FINANCE DEPARTMENT, PUNJAB

Mid Year Budget Execution Report

Financial Year 2021-22

May 20, 2022

Executive Summary

Transparency, monitoring and flow of information are key to an orderly public financial management system. FCDO funded Sub-national Governance Programme (SNG) Punjab used Open Budget Survey (OBS) methodology to determine a baseline of budget transparency in Punjab. The assessment also helped identify areas of reform/ improvement to budget transparency. The Government of Punjab has undertaken several initiatives to improve budget transparency and accessibility, including development of PFM Reform Strategy and Medium-Term Fiscal Framework, and issuance of budget call circular and budget ceilings to line departments aligned with a medium-term budgetary framework. The Government of Punjab has also adopted a mechanism of joint budget review through institution of a Joint Priorities Committee (JPC), which has made possible joint budgeting of development and non-development segments of provincial entities. 11 departments have been selected for issuance of single ceilings and for review of FY 2022-23 budgetary proposals under the JPC framework.

Budget execution reports were institutionalized in Punjab in FY2020-21. Mid-Year and complete year BERs are a key feature of the fiscal policy execution. FY2020-21 reports were helpful in assessing the budget execution performance for a diverse set of stakeholders – both within the government and outside. Mid-Year Budget Execution Report 2021-22 is another step to improve budget transparency in Punjab. It will provide citizens with details about budget execution and help in making the Government more accountable. Mid-Year Report take stock of progress in realising specific performance targets. The Mid-Year review is an analysis of the budget's effects provided about halfway through the budget year and provides a comprehensive update on the implementation of the budget. Mid-Year reviews help assess what is on or off track. This allows for decisions to be made as to whether the initial strategy in the budget requires any significant adjustments. Besides, its use for budget oversight, the mid-year report can also yield useful insights which can inform the pre-budget deliberations for the following year.

The provinces have little room to question the underlying macroeconomic assumptions and targets set by the federal government, which form the basis for provincial budgets. Therefore, on the receipt side, the credibility of provincial budgets is largely a function of the correctness of underlying assumptions for revenue targets at the federal level. These assumptions include economic growth rate, inflation, and tax-to-GDP Ratio. Owing to the construct of fiscal federalism in Pakistan, the provincial governments rely heavily on Federal Divisible Pool Transfers. Therefore, the key assumption for Punjab's Budget 2021-22 is FBR collection of Rs.5,829 billion as a result of which, Punjab Government's share in the Federal Divisible Pool is to be Rs. 1,683.7 billion following the 7th National Finance Commission Award, which is 17.5% higher as compared to BE for LFY. To set the FBR target, the Federal Government assumed the GDP growth of 4.2% and inflation at 8.0%, as the nominal size of GDP depends on these key variables. FBR has been projected to grow at an ambitious rate of 17.5% (BE/BE) and 21.6% (BE/RE). The FBR's collection is largely on track as per FBR's collection target of 2QFY2021-22. The other assumption that it is likely to contribute over 10 percentage points to this growth is beyond the information set of provinces.

FBR has collected net revenue of Rs. 2,920 billion during July-December of FY2021-22, which has exceeded the target of Rs. 2,633 billion by Rs. 287 billion. This represents a growth of about 32.5 % over the collection of Rs. 2,204 billion during the same period, last year. FBR is expected to achieve its collection target budgeted for the CFY. Finance Department is also mindful of the fact that FBR has projected an additional collection of approximately Rs. 360 bn through Finance Supplementary Act 2021/22. If realized, this will translate into additional FDP transfers of Rs. 103 bn to Punjab. Therefore, there is fiscal room available for Finance Department to consider funding important additional development and other pressing expenditure requirements such as to support Food Department retire portion of commodity debt, *inter alia.*

In first half of the CFY, the Government was able to achieve 49.67% of the total general revenue receipts target set in the original budget. Collection for general revenue receipt till December was Rs.1,037.2 billion against a target of Rs. 2,088.3 billion for the entire year. This includes federal divisible pool, tax and non-tax receipts. The total receipts of the Government during the first half of the fiscal year were Rs.1,151.05 billion against an estimate of Rs.2,653.01 billion (43.39% of the total revenue target). This includes capital I and capital II account. Punjab received an amount of Rs. 832.5 billion till December from the federal divisible pool as compared to the budget estimate of Rs.1,683.7 billion, which is 49.4% of the BE for FDP. Historically, FBR collection ranges from 42% to 47% in the first half of the financial year. Last year, the transfer was Rs.601.4 billion in first half of the FY, exhibiting an increase of 38.4% this year.

Provincial tax collection during the first half was Rs.129.0 billion against the budget estimate of Rs.272.6 billion for the full year, performing better year-on-year and achieved its target for the mid-year by collecting 47.34% in the half year staying close to the average collection of 48% in the first six months. This is pertinent to mention that the tax collection target for FY2021-22 is 23.4% more compared to the BE of LFY. More importantly, the Government was able to achieve this without adding any major taxes or increasing the tax rate. The Provincial Government rather continued tax relief introduced due to onset of CVOID-19 estimated at Rs. 51 billion for the CFY. The government was able to collect Rs.75.7 billion in provincial non-tax receipts till December compared to the budget estimate of Rs.132.0 billion for the year. Collection for current capital receipts excluding food account is Rs. 11.0 billion against a budget target of Rs. 79.1 billion. Food account sale proceeds (which include the sale of wheat and sugar) are Rs.85.2 billion against a target of Rs.420.3 billion. Development capital receipts are Rs. 18.1 billion against a target of Rs. 65.2 billion. There is no trend seen in the collection of capital account receipts. The biggest shortfall is faced in capital receipts during the mid-year due to lower sales of wheat and lower than target capital receipts from multilateral development partners.

During the first half of the CFY, the Government was able to utilize 35.4% of its budget allocation for expenditure. The Government was able to utilize an amount of Rs. 893.9 billion till December compared to a budget estimate of Rs. 2,528.01 billion for total provincial expenditure. On average the government usually spends 40.6% of the actual provincial expenditure till December ranging from 37% to 45%. This implies that the government is on track with an effort to keep the expenditure within the available resources. Current expenditure till December was Rs.593.7 billion compared to a budget estimate of Rs.1,427.9 billion, showing spending, considering its relatively inflexible nature, at the level of its historical average expenditure on the current side of around 42% till December. Capital expenditure during the first half of the year was Rs.122.2 billion compared to a budget estimate of Rs.540.1 billion, thereby demonstrating lower spending. This includes both capital I (Rs.29.9 billion) and capital II (Rs.92.4 billion) account. While there is no trend for capital II account, current capital spending is usually 41.6% of the total amount till the mid-year. As for the food account, the inflows and outflows mainly depend on the wheat procurement policy, the support price and the release price which are determined during the year. The current wheat stocks are around 16% of the total liability, the gap between the liability and the stock stands at ~Rs. 456 billion[1]. Therefore, any analysis of this account in absence of procurement policy and without a linkage of commodity financing liabilities with the fiscal rules and funding strategy will not be meaningful. Though the liabilities in this account are backed by the sovereign guarantee and publicly shared through the white paper, for responsible financial management, it is important to develop a funding strategy and a mechanism for targeted subsidy.

For development expenditure, the government's adoption of fund release policy of releasing 100% funds for ongoing ADP schemes on the first day of July has paid dividends in many respects. The government has utilised Rs.178.0 billion (31.8%) compared to a budget estimate of Rs.560.0 billion. Spendings Rs.79 billion more year on year. So, more spending translates into earlier completion of the schemes and their early operationalization to service delivery. Development spending data from the previous two years, in which this policy was adopted, shows a higher schemes completion rate (10% average for 2018-20 vs 26% in 2020-21 and 42% expected to be completed in 2021-22). Development spending in the past five years for the same period when compared with the budget estimate have ranged from 23% to 33%. This means that the government is on the higher end of the range when seen against historical average of utilisation of development expenditure. Moreover during the same period, considering the size of the development budget in FY2021-22, the utilization is encouraging attesting to the efficacy of early availability of funds by the Finance Department and spending capacity of the executing entities.

The government of Punjab has correctly forecasted its tax revenue. The government is on track to meet the target for general revenue receipts. While meeting the target for Account II Capital receipts is beyond the Finance Department's control, it is important for the government to meet the disbursement linked indicators and pre-conditionalities set for the loans under the Capital I Account.

The Mid-Year Review of budget and Medium-Term Fiscal Framework help government manage the budget more effectively. It would be extremely important that Finance Department consolidates the capacity to develop these documents in the future.

[1] Commodity Operations as of 21 Feb, 2022

The Report has been developed with a view to provide a detailed understanding to readers about the execution of the budget for the mid-year of FY 2021-22. It starts with an aggregate level perspective in each chapter and drills down into details in the later part. After the 'Introduction', in chapter 2 the report provides a snapshot of the macroeconomic assumptions used by the Government at the time of budget-making and whether those assumptions held true in the first half of the CFY. This is followed by the analysis of receipts in chapter 3 and analysis of expenditure in chapter 4. In chapter 5, an assessment of budget management by the government has been done. The final chapter draws conclusions from the analyses in the previous chapters and makes recommendations for improvement to budget management in future.

Table of Contents

List of Tables & Figures

List of Acronyms & Abbreviations

AR	Audit Reports
B.E	Budget Estimates
bn	Billion
CAGR	Compound Annual Growth Rate
CB	Citizen’s Budget
CERP	Centre for Economic Research in Pakistan
CFY	Current Fiscal Year
DLI	Disbursement Linked Indicator
EB	Enacted Budget
EPB	Executive’s Budget Proposal
FBR	Federal Board of Revenue
FCDO	Foreign, Commonwealth & Development Office
FDP	Federal Divisible Pool
FED	Federal Excise Duty
FY	Financial / Fiscal Year
GDP	Gross Domestic Product
GSDP	Gross Sub-national Domestic Product
GSTS	General Sales Tax on Services
HUD	Housing Urban Development
IMF	International Monetary Fund
IYR	In-Year Reports
KPK	Khyber Pakhtunkhwa
LG	Local Government

MER	Mid-Year Review
MTFF	Medium Term Fiscal Framework
NFC	National Finance Commission
Non-Dev	Non-Development
OBS	Open Budget Survey
OPM	Oxford Policy Management
PBS	Pre Budget Statement
PCF	Provincial Consolidated Fund
PFM	Public Financial Management
PHED	Public Health Engineering Department
PIFRA	Project to Improve Financial Reporting and Auditing
PRA	Punjab Revenue Authority
PSDP	Public Sector Development Program
PSTS	Punjab Sales Tax on Services
R.E	Revised Estimates
SBP	State Bank of Pakistan
SMART	Strengthening Markets for Agriculture and Rural Transformation
SNG	Sub-National Governance Programme
YER	Year-End Report

1 Introduction

Budget Transparency is a fundamental precondition for accountability and public participation in governance processes. Lack of transparency and democratic control of budget processes creates opportunities for graft and corruption. The Government of Punjab has taken several measures to enhance budget transparency and accessibility. Some of the major efforts have been: development of Citizens' Budget, Year-End Report, Medium Term Fiscal Framework and Budget Strategy Paper. Mid-Year report is another step to improve budget transparency and accessibility in Punjab. Sub-National Governance Programme has used the Open Budget Survey (OBS) to conduct a baseline assessment of the transparency and accessibility of the budget of the Government of the Punjab. While OBS is used at the national level, the programme has tailored it to be used at the subnational level. This practice allows the government to identify areas of improvement and reform and concentrate efforts on filling the gaps in the second half of the fiscal year. The mid-year report is also an important tool to review the performance of reforms introduced at the beginning of a fiscal year.

According to internationally accepted good practice criteria[2] for public financial management, eight key budget documents should be produced by all countries at different stages in their budget process. The eight key budget documents include Pre-Budget Statement (PBS), Executive's Budget Proposal (EBP), Citizen's Budget (CB), Enacted Budget (EB), In-Year Reports (IYR), Mid-Year Review (MYR), Year-End Report (YER), and Audit Reports (AR). As such, budget transparency examines the public availability, timeliness and comprehensiveness of these key budget documents. The Mid-Year review is an analysis of the budget's effects provided about halfway through the budget year and provides a comprehensive update on the implementation of the budget. Mid-Year reviews help assess what is on or off track in terms of programmes underspending or overspending relative to the Enacted Budget. This allows for a decision to be made as to whether the initial strategy in the budget is in need of any significant adjustments. In addition to its use for budget oversight, the mid-year report can also yield useful insights which can inform the pre-budget deliberations for the following year.

The Punjab Government produces five of the eight documents, including the executive budget proposal, citizen's budget, the enacted budget, the audit report and the Finance Minister's budget speech that serves as a pre-budget statement. Although civil accounts provide the data for making the in-year reports possible and informal analysis of budget execution is undertook, however, no formal reports are prepared or published for the general public. This is the second time that the mid-year report is being prepared, making it the sixth document that Finance Department will produce. Mid-Year report helps assess the impact of changes in the macroeconomy on the budget and enables a comprehensive assessment of actual spending and revenue collection against original

[2] Open budget survey guidelines on public availability of documents. International Budget Partnership. . August 2016

estimates at the midpoint of the budget year. It also helps identify the need for changes in budget allocations, including the need for supplementary budgets. It takes stock of progress in realising specific performance targets.

Mid-Year Report 2021-22 is being developed by the Punjab Government with the technical assistance of FCDO funded Sub-National Governance Programme, Punjab. It is based on the budget data extracted from provincial budget documents and civil accounts.

2 Macroeconomic Assumptions

In the provincial budgets, the most significant number is of fiscal transfers from the federal divisible pool. The federal divisible pool is dependent on the FBR collections, over which the provinces have no control. Provinces neither have control over the target setting nor the collection. The target and the share of the FDP for the coming year are formally conveyed to the provinces and the provinces do not deviate from these figures given the fiscal structure of the federation. Budget 2021-22 has been formulated in light of the target set for the FBR revenue collection. Ministry of Finance, Government of Pakistan estimated the collection to be Rs. 5,829 billion during the financial year as a result of which the province was conveyed an estimate of divisible pool transfer of Rs. 1,683.7 billion as its share under NFC Award. This assumption is key as the bulk of the provincial revenue is contributed under these transfers. The underlying assumptions for the targets of any revenue collection comprise GDP growth rate, inflation, increase in tax-to-GDP ratio (tax rate and broadening of base), and the impact of administrative efficiency. The provinces usually do not have complete information that leads to these assumptions. The following table provides a list of the assumptions for these key macroeconomic indicators for the financial.

	Economic Indicators	Assumptions for Budget 2021-22[3]
1.	Size of GDP (market prices)	Rs. 52,462 billion
2.	Inflation	8.0%
3.	Economic Growth Rate	4.2%
4.	FBR Tax to GDP Ratio	11.1%
5.	FBR Revenue Target	Rs. 5,829 billion

The size of Pakistan's economy during FY 2021-22 was projected at Rs. 52,462 billion with the assumption that the economy will have a growth rate of 4.2% and inflation of 8.0%. It is important to mention that the inflation rates by the World Bank and IMF are higher (9% and 8.5%, respectively). Similarly, the economic growth is also projected to be lower by World Bank and IMF (3.4% and 4.0%, respectively).

Government of Pakistan's fiscal deficit in the first half of the financial year is contained at 2.1 percent of GDP during the H1 of current fiscal year. The primary balance, on the other hand, remained in surplus of Rs 81.1 billion during Jul-Dec FY2022, compared to

[3] https://www.finance.gov.pk/budget/MTBSP_2021_2024.pdf

Rs 337.2 billion in the previous year. The Current Account posted a deficit of $ 11.6 billion for Jul-Jan FY2022 as against a surplus of $ 1.0 billion last year, exerting pressure on the exchange rate. This is despite the fact that In Jul-Jan FY2022, workers' remittances reached $ 18.0 billion ($ 16.5 billion last year) increased by 9.1 percent.

Overall, although economic recovery is underway, the economy is also confronting inflationary and external sector pressures. Any potential challenges to the macroeconomy have a direct bearing on provincial fiscal health. Punjab's economy faces some significant fiscal risks of its own which can hamper its fiscal policy objectives in the medium to long term. Finance Department, Punjab has realized this fact and fiscal risk management policy framework has been devised. This framework shall guide the preparation of fiscal risk statement to be presented with annual budget of the province and will have adequate mitigation strategies for various specific risks such as mounting salary and pension liabilities, challenges to revenue mobilization, high dependence on federal fiscal transfers, burgeoning liabilities due to commodity operations, to name a few.

Punjab's debt levels are currently quite low when measured as a percentage of its GSDP (Gross Sub-national Domestic Product) or as a percentage of its annual revenue. The major challenge for the Province is to manage its debt operations to finance its large and growing development needs without impairing its capacity to repay the debt. Punjab's debt consists mainly of long-term foreign loans obtained on concessional terms from international institutions by the Federal Government and on-lent to Government of the Punjab. Government of the Punjab obtained multilateral loans from international financial institutions and a few bilateral loans to support the development needs of the Province.

3 Analysis of Receipts

3.1 Total Provincial Receipts

The revenues of the Provincial Government are classified into two major categories: Total General Revenue Receipts and Total Capital Receipts. The General Revenue Receipts further include federal divisible pool transfers, provincial tax revenue and provincial non-tax revenue. The transfers from Federal Divisible Pool amounting to be Rs. 1683.70 billion[4] will contribute around 81% to Total General Revenue Receipts, and the remaining 19% is projected to be collected from provincial own-source revenue, where around 13% will be collected from provincial tax revenue expected to be around Rs. 272.6 billion and 6% will be from provincial non-tax revenue estimated to be around Rs. 132.0 billion. Total General Revenue Receipts account for around 79% of Total Provincial Consolidated Fund, and the remaining 21% comes from Capital Receipts. Capital receipts include new loans raised by the Government and recoveries of loans issued by the Government. A major part of this receipt is borrowed for State Trading i.e. borrowing for procurement of wheat. The liability is retired every year after the sale of wheat. Provincial Government provides a subsidy from its budget to maintain the desired level of price of wheat flour. Share of borrowing for provincial projects and programmes in Provincial Consolidated Fund (PCF) is relatively minor.

Historically, provinces have relied heavily on transfers from Federal Government and Punjab is no exception to it. In the last five years on average, 81% of Total Provincial Revenue of Punjab has been contributed from the Provincial share in Federal Revenue, whereas around 17% has been collected from own source revenue, and around 2% is Federal Loans and Grants.

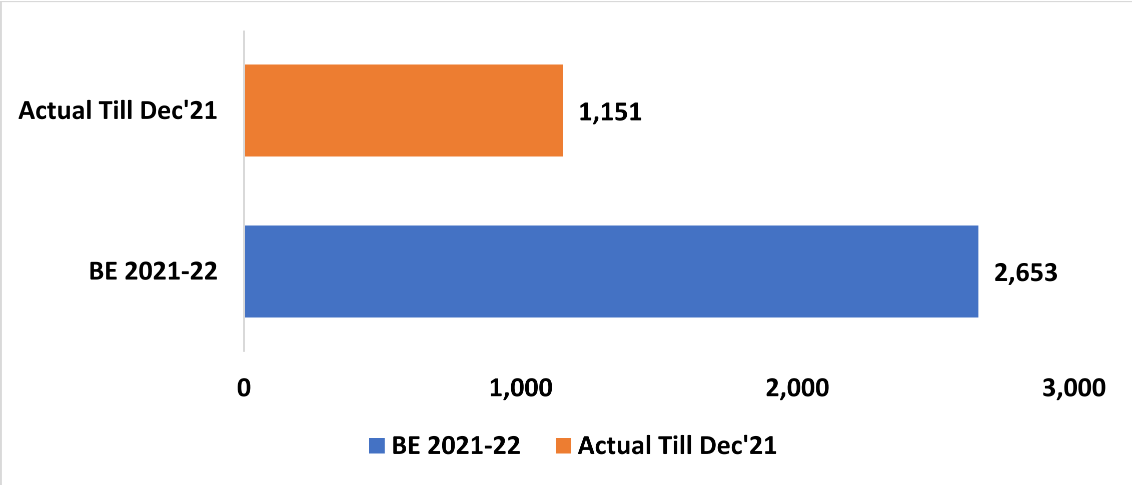
Government of Punjab has been making efforts to increase revenue collection from provincial own taxation. In 2020-21 the target was set at Rs 317.1 billion and was increased by 28% to Rs 404.61 billion in 2021-22. Tax assignment structure in the Constitution assigns taxation of services, immovable property, motor vehicles, agriculture income and tax on professions to provincial governments in addition to some minor taxes.

Figure 1 - Total Provincial Receipts

During the first six months of FY 2021-22, Punjab Government has realized 43.4% of its revenue target set in the budget at the beginning of the financial year: Provincial Government realized a total provincial receipt of Rs.1,151.05 billion against a budget estimate of Rs.2,653.01 billion. For general revenue receipts, the government collected a total of Rs. 1,037.19 billion against an estimate of Rs.2,088.30 billion. This means that 49.7% of the collection has been realised till December. General revenue receipts include federal divisible pool, and Punjab’s source revenue of tax and non-tax receipts.

[4] Annual Budget Statement 2020-21, Finance Department, Punjab.

Last year, the general revenue receipts collection was Rs.766.2 billion (52.9%) against a total collection of Rs.1,477.8 billion and a target of Rs.1750.2 billion.



FBR collection shows growth of about 32.5 % over the collection of Rs. 2,204 billion during the same period, last FY. FBR is expected to achieve its collection target budgeted for the FY. FBR has projected an additional collection of approximately Rs. 360 bn through Finance Supplementary Act 2021/22. If realized, this will translate into additional FDP transfers of Rs. 103 bn to Punjab. Moreover, a major shortfall is expected in capital receipts, particularly Capital Account I receipts.

Table 3.1 Total Provincial Receipts

(Rs. in billion)

General Revenue Receipts	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance Amount	Variance (%)
Federal Divisible Pool Transfers	1683.7	832.5	601.4	231.1	38.42%
Provincial Tax	272.6	129.0	119.8	9.2	7.71%
Provincial Non-Tax	132.0	75.7	45.0	30.7	68.35%
Grand Total	**2088.3**	**1037.2**	**766.2**	**271.0**	**35.37%**

Total Receipts	B.E 2021-22	Actual Dec'21
Capital Ac I	144.37	28.64
Capital Ac II	420.34	85.22
Total Capital Account Receipts	**564.71**	**113.86**
General Revenue Receipts	**2,088.30**	**1,037.19**
Total Provincial Consolidated Fund	**2,653.01**	**1,151.05**

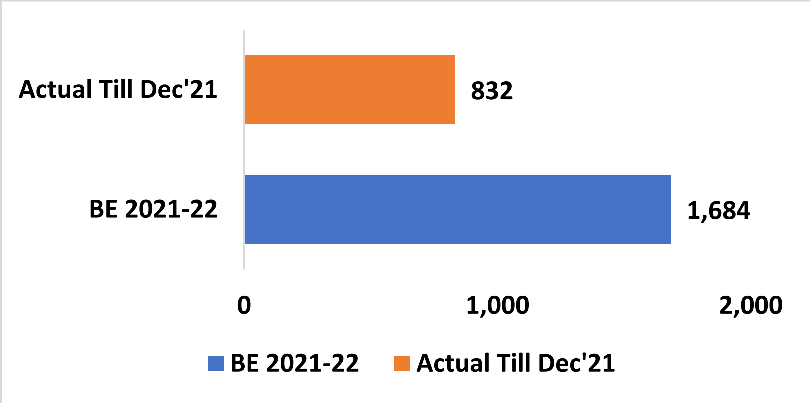
During the first six months of FY 2021-22 Federal Divisible Pool transfers increased by a margin of 7.5% year on year (41.9% in 2020-21 and 49.4% in 2021-22 BE/BE). Government also exceeded the targets in provincial tax and non-tax receipts.

The Government received an amount of Rs.832.5 billion in the first six months from the federal divisible pool as its share compared to the budget estimate of Rs.1,683.7 billion for the year. Table 3.1 shows a increase of 231.1 billion for the first six months for FDP. Historical data shows that approximately 45% of the FBR receipts are collected in the first six months when compared with the actual receipts whereas 40% is collected when compared with the annual targets. Provincial tax collection till December was Rs.129.0 billion against the budget estimate of Rs.272.6 billion for the entire year. Trend analysis shows that provincial tax collection in the first six months is approximately 48%. In provincial non-tax revenue, the government has collected Rs.75.7 billion till December compared to the budget estimate of Rs.132.0 billion. Trend analysis shows that provincial non tax collection in the first six months is approximately 57%. Capital receipts have remained low compared to the budget estimate. A total of Rs.113.9 billion have been collected under the capital account I and II against a budget estimate of Rs.564.7 billion. The Current Capital Account I shows a collection of Rs. 11.0 billion against a target of Rs. 79.1 billion. Development capital receipts collection is Rs. 17.691 billion against a target of Rs. 65.222 billion. Capital account II shows a collection of Rs. 85.22 billion against a target of Rs. 420.339 billion.

Each of the items of the provincial receipts has been discussed in the following paragraphs:

3.1.1 Federal Divisible Pool

Figure 2 - Federal Divisible Pool



Federal Divisible Pool transfers are the biggest contribution to the provincial receipts. Even a small percentage shortfall in this source of income necessitates significant adjustments in the provincial budget. During the first six months of FY 2021-22, the actual transfers were Rs. 832.46 billion as compared to a target of Rs.1,683.70 billion for the entire year. Last year, the FBR transfer till December was Rs.601.40 billion, exhibiting a increase of 38.4% in the first half of CFY. FBR collection trends for the mid-year have ranged from 42% to 47% in the past five years against actual collection. When compared with the budget estimate, the collection is 49.4% during the first half of the current year. During the first six months of FY 2021-22 Federal Divisible Pool transfers increased by a margin of 7.5% year on year (41.9% in 2020-21 and 49.4% in 2021-22 BE/BE).

It is important to mention that the budget estimate for this year's FBR is 17.5% higher BE/BE and 21.6% higher BE/RE than the previous year, which is an overall ambitious target. While inflation and GDP growth accounts for 12.2% of the FBR growth, the remaining 9.4% is supposed to come from the government's policies on increasing the tax revenue base and administrative measures that should increase efficiency. Since the Divisible Pool transfers constitute a large proportion of General Revenue Receipts, even a small percentage variation between Federal Board of Revenue's Budgeted Estimates and Actual Collection leads to a major readjustment in Provincial Receipts.

FBR has collected net revenue of Rs. 2,920 billion during July-December of FY2021-22, which has exceeded the target of Rs. 2,633 billion by Rs. 287 billion. This represents a growth of about 32.5 % over the collection of Rs. 2,204 billion during the same period, last year. FBR is projected to achieve its collection target budgeted for the FY. Finance Department is also mindful of the fact that FBR has projected an additional collection of approximately Rs. 360 bn through Finance Supplementary Act 2021/22. If realized, this will translate into additional FDP transfers of Rs. 103 bn to Punjab.

