



Guidelines for preparing Medium Term Budget (2010-2013)

Government of Pakistan
Finance Division
(Budget Wing)
Islamabad

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Glossary of Terms

Baseline Budget	<p>Baseline Budget for the purpose of these guidelines is defined as the 3-year projection of current and development budget assuming that there is no change in 'policy' or approaches to service delivery. Baseline budget for 2010-11 and 2011-12 is the outer years (2010-12) ceiling issued in 2009-12 budget preparation cycle.</p> <p>The 'baseline' budget assumes that inputs / resources / initiatives of the Ministry remain at a constant level, except for parameter changes (e.g. inflation, staff salaries) or changes envisaged in PC 1's under implementation. In particular, under the baseline assumption there is no change in policy, strategy or approaches to service delivery of the Ministry.</p>
BCC	Budget Call Circular - Forms and form filling instructions for preparing Medium Term Budgets (2010-13)
BO	Budget Order
BS	Budget Section
CFAO	Chief Finance and Accounts Officer
CoA	Chart of Accounