budgeting process has no relationship with school needs. E.g. Sillanwali (one of tehsils in Sargodha) the budget allocation for non salary expenditure for FY 2011-12 was Rs. 343,000 for 193 Schools, which equates to less than Rs 2000 per annum per school

The EDO (F&P) examines and scrutinizes the estimates and makes the budget allocations for the upcoming year on the basis of previous year’s expenditure, revised estimates for the current year and resource allocation intimated by GoPunjab. The allocations are based on the resource estimates Vs the budget demands received. Cuts are applied to non salary budgets on prorate (average) basis. Hence the demands received are not much relevant. This process is followed up the budget execution and expenditure incurrence and recording.

Estimates for development budget are not being prepared by the EDO education and its sub offices. Hence no formal development budget formulation process is in place due to various reasons. However feasibility reports for the projects are prepared including the development estimates on the basis of funds available during the year. The development schemes are identified by MPA/MNA and submitted to DDC for approval. The members of DDC are DCO, EDO F&P, DO Planning, EDO works and relevant EDO. Funds are released by Punjab Government/ Federal Government in account 4 for development.

### School Revenue Streams

There are three main revenue streams to finance non-salary expenditures of a school:

1. **District government budget**: DDEO manage and administer nsb for government primary and elementary schools’. High and higher secondary schools receive funds directly;

2. **School Council Grant**: this is a provincial scheme, supported by the World Bank to provide Rs. 20,000 for primary schools and Rs. 50,000 for Elementary schools. The funds are received in commercial school bank accounts and are disbursed by the DMO office upon receipt from PMIU/ FD. There is SDA maintained by DAO, the joint signatory for SDA are EDO education and DMO. There is a school council policy in place which provides the guidelines for utilisation of funds received under school council grants.

3. **District level initiatives/schemes**: certain districts provide additional funds to schools through school council bank accounts. Within the nine pilot districts Chiniot is the only one which provides funds: FY2012/13 primary and secondary schools received Rs 13,000 and Rs 30,000 respectively.

### 1.2 Budget Execution

The budget execution process is divided into four steps:

**Authorization and allocation of appropriations:**

The budgetary allocations are made at the following levels:

- To the Head teachers of all High Schools and Higher Secondary Schools directly;
To all the DDEOs (Male and Female) in the district for their own office and schools operating under their jurisdiction.

Transfers from Province (SC Grants) down to all the Primary and Middle schools through DMO and EDO offices.

Commitments of funds to specific purchases and verification of deliveries:

The analysis of expenditure of school budget reveals that the major costs consist of utilities and travelling/POL. Apart from this, procurement is done under the head of printing/stationary and other stores. These are nominal amounts and commitment accounting is followed occasionally as the required threshold is not achieved.

The procurement process starts with need identification. Quotations are received from various suppliers of goods/services required. Upon selection of a supplier, the goods/services are procured and verified by the designated officer upon delivery of goods or provision of services.

Payment:

High Schools/Higher Secondary Schools have their own budget allocations and are responsible for expenditure incurrence and withdrawal of payments from the public account. The claims are prepared in a specified format and submitted to the accounts office for payment. The accounts office conducts the preaudit, makes the payment and records. The HS/HSS maintain their own expenditure record and reconcile every month with the Accounts Office.

DDEOs receive budget in various heads for their own office and the schools under their jurisdiction. They draw payments (reimbursements) for their own office and schools’ expenditure from the accounts office and maintain record in respect of the same. Generally the schools submit their bills to the DDEO office for reimbursement. The DDEO office compiles the same in the required format and submits the claim to the accounts office. The accounts office preaudits, makes payment to the DDEO and records. The DDEO reimburses the amount to the school. There are instances where the stationary and stores are procured centrally by the DDEO based on demands from the school (bulk furniture procurement is not being done at the DDO level there are only minor procurements). The procurement procedures are followed; goods are received and distributed to schools upon acknowledgement. Subsequently the claims are sent to the accounts office for payment and recording.

As mentioned earlier the DDEO maintains the record in respect of each expenditure. This is reconciled with the accounts office on monthly basis.

Budget alterations/supplementary budget:

Alterations to budget are made through re-appropriations and supplementary grants. The EDO (F&P) is authorized to make re-appropriations and provide supplementary grants as per rules of business.