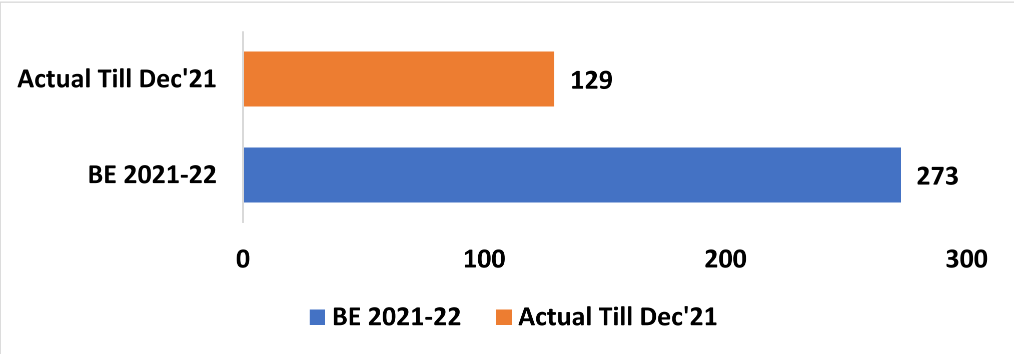
Table 3.2 - Federal Divisible Pool

(Rs. in billion)

Federal Divisible Pool	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance Amount	Variance (%)
Taxes on Income	626.878	285.476	236.029	49.447	20.95%
Capital Value Tax on Moveable Assets	0.164	0.038	0.137	(0.099)	-72.55%
Land Custom	225.971	136.421	90.353	46.068	50.99%
Sales tax	729.950	369.200	240.984	128.217	53.21%
Federal Excise	100.313	41.221	33.737	7.484	22.18%
Federal Excise on Natural Gas	0.419	0.104	0.160	(0.056)	-35.24%
Federal Divisible Pool	**1,683.696**	**832.460**	**601.400**	**231.060**	**38.42%**

3.1.2 Provincial tax Revenue

Figure 3 - Provincial tax Revenue



Punjab's tax collection was Rs.129.05 billion during the first six months compared to a budget allocation of Rs.272.57 billion for the year. In this way, Punjab's tax collection exhibited better performance, exceeding the target by Rs. 9.32 billion, given the historical trend collection of 48% for the first six months. More importantly, this performance is primarily based on improvements to collection efficiency and measures for broadening the tax base.

Punjab's tax collection was Rs.129.05 billion during the first six months of FY 2021-22 compared to the budget estimate of Rs.272.57 billion for the entire year. Based on trend analysis of the past five years, tax collection during the first six months of the FY is 48% of the total collection. Based on the current performance, the Government should be able to exceed the target. Table 3.3 shows the distribution of tax collection between direct & indirect taxes. The growth in tax collection is primarily due to the growth being posted by the PSTS. Similarly, table 3.4 provides the break-up of tax collection by departments. The government has adopted a fiscal strategy of providing maximum relief to the public to the tune of Rs. 51 billion, which includes reduced rates on PSTS for nine sectors from 16% to 5% to incentivize compliance.

During 2020-21, the government collected Rs.119.8 billion in provincial tax revenue for the first six months, thereby showing an improvement in performance by 7.7% this time despite Covid-19. A significant increase has been seen in PRA as mentioned above. Further, the Board of Revenue's collection also shows an overall increase of 24% and a significant increase of 30% has shown in stamp duty. The government is expected to meet the target for this year based on the 5-year CAGR.

Table 3.3 - Provincial Tax Revenue

(Rs. in billion)

Provincial Tax Revenue		
	B.E 2021-22	**Actual Dec'21**
Direct Taxes	49.605	22.844
Indirect Taxes	210.355	103.400
Other Indirect Taxes	12.606	2.800
Provincial Tax Revenue	**272.566**	**129.045**

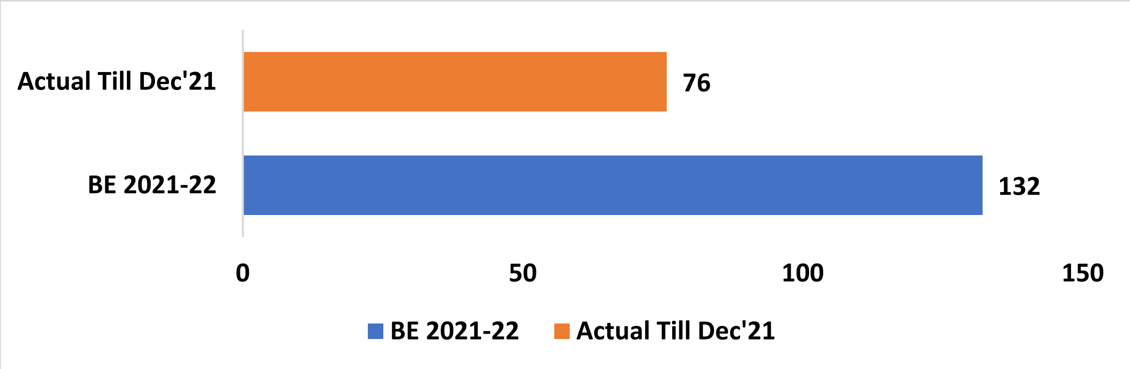
Table 3.4 Provincial Tax Revenue - Department wise collection

(Rs. in billion)

Provincial Tax Revenue - Department wise collection					
	B.E 2021-22	**Actual Dec'21**	**Actual Dec'20**	**Variance Amount**	**Variance (%)**
BOARD OF REVENUE	65.950	33.383	26.870	6.522	24.27%
ENERGY	7.250	0.100	0.091	0.010	10.50%
EXCISE & TAXATION	42.766	23.765	17.158	6.599	38.46%
FINANCE	155.900	71.248	74.694	(3.446)	-4.61%
TRANSPORT	0.700	0.549	1.000	(0.452)	-45.19%
Provincial Tax Revenue	**272.566**	**129.045**	**119.813**	**9.232**	**7.71%**

3.1.3 Provincial Non-Tax Revenue

Figure 4 - Provincial Non-Tax Revenue



The government managed to collect Rs.75.68 billion during the first six months for provincial non-tax revenue compared to the budget estimate of Rs.132.04 billion for the entire year.

Government estimated its non-tax collection at Rs.132.04 billion for FY 2021-22. The collection during the first six months was Rs.75.68 billion, whereas on average the non-tax revenue collection for the first six months is estimated to be 40% of the total collection implying that a collection of Rs.38.47 billion was expected based on the trend analysis for the past five years. This shows that the government performed better will collection of more than 57%. When comparing the collection of the first six months with the budget estimate, it ranges from 24% to 50% in the past five years.

The budget estimate included the expected receipt of Rs.10 billion on account of Net Hydel Profit from the Federal Government. However, to date, only Rs.1.3 billion has been received resulting in a huge shortfall. Table 3.5 provides a summary of Provincial Non-Tax revenue collection in comparison with the budget. Net Hydel Profit is a part of the category titled ‘Income from Property and Enterprises’. The government is expected to fall short in its collection from net hydel profit and sale of land that are extraordinary receipts falling under Miscellaneous category (Board of Revenue department). Last year, the government managed to collect Rs.45.0 billion for the first half of the fiscal year.

Table 3.5 - Provincial Non-Tax Revenue

(Rs. in billion)

Provincial Non Tax Receipt		
	B.E 2021-22	Actual Dec'21
Income from Property and Enterprise	26.849	1.511
Receipts from Civil Administration and Other Functions	18.980	10.378
Miscellaneous Receipts	86.214	63.794
Provincial Non-Tax	**132.042**	**75.683**

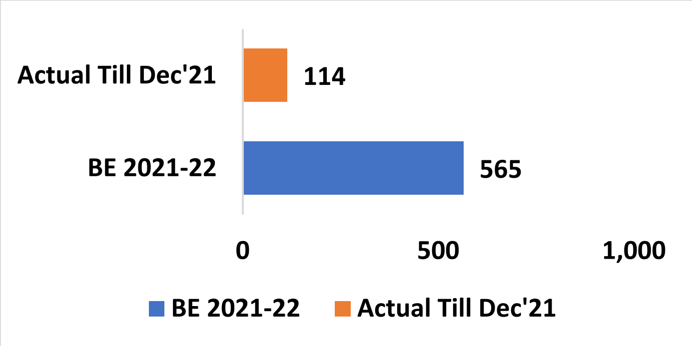
(Rs. in billion)

Provincial Non Tax Revenue - Department wise Collection					
	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance Amount	Variance (%)
AGRICULTURE	1.147	0.714	0.493	0.222	44.99%
BOARD OF REVENUE	30.356	1.095	0.417	0.678	162.63%
COMMUNICATION AND WORKS	4.025	2.096	1.533	0.562	36.68%
COOPERATIVES	0.004	0.000	0.002	(0.002)	-83.16%
EDUCATION	2.121	2.680	0.915	1.765	192.97%
FINANCE	37.893	47.214	20.040	27.174	135.60%
FORESTRY, WILDLIFE & FISHERIES	1.400	0.850	0.811	0.039	4.77%
HEALTH	2.186	0.909	0.777	0.132	16.94%
HOME	1.266	0.455	0.067	0.389	583.31%
HUD & PHE DEPARTMENT	0.900	0.515	0.331	0.184	55.48%
INDUSTRIES	0.412	0.144	0.164	(0.020)	-12.46%
IRRIGATION	11.317	1.163	1.161	0.002	0.20%
LAW AND PARLIAMENTARY AFFAIRS	0.750	0.364	0.282	0.083	29.39%
LIVESTOCK AND DAIRY DEVELOPMENT	1.270	0.503	0.411	0.092	22.41%
MINES AND MINERALS	11.660	6.107	4.676	1.431	30.61%
POLICE	6.600	2.651	2.395	0.256	10.68%
TRANSPORT	0.130	0.060	0.054	0.006	10.80%
Z-MISC.	18.604	8.162	10.428	(2.266)	-21.73%
Provincial Tax Revenue	**132.042**	**75.683**	**44.956**	**30.727**	**68.35%**

Considering healthy revenue growth and economic recovery, there is sizable fiscal room available for Finance Department to consider funding important additional development and other pressing expenditure requirements such as to supporting Food Department retire portion of commodity debt, *inter alia.*

3.1.4 Capital Receipts

Figure 5 - Capital Receipts



Capital Receipts remained low. The government managed to collect Rs.113.86 billion in the first six months whereas the budget allocation for the year was Rs.564.71 billion. The low collection is on account of lesser sales of wheat, financing for procurement of wheat and lower than target capital receipts (borrowing) from multilateral development partners.

During the FY 2021-22, the Government has targeted to collect Rs.564.71 billion as capital receipts. The actual collection from this source was only Rs.113.86 billion till December, which is 20.16% of the B.E compared to 25.53% in the corresponding period of preceding year. Capital Account receipts (both Account I and II) show no particular trend. The Current Capital Account I receipts show a collection of Rs. 11.0 billion against a target of Rs. 79.1 billion (13.9% collection) whereas the receipts for account II are Rs.85.22 billion (20.3%) for the first half compared to the annual target of Rs.420.339 billion. Development Capital receipt target has been set at Rs. 65.222 billion against which the government has received an amount of Rs. 17.691 billion till December. Capital accounts follow no particular trend. Capital receipts of the Government can be classified into two categories – ‘Current Capital Receipts’ and ‘Development Capital Receipts’. Current Capital Receipts comprise recoveries of loans and advances by the government to its autonomous bodies and borrowing by the Government for (i) commodity operation and (ii) budget support programmes of multilateral. Current Capital Receipts are either credited to Account No. I (Non-Food Account) or Account No. II (Food Account, depending on nature of receipt). Development Capital Receipts on the other hand comprise borrowing from multilateral donor agencies to finance specific development projects. As shown in Table 3.7, the budget estimate of ‘Current Capital Receipts’ was Rs. 564.71 billion whereas the collection under this category was Rs. 113.862 billion during the first half of the financial year. The Government was supposed to receive budgetary support loans from World Bank under Punjab Education Sector Reform Program, Strengthening Markets for Agriculture and Rural Transformation (SMART), Punjab Green Development Program and Punjab Cities Program, Punjab Resource Improvement and Digital Effectiveness (PRIDE) and disbursements of these new programs were to be received from World Bank accordingly. This implies that the DLIs set against loans have not been met by the government as yet. For Capital Account I the government needs to ensure that the DLIs are met for the loans. The foreign project assistance till December is Rs. 17.691 billion, whereas the budget estimate for the year is Rs. 65.222 billion, therefore only 27.1% of the total amount allocated has been received till December. The loans under the Account I have increased compared to the previous year by 39%, whereas the loans incurred under Account II have decreased by 24.5% The MTFF forecasts suggest that the government will meet the target for Capital Account II but face a significant shortfall in the Capital Account I.

Table 3.6 - Capital Receipts

(Rs. in billion)

Capital Receipts	B.E 2021-22	Actual Dec'21
Current Capital Receipts	499.487	96.171
Development Capital Receipts	65.222	17.691
Total Capital Receipts	**564.709**	**113.862**

Table 3.7 - Capital Receipts - Detailed

(Rs. in billion)

	B.E 2021-22	Actual Dec'21
Account I	**79.148**	**10.949**
Loans & Advances/Recoveries of Loans and Advances	3.049	0.485
Debt	76.099	10.464
Account II	**420.339**	**85.222**
Recoveries of Investment-State Trading Schemes	217.434	85.222
Cash Credit Accommodation	202.905	0
A- Current Capital Receipts	**499.487**	**96.171**
B- Development Capital Receipts (Acc-I)	**65.222**	**17.691**
Total Capital Receipts (A+B)	**564.709**	**113.862**

Capital Receipts	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance (%)
Loans & Advances/Recoveries of Loans and Advances	3.049	0.485	0.528	-8%
Debt	141.322	28.155	11.851	138%
Account I	**144.371**	**28.640**	**12.379**	**131%**
Recoveries of Investment-State Trading Schemes	217.434	85.221	112.863	-24%

Capital Receipts	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance (%)
Cash Credit Accommodation	202.905	0.000	0.000	0%
Account II	**420.339**	**85.221**	**112.863**	**-24%**
Total Capital Receipts	**564.71**	**113.861**	**125.242**	**-9%**

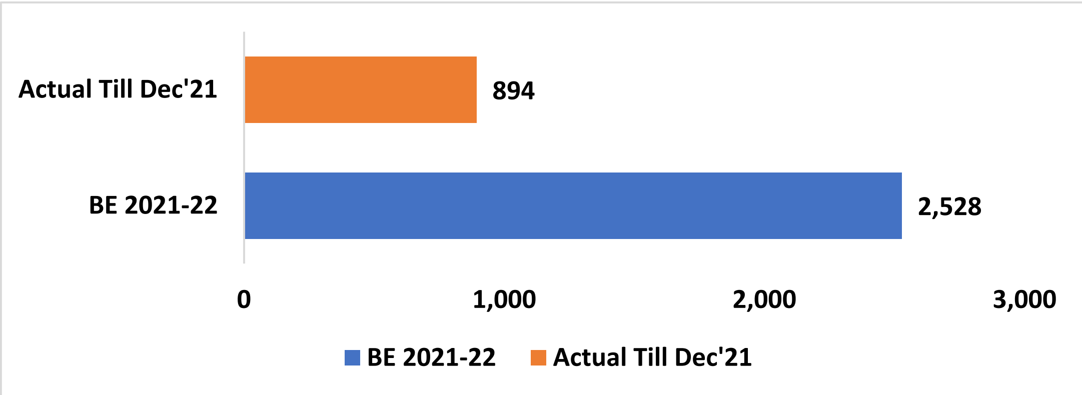
4 Analysis of Expenses

4.1 Total Provincial Expenditure

Provincial Government expenditure is divided into the following three broad categories:

1. Current Expenditure
2. Capital Expenditure
3. Development Expenditure

Figure 6 - Total Provincial Expenditure



Punjab Government has been able to utilize 35.4% of its budget allocation during the first six months of FY 2021-22. The total provincial expenditure is estimated to be Rs.2,528.01 billion and an estimated provincial surplus of Rs. 125.0 billion.

On the expenditure side, the budget estimate 2021-22 was Rs.2,528.01 billion. The Government was able to utilize an amount of Rs.893.87 billion during the first half of the financial year. In this way, the Government was able to utilize 35.4% of the budget allocated till now. Based on the trend for the last five years, the government spends 42.3% on average of the actual provincial expenditure till December, with the utilisation ranging from 38% to 45% of the actual expenditure. When compared with the budget estimate, the utilisation ranges from 33% to 37% (an average of 35.4%). The current expenditure till now is Rs.593.67 billion. Similarly, capital expenditure during the first six months is Rs.122.23 billion against a target of Rs.540.11 billion. The capital account I expenditure is Rs.29.88 billion till December and spending under capital account II is Rs.92.348 billion. Development expenditure spending shows that Rs.177.98 billion have been utilised against the available resources for development funds of Rs. 416 billion for the first six months and an annual target of Rs.560.0 billion.

As per the budget estimate 2021-22, 56.48% of total allocation was meant for current expenditure (Rs.1,427.9 billion), 21.37% for capital expenditure (Rs. 540.11 billion) & 22.15% for development expenditure (Rs. 560 billion). Till the first half of the financial year, the shares of current, capital and development expenditures were 66.4%, 13.7% and 19.9% respectively in the actual expenditure of the Government.

Expenditure by Components: Table 4.1 divides the total expenditure of the Government into four major categories i.e. salary, non-salary, pensions and transfers to

LGs. A total of Rs.173.0 billion have been spent on salary, Rs.123.8 billion have been spent on pension, Rs.221.0 billion have been spent on transfer to local governments and Rs.376.2 billion have been spent on service delivery expenditure. Salary, pension, service delivery and local government transfers are on track.

Expenditure by Functions: Table 4.1 also shows positive deviations in expenditure from the budget estimates by function classification used under New Accounting Model. The table shows that when compared with FY 2020-21 there has been a significant increase in Economic Affairs, Environment Protection, Education Affairs and Social Protection expenditure. This is important given the pandemic affected poverty and unemployment. There has been a significant increase in Social Protection, Education and Health spending particularly on the development side.

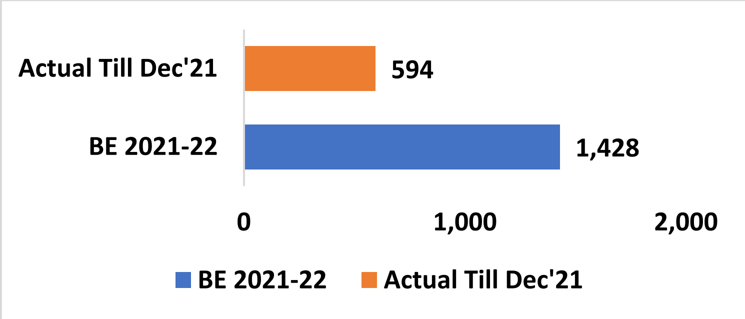
Table 4.1 - Total Provincial Expenditure

(Rs. In Billion)

Total Provincial Expenditure					
	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance Amount	Variance %
Capital I Expenditure	119.775	29.879	34.682	-4.803	-13.85%
Capital II Expenditure	420.339	92.348	103.342	-10.994	-10.64%
Development Expenditure	560.000	177.978	98.978	79.000	79.82%
Current Expenditure	1,427.900	593.665	554.509	39.155	7.06%
Total Expenditure	**2,528.014**	**893.868**	**791.511**	**102.357**	**12.93%**
Major Components					
Salary	384.916	172.965	158.398	14.566	9.20%
Pension	275.000	123.760	116.430	7.329	6.30%
Transfers (to LGs and others)	483.000	220.991	197.534	23.456	11.87%
Non-Salary	1,385.098	376.153	319.148	57.005	17.86%
Total Expenditure	**2,528.014**	**893.868**	**791.511**	**102.357**	**12.93%**
Expenditure by Function					
01 - General Public Service	1,133.839	498.447	474.883	23.564	4.96%
03 - Public Order and Safety Affairs	192.183	91.845	83.543	8.302	9.94%
04 - Economic Affairs	707.128	160.332	109.211	51.121	46.81%
05 - Environment Protection	5.024	0.252	0.200	0.052	26.07%
06 - Housing and Community Amenities	87.283	35.306	32.393	2.913	8.99%
07 - Health	259.979	61.106	54.966	6.141	11.17%
08 - Recreational, Culture and Religion	11.922	5.288	2.559	2.728	106.62%
09 - Education Affairs and Services	119.759	38.210	31.643	6.567	20.75%
10 - Social Protection	10.896	3.083	2.114	0.969	45.85%
Total Expenditure	**2,528.014**	**893.868**	**791.511**	**102.357**	**12.93%**

4.1.1 Current Expenditure

Figure 7 - Current Expenditure



The allocation for current expenditure for FY 2021-22 was Rs.1,427.90 billion whereas the spending till December is Rs.593.67 billion. Current expenditure enables government to meet the requirements of service delivery.