Internal control:

The following internal controls are in place for budget execution:
1. All the claims are authorized by the relevant DDO;
2. Procurement guidelines in place;
3. All the claims are pre audited by the district accounts office;
4. Cheque issuance and recording by sections at accounts office;
5. Segregation of duties;
6. Monthly reconciliation of expenditure between the DDO and Accounts office;

**Accounting and Reporting**

*Accounting/ classification:*

The accounting process, i.e. expenditure incurrence and recording, has been covered in the preceding section.

Non salary expenditure at the various budget responsibility levels are generally incurred under the following heads:

<table>
<thead>
<tr>
<th>Secondary/ Higher Secondary</th>
<th>DDEO Office</th>
<th>DDEO for Primary and Elementary Schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>Postage and Telegraph</td>
<td>Postage and Telegraph</td>
<td>Postage and Telegraph</td>
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<tr>
<td>Telephone and Trunk calls</td>
<td>Telephone and Trunk calls</td>
<td>-</td>
</tr>
<tr>
<td>Electricity</td>
<td>Electricity</td>
<td>Electricity</td>
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<tr>
<td>Hot and Cold weather charges</td>
<td>Hot and Cold weather charges</td>
<td>Hot and Cold weather charges</td>
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<tr>
<td>Rent for office building</td>
<td>Rent for office building</td>
<td>-</td>
</tr>
<tr>
<td>Rates and Taxes</td>
<td>Rates and Taxes</td>
<td>-</td>
</tr>
<tr>
<td>Travelling Allowances, Government Servant</td>
<td>Travelling Allowances, Government Servant</td>
<td>Travelling Allowances, Government Servant</td>
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<tr>
<td>POL Charges.</td>
<td>POL Charges.</td>
<td>-</td>
</tr>
<tr>
<td>Transportation of Goods</td>
<td>Transportation of Goods</td>
<td>Transportation of Goods</td>
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<tr>
<td>Office stationary</td>
<td>Office stationary</td>
<td>-</td>
</tr>
<tr>
<td>Printing and Publication</td>
<td>Printing and Publication</td>
<td>-</td>
</tr>
<tr>
<td>Newspaper, periodicals and books</td>
<td>Newspaper, periodicals and books</td>
<td>-</td>
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<tr>
<td>Uniform and liveries</td>
<td>Uniform and liveries</td>
<td>-</td>
</tr>
<tr>
<td>Publicity and Advertisement</td>
<td>Publicity and Advertisement</td>
<td>-</td>
</tr>
<tr>
<td>Fair and Exhibition</td>
<td>Fair and Exhibition</td>
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<tr>
<td>Cost of other Stores</td>
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<td>Cost of other Stores</td>
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<tr>
<td>Others</td>
<td>Others</td>
<td>Others</td>
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<tr>
<td>Financial Assistance</td>
<td>Financial Assistance</td>
<td>Financial Assistance</td>
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<tr>
<td>Merit Scholarship</td>
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In case of School Council Grant, the expenditure are incurred in accordance with the school council policy and recorded by the schools in the manual registers. As per School council policy, the following expenditures can be incurred:

1. Furniture procurement and repairs.
2. Sports goods
3. Stationary
4. Educational aid or related materials
5. School building repair
6. Construction work in School (Walls, toilet, boundary wall).
7. Provision of Electricity and Water
8. Utilities
9. Temporary teachers (upto Rs. 1500 per month). Maximum upto two teachers can be hired

In case of Secondary and Higher Secondary Schools the accounting information with respect to each school is available centrally in the Government's (main) computerized accounting system. However in case of Primary and Elementary schools the consolidated information is available in the central accounting system. If school wise data is required, this will have to be prepared from manual registers from the DDEOs.

DDO submit expenditure claims backed with relevant supporting documentation to the district accounts office who pre audit and make the payment. The expenditure is recorded by the Accounts Office and cumulative expenditure is reported on a monthly basis. Information relating to expenditures is recorded by the accounts office and reconciled with each DDO at the month end.

**Financial Reporting and Monitoring**

The EDO (F&P) is also responsible for budget monitoring and submit report on budgetary performance; errors are communicated to DAO for rectification. The DO Accounts (EDO (F&P)) receives the expenditure reports from the DDOs and the accounts office. They also monitor receipts and expenditures of the local Government through receipt of bank statement from the bank on weekly basis.