The budget estimate of current expenditures for FY 2021-22 is Rs.1,427.90 billion whereas actual expenditure till December is Rs.593.67 billion. Historically, during the first six months, the government usually spends 45% of the actual current expenditure and 41% of the budget estimate. In this year the government has utilised 41.6% of the budget estimate. Last year the spending was Rs.554.5 billion (42.06% of the target) till December so spending has increased by 7.1%.

Expenditure by Components: Table 4.2 provides the break-up of the current expenditure into four major categories i.e., salary, non-salary, pensions, and transfers. This table shows that the expenditure on salary, transfers, non-salary and pensions are on track given the previous years' trends. Till December, 45.1% and 45.0% of the salary and pension budget have been spent, respectively. 43.4% have been spent from the local government transfers by the end of the first half. While only 30.6% of the non-salary budget has been spent by end of December, last year's utilisation was 31.7% of the actual expenditure for service delivery expenditure. Trends for the past three years have shown that service delivery expenditure is approximately 29.7% of the actual during the first six months. Under budget for the current year, the government has estimated an expenditure of Rs.380.2 billion for salary, Rs.275.0 for pension, Rs.483 billion under local government transfers and service delivery expenditure of Rs.289.8 billion bringing the total current expenditure to Rs.1,427.9 billion.

Expenditure by Functions: Table 4.2 also provides the Function classification of the expenditure to identify the 'purpose' of an allocation or expenditure. The table provides the break-up of current expenditure by functions. It shows that the expenditure on function 'Public Order & Safety Affairs' was somewhat close to target as compared to other functions. Most of the functions such as 'Health', 'Education', 'Social Protection' and 'Economic Affairs' have spent significantly less than the budget allocations. However, when compared with last year, there has been an increase in spending in most of the functions e.g. Health, Social Protection have increased by 8.1%, 7.2% respectively. Similarly, spending under Economic Affairs and Public Order and Safety Affairs has increased as well by 17.2% and 9.3% respectively.

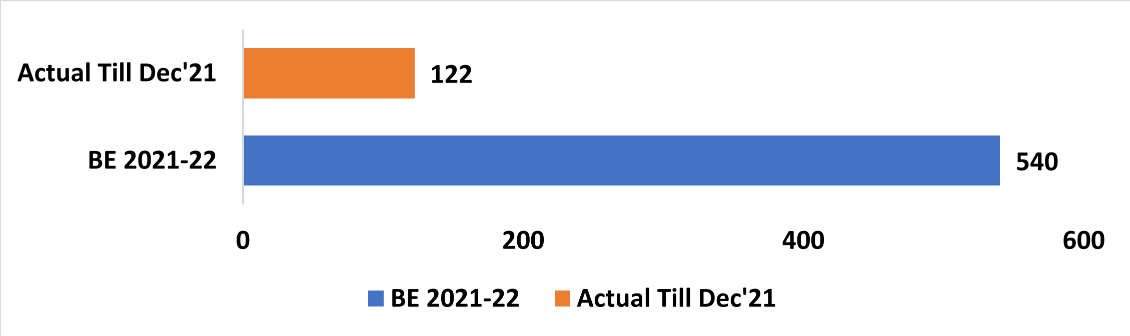
Table 4.2 - Current Expenditure

(Rs. In Billion)

Current Expenditure	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance Amount	Variance %
Salary	380.146	171.547	156.677	14.870	9.49%
Pension	275.000	123.760	116.430	7.329	6.30%
PFC	483.000	209.694	192.188	17.506	9.11%
Service Delivery Expenditure	289.754	88.664	89.214	-0.550	-0.62%
Total Current Expenditure	**1,427.900**	**593.665**	**554.509**	**39.155**	**7.06%**
Current Expenditure by Major Object					
A01-Employee Related Expenses	380.401	171.676	156.730	14.946	9.54%
A02-Project Pre-investment Analysis	0.025	0.002	0.001	0.000	26.65%
A03-Operating Expenses	119.421	34.986	28.470	6.516	22.89%
A04-Employees Retirment Benefits	282.218	125.397	118.307	7.090	5.99%
A05-Grants, Subisidies and Writeoffs of Loans/Advances/Others	566.885	239.816	229.314	10.502	4.58%
A06-Transfers	16.575	6.584	6.126	0.458	7.47%
A07-Interest Payment	35.413	6.903	8.007	-1.104	-13.79%
A09-Expenditure on Acquiring of Physical Assets	6.942	0.912	0.644	0.268	41.58%
A10-Principal Repayments of Loans	0.000	0.000	0.000	0.000	0.00%
A12-Civil Works	0.243	0.053	0.027	0.026	95.43%
A13-Repairs and Maintenance	19.478	7.336	6.882	0.454	6.59%
A14-Suspence and Clearing	0.300	0.000	0.000	0.000	0.00%
Total Current Expenditure	**1,427.900**	**593.665**	**554.509**	**39.155**	**7.06%**
Current Expenditure by Major Function					
01 - General Public Service	835.090	356.969	334.136	22.833	6.83%
03 - Public Order and Safety Affairs	189.716	91.177	83.430	7.747	9.29%
04 - Economic Affairs	123.408	52.093	44.442	7.651	17.22%
05 - Environment Protection	0.517	0.226	0.200	0.026	12.87%
06 - Housing and Community Amenities	11.909	10.677	12.798	-2.121	-16.57%
07 – Health	175.647	53.314	49.304	4.010	8.13%
08 - Recreational, Culture and Religion	4.343	1.425	1.274	0.152	11.90%
09 - Education Affairs and Services	77.183	25.668	26.953	-1.285	-4.77%
10 - Social Protection	10.087	2.115	1.973	0.142	7.20%
Total Current Expenditure	**1,427.900**	**593.665**	**554.509**	**39.155**	**7.06%**

4.1.2 Capital Expenditure

Figure 8 - Capital Expenditure



Government's capital expenditure spending has been low for the first half of the fiscal year, following the same trend as capital receipts. While the budget estimate for the year is Rs.540.11 billion, the actual spending till December is Rs.122.23 billion.

The capital expenditures during the midterm for the year 2021-22 was Rs.122.2 billion against the budget estimate of Rs.540.1 billion. Capital expenditure consists of loans made, loans repaid, and contributions made to separate funds for meeting long-term liabilities such as pensions. The capital expenditure can be divided into two main categories. Capital Expenditure (Account No. I) & Capital Expenditure (Account No. II). Account No. I relate to expenditure by the Government for the provision of services to citizens whereas Account No. II is reserved for transactions relating to commodity operations. Major transactions of Account No. I (Non-Food) include (i) Principal Repayment of Domestic, Foreign and Market Debt & (ii) Loans and advances to corporate bodies of the Government. Expenditures in Account No. II (Food) is mainly incurred on state trading operations of the Government in food grains, especially procurement of wheat and repayment of loans taken from the commercial banks for the trading operations to ensure food security in the country.

In capital account I, the budget estimate for the year was Rs.119.8 billion whereas the actual expenditure till December was Rs.29.9 billion, showing a 25% utilisation. There has been decreased (13.9%) when compared with midyear spending under the Capital Account I of FY 2020-21. Historical trends of capital account I expenditure have shown that the government spends approximately 41.8% of the total spending. The difference arose mainly due to investment, as the government has not spent any money allocated for investment as well as loans to non-financial institutions. The government has been able to repay the principal from foreign debt. Similarly, for Capital Account II, the actual expenditure for the mid-year was Rs.92.35 billion against a budget allocation of Rs. 420.34 billion. Capital expenditure under account II has decreased by 10.64% when compared with the midyear spending of FY 2020-21. The government's repayment of domestic debt is on track as can be seen in the table below under floating debt but state commodity trading for procurement of wheat is extremely low compared to the budget estimate. The decrease in capital expenditure of Account II is mainly due to state trading. Details of capital expenditure under Account No. I and II can be seen in Table 4.3.