Expenditure monitoring is also being done by relevant DDOs. DEO and EDO offices consolidate/ arrange the expenditure reports (duly verified by the AG office) and forward it to EDO F&P: expenditure reports include:

- BDR - 1 to 4; Estimates of receipts. (District Government and Provincial Government)
- BDC - 1 to 7 and 8; Estimates of current expenditure.
BSF – 1 to 3; Heads of offices to consolidate estimates.
BDO – 1 to 5; Investment, GPF, Loans/ Liabilities, Salaries and Allowances.
BDD – 1 to 4; Development projects.
BM – 1 to 13 and 29; Monthly Financial reports.

1.3 External Oversight/Audit

External audit is conducted by the Auditor General’s sub office (Provincial Level). They conduct audit of the DDOs which is case of the education department are DDEOs (for Primary and Elementary Schools) and HM/HT of Secondary/ Higher Secondary schools on sample basis.

Primarily DDOs are responsible for the financial management of their own offices and the schools.

School council funds are subject to external Audit. Upon discussions we found that exemption from Audit in respect of schools council grants had been granted by the DPI, however Audit department denies this exemption on the basis that the Audit is mandatory under the Constitution of the country.
Annex B: EDO Education Structure

**EDO Education Structure:**

- **Executive District Officer (Education)**
  - **District Education Officer (Secondary Education)**
    - **Deputy District Education Officer (S Education, DEO Office)**
      - **Head Masters/ Head Teachers of SS / HSC**
    - **District Education Officer (Elementary Education, Male)**
      - **Deputy District Education Officer (Male)** 4 for each tehsil and 1 with EDO
        - **Assistant Education Officers (Male)** 15 AEOs at Markaz level
          - **Head Masters/ Head Teachers of Primary/ Middle**
      - **Deputy District Education Officer (Male)** 4 for each tehsil and 1 with EDO
        - **Assistant Education Officers (Female)** 15 AEOs at Markaz level
          - **Head Mistress/ Head Teachers of Primary/ Middle**
  - **District Education Officer (Elementary Education, Female)**
    - **Deputy District Education Officer (Female)** 4 for each tehsil and 1 with EDO
      - **Assistant Education Officers (Female)** 15 AEOs at Markaz level
        - **Head Mistress/ Head Teachers of Primary/ Middle**

- **District**
- **Tehsil**
- **Markazeh**
Annex C: Personnel met in these offices and their role:

District Level:
Mr. Ammanullah - DMO
Ms Safina Siddiq – EDO F&P
Muhammad Aslam – DO Finance
Mr. Ch. M.Mansha - EDO education
Mr. Liaqat Ali Nasir – DEO (Secondary)
Mr. Qazi Zahoor Hussain – DEO Elementary (Male)
Mr. Wajeeha Naveed – DEO Elementary (Female)
Mr. Khalid Aslam – Assistant Director Planning and Budget (EDO Office)
Mr. Fazil Awan – DDEO (HQ) on behalf of DEO (M).
Mr. Khalid Aslam – Asst. Director Planning and Budget (EDO Office).
Mr. Liaqat Nasir – DEO Secondary

Tehsil and Schools:
Mr. Farooq Ahmed Khan – Principal Government Central Model Higher Secondary School.
Ms. Naureen Akhtar - DDEO (F) Sillanwali.
Govt. Girls Primary School 134 SB.
Govt. Girls Elementary School 130 SB.
Govt. Girls High School Sillanwali.
DDEO (M) Sillanwali - Khalid Mehmood.
Govt. Primary School Rehmat Colony Sillanwali.
Govt. Elementary School 130 NB.
Govt. Higher Secondary School 126 SB.
Govt. High School, Hyderabad Town.
Kaukab Naureen -DDEO (W) Shahpur Sadar.
Govt. Girls Primary School Chak Muzzafarabad.
Govt. Girls Elementary School – Shahpur Sader
DDEO (M) Shahpur – Dr. Mohsin Abbas.
Govt. High school model, Shahpur Sader
Govt. Elementary School Wegowal - Tehsil Shahpur.
Govt. Girls Elementary School, Pir mukand Colony, Sargodha
Govt. Khalqi Elementary School, block # 25, Sargodha.