Table 4.3 - Capital Expenditure

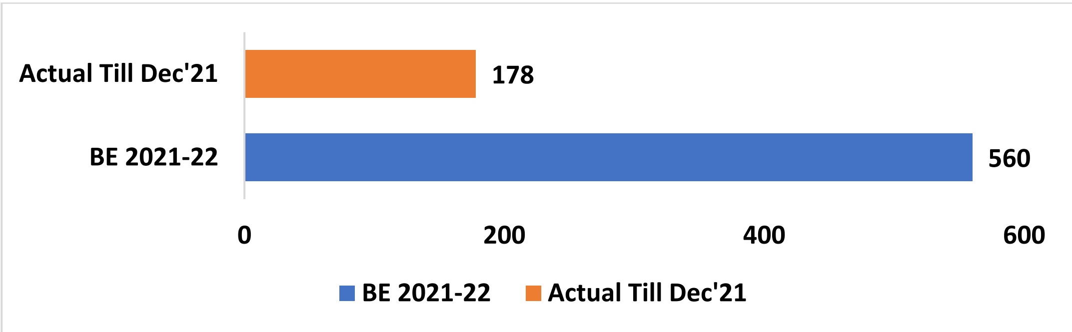
(Rs. In Billion)

Capital Expenditure	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance Amount	Variance (%)
Capital Expenditure by Grant					
Capital-A/c-I	**119.775**	**29.879**	**34.682**	**-4.803**	**-13.85%**
PC12043-LOANS TO MUNICIPALITIES/ ABS ETC.	25.621	5.344	9.665	-4.321	-44.71%
PC13034-STATE TRADING IN MEDICAL STORES AND COAL	0.000	0.006	0.025	-0.020	-78.04%
PC13035-LOANS TO GOVERNMENT SERVANTS	0.000	0.000	0.000	0.000	0.00%
PC13050-INVESTMENT	39.995	0.000	0.000	0.000	0.00%
PC16046-PERMANENT DEBT (DISCHARGED)	0.000	0.000	0.000	0.000	0.00%
PC16048-REPAYMENT OF LOANS FROM THE FEDERAL	54.158	24.529	24.992	-0.463	-1.85%
PC16051-LOANS TO HIGH COURT JUDGES	0.000	0.000	0.000	0.000	0.00%
Capital-A/c-II	**420.339**	**92.348**	**103.342**	**-10.994**	**-10.64%**
PC13033-STATE TRADING IN FOODGRAINS AND SUGAR (VOTED)	219.643	1.224	2.529	-1.305	-51.61%
PC16033-STATE TRADING IN FOODGRAINS AND SUGAR (CHARGED)	53.479	19.958	21.261	-1.302	-6.13%
PC16047-FLOATING DEBT (DISCHARGED)	147.217	71.166	79.553	-8.387	-10.54%
Total Capital Expenditure	**540.11**	**122.23**	**138.02**	**-15.797**	**-11.45%**
Capital Expenditure by Function					
Capital-A/c-I	**119.775**	**29.879**	**34.682**	**-4.803**	**-13.85%**
011404 - Repayment of principal foreign debt paya	47.570	23.735	24.240	-0.504	-2.08%
011503 - Domestic Debt Management	0.000	0.000	0.000	0.000	0.00%
011505 - Repayment of principal domestic debt pay	6.588	0.794	0.753	0.041	5.48%
014202 - Transfer To Non-financial institutions	25.621	5.344	9.665	-4.321	-44.71%
014203 - Transfer to Government Servants	0.000	0.000	0.000	0.000	0.00%
014302 - Non-Financial Institutions	39.995	0.000	0.000	0.000	0.00%
041403 - Medical Stores	0.000	0.006	0.025	-0.020	-78.04%
Capital-A/c-II	**420.339**	**92.348**	**103.342**	**-10.994**	**-10.64%**
011504 - Repayment of principal domestic debt-flo	147.217	71.166	79.553	-8.387	-10.54%
041401 - Food (Wheat)	273.122	21.182	23.789	-2.608	-10.96%
Total Capital Expenditure	**540.114**	**122.227**	**138.024**	**-15.797**	**-11.45%**

4.1.3 Development Expenditure

Investments by the Government that enhances its capability of service delivery to citizens is classified as development expenditure. Every year an Annual Development Programme (ADP) is approved by the legislature. The development expenditure is categorized into development revenue and development capital expenditure. Development Capital Expenditure is defined as expenditure on creating new physical assets for the Government such as roads, bridges, buildings, etc. Other related expenditures required for completion of a project such as employee related expense, purchase of transport, machinery, equipment, expenditure on research and development, etc. are categorized as Development Revenue Expenditure.

Figure 9 - Development Expenditure



Development expenditure of the Government during the first half of FY 2021-22 was Rs.178.0 billion against a budget estimate of Rs.560.0 billion, which is 31.8% of the budget.

The budget estimate of development expenditure in FY 2021-22 was Rs.560.0 billion, whereas actual expenditure till December is Rs. 178.0 billion. The government has released a total Rs. 416 billion (74% of the total budget). During the first half of the financial year, the resource available to Government for development were Rs.442.8 billion netting off Capital Account I. The departments have been able to utilize 31.8% of the development funds. Last year, the government had spent Rs.98.98 billion and released Rs.173 billion during the first six months. Development spending in the past five years for the same period when compared with the budget estimate have ranged from 24% to 33%, whereas when compared with the actual spending the amount utilised in the first six months ranges from 30% to 44%. Considering the high volume of the development budget in FY2021-22, the utilization is encouraging attesting to the efficacy of early availability of funds by the Finance Department and spending capacity of the executing entities.

For development expenditure, the government's adoption of fund release policy of releasing 100% funds for approved ongoing ADP schemes on the first day of July has paid dividends in many respects. The government has utilised Rs.178.0 billion (31.8%) compared to a budget estimate of Rs.560.0 billion. This spend is 79 billion more year on year. So, more spending translates into earlier completion of the schemes and their early operationalization to service delivery. Development spending data from the previous two years, in which this policy was adopted, shows a higher schemes completion rate (10% average for 2018-20 vs 26% in 2020-21 and 42% expected to be completed in 2021-22).

Expenditure by Functions: Details of expenditure by 'Functions' are also available in Table 4.4. It shows that 'Economic Affairs' have the largest share (48.91%) in the development spending, followed by function 'General Public Service' & 'Housing & Community Amenities' which have 22.72% and 13.84% shares, respectively. Compared to spending during same period of the LFY, highest increase is in functions 'Public Order and Safety Affairs', 'Education Affairs and Services' and 'Health', 'Recreational, Culture and Religion', 'Social Protection' and 'Economic Affairs' - all priority areas for the government. Similarly, compared with FY 2020-21, development spending in these functions has increased.

Table 4.4 - Development Expenditure (Rs. In Billion)

Development Expenditure					
	B.E 2021-22	Actual Dec'21	Actual Dec'20	Variance Amount	Variance %
Development Revenue Expenditure	323.918	110.650	67.522	43.128	63.87%
Development Capital Expenditure	236.082	67.327	31.456	35.872	114.04%
Total Development Expenditure	**560.000**	**177.978**	**98.978**	**79.000**	**79.82%**
Development Expenditure by Major Object					
A01-Employee Related Expenses	4.770	1.412	1.702	-0.290	-17.04%
A02-Project Pre-investment Analysis	0.075	0.010	0.018	-0.008	-43.37%
A03-Operating Expenses	12.771	3.662	3.789	-0.127	-3.35%
A04-Employees Retirment Benefits	0.009	0.004	0.004	0.000	5.20%
A05-Grants, Subisidies and Writeoffs of Loans/Advances/Others	236.028	84.398	49.963	34.435	68.92%
A06-Transfers	66.680	18.778	8.276	10.502	126.90%
A08-Loans and Advances	0.000	0.000	0.000	0.000	0.00%
A09-Expenditure on Acquiring of Physical Assets	20.692	2.580	2.774	-0.194	-7.01%
A11-Investments	0.000	0.000	0.000	0.000	0.00%
A12-Civil Works	218.006	66.867	32.220	34.647	107.54%
A13-Repairs and Maintenance	0.969	0.266	0.232	0.034	14.59%
Total Current Expenditure	**560.000**	**177.977**	**98.978**	**79.001**	**79.82%**
Development Expenditure by Major Function					
01 - General Public Service	31.757	40.439	26.537	13.902	52.39%
03 - Public Order and Safety Affairs	2.467	0.668	0.113	0.555	489.35%
04 - Economic Affairs	310.598	87.052	40.955	46.097	112.56%
05 - Environment Protection	4.507	0.026	0.000	0.026	0.00%
06 - Housing and Community Amenities	75.374	24.628	19.595	5.034	25.69%
07 - Health	84.332	7.792	5.662	2.131	37.63%
08 - Recreational, Culture and Religion	7.579	3.862	1.285	2.577	200.48%
09 - Education Affairs and Services	42.576	12.542	4.690	7.852	167.41%
10 - Social Protection	0.810	0.968	0.141	0.827	586.76%
Total Current Expenditure	**560.000**	**177.977**	**98.978**	**79.001**	**79.82%**

Key Achievements of Annual Development Programme 2021-22

During the first half of FY 2021-22 important investments were made in Health, Education, Production Sector, Economic Services and Skills Development Sectors. Following is the list of major development projects in the first half of FY 2021-2 for which funds have been released:

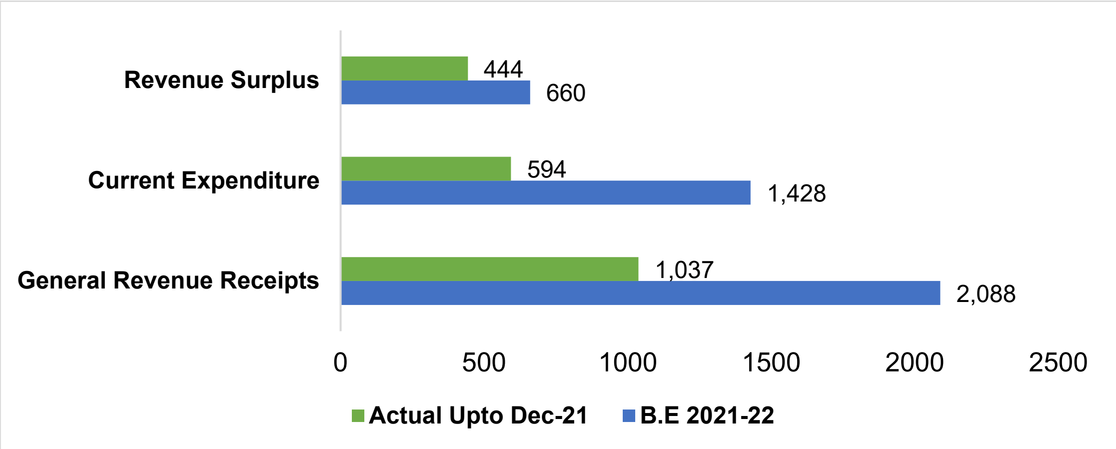
Name	Total Cost (PKR Million)
Implementation of Universal Health Coverage under Health Insurance Program in Punjab	400,000
Construction of Jalalpur Irrigation Project and its System	32,721
Promotion of mechanized agriculture for increasing crop productivity	28,000
Punjab Intermediate Cities Improvement Investment Prgramme	27,212
Chaubara Branch Canal Construction Project - Greater Thal Canal (Phase-II)	20,076
Construction of Eastern Wastewater Treatment Plant 45 MGD of Faisalabad City Phase-I (DANIDA Assisted).	19,071
Privatization of Agriculture Extension services to enhance the service delivery	18,560
Command Area Development (CAD) Component of Greater Thal Canal (GTC) Project (Phase-II)	17,088
Establishment of University of Applied Engineering and Emerging Technologies (UAEET), Sialkot, Punjab	16,648
Establishment of Centres of Excellence for Wheat, Rice, Sugarcane, Maize & Millets	9,917
Construction of Sorra Dam	9,847
Establishment of Mother & Child Block in Sir Ganga Ram Hospital, Lahore	9,200
Establishment of Tertiary Care hospital (Nishtar -II) Multan	8,842
Establishment of 200 Bedded Mother & Child Hospital in District Rajanpur	7,476
Construction of South Punjab Secretariat & GOR At Bahawalpur and Multan	6,852
Establishment of Teaching Hospital (Sheikh Zayed-II) Rahim Yar Khan	6,823
Establishment of 200 Bedded Mother & Child Hospital and Nursing College in District Mianwali	6,000
Establishment of 200 Bedded Mother & Child Hospital in District Layyah	5,944
Establishment of 200 Bedded Mother & Child Hospital in District Bahawalnagar	5,889
Provision of Missing Specialities for Upgradation of DHQ Hospital to Teaching Hospital, Sahiwal	5,544
Augmentation of Water Supply of Rawalpindi based Chahan Dam Source Particularly New Areas Added in WASA's Jurisdiction, Rawalpindi.	5,400

Establishment Of 200 Bedded Mother & Child Hospital in District Attock	5,320
Construction of Flyover at Sheranwala Gate, Lahore	4,909
Dualization of Sargodha Mianwali Road (Phase-I)	4,786
Program for Quality Seed Production and Dissemination	4,451
Construction of Flyover and At-grade improvement at Shahkam Chowk, Lahore.	4,385
Establishment of Dera Ghazi Khan Institute of Cardiology	4,285
Expansion of CPE Institute of Cardiology, Multan (Construction of New OPD & Inpatient Block)	3,146
Pilot Program for Hub & Spoke Model at Zahir Pir, Rahim Yar Khan	2,515
Dualization of Lodhran Kheror Pacca, Malsi Vehari Road District Lodhran (Phase-II) Remaining 20 Km	2,026
Widening /Improvemnet of Jhang Sahiwal Road KM No 59.00 to 113.80 KM in District Sargodha	2,026
Establishment of Surgical City at Sialkot.	1,722
Construction of Underpass at Gulab Devi Hospital, and additional lanes on Lahore Bridge, Ferozepur Road, Lahore	1,712
Hunarmand Nojawan (TEVTA)	1,500
Establishment of University of Chakwal	1,457
Establishment of a New Small Industrial Estate in Gujrat	1,325
Rehabilitation / Improvement of Sewerage System, District Jhang (Phase-I)	1,262
Establishment of Kohsar University and affiliated Study Centers (Up-gradation of Govt. Degree Colleges for Women & Boy in Tehsil Kahuta, Kotli Sattian & Kallar Syedan)	1,140
Construction of Building at University of Chakwal (City Campus)	1,000
Establishment of University of Hafizabad	1,000
Provision of PET Scan and Cyclotron Machine at Nishtar Hospital, Multan	1,000

5. Budget Management

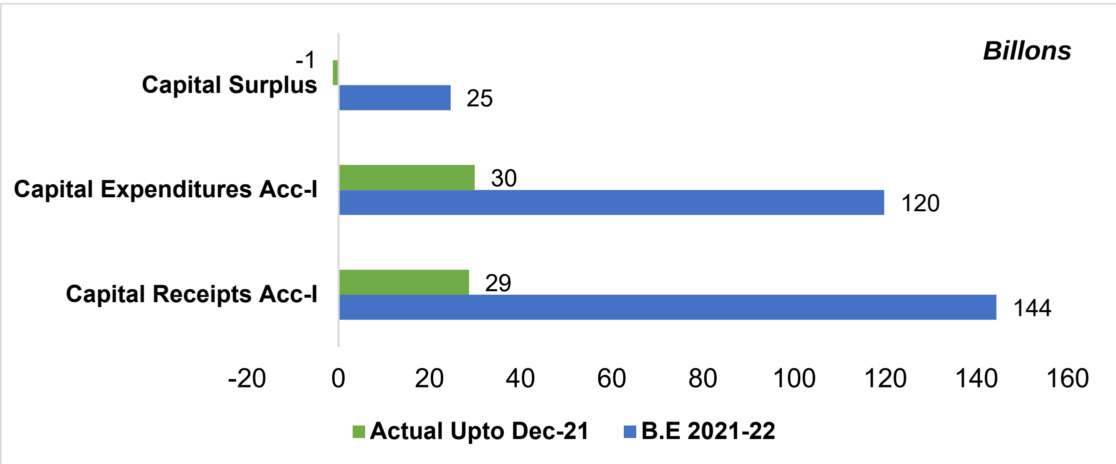
Total provincial receipts were estimated at Rs. 2,653.01 billion whereas the total expenditure was estimated at Rs.2,528.01 billion. The actual receipt collection till December 2021 was Rs.1,151.1 billion (43.4% collection of the allocation) whereas the actual expenditure was Rs.893.9 billion (35.4% spending of total allocation).

Figure 10 - Revenue Surplus



Actual Revenue surplus (i.e. General Revenue Receipts) was Rs. 444 billion for the first six months compared to a budget estimate of Rs. 660 billion.

Figure 11 - Capital Surplus/(Deficit)



There is a capital deficit till now of Rs. 1.240 billion. **This only includes Capital Account I receipt and expenditure. Capital Account I receipt is 28.640 billion whereas the expenditure is 29.879 billion resulting in deficit of 1.240 billion.**

After meeting current and capital expenditures, the available resources for development expenditure is Rs.442.8 billion for the first six months against an estimate of Rs.560.0 billion in the budget for the full year.

The government has also sanctioned a total of Rs. 118.05 billion under supplementary grants. This includes both development and non-development funds. Compared to the previous year, total Rs.248.037 billion were sanctioned for supplementary grants for the entire year.

There are some key takeaways from the analysis of budget execution during the mid-year FY2021-22 for future course setting:

i. Key assumption for Punjab's Budget 2021-22 is FBR's collection of Rs.5,829 billion as a result of which, Punjab Government's share in the Federal Divisible Pool is to be Rs. 1,683.7 billion, which is 17.5% higher as compared to BE for LFY. The FBR's collection is largely on track as per FBR's collection target of 2QFY2021-22. FBR has collected net revenue of Rs. 2,920 billion during July-December of FY2021-22, which has exceeded the target of Rs. 2,633 billion by Rs. 287 billion. This represents a growth of about 32.5 % over the collection of Rs. 2,204 billion during the same period, last year. Based on first half's performance, FBR is expected to achieve its collection target budgeted for the FY. Finance Department is also mindful of the fact that FBR has projected an additional collection of approximately Rs. 360 bn through Finance Supplementary Act 2021/22. If realized, this will translate into additional FDP transfers of Rs. 103 bn to Punjab. Therefore, there is fiscal room available for Finance Department to consider funding important for additional development and other pressing expenditure requirements such as support to Food Department retire to portion of commodity debt, *inter alia.*

ii. Utilization of the released development funds has significantly improved over the last financial year. For development expenditure, the government's adoption of fund release policy of releasing 100% funds for ongoing ADP schemes on the first day of July has paid dividends in many respects. Finance Department shall continue this policy for the next FY as well.

iii. While meeting the target for Account II capital receipts is beyond the Finance Department's control, it is important for the government to meet the disbursement linked indicators and pre conditionalities set for the loans under the Capital I Account. The Government needs to improve coordination with development partners to improve the reliability of estimates of capital receipts.

iv. The utilization against allocation for current expenditure needs further focus by the departments during the second half of the fiscal year particularly the ones that have stronger link with the service delivery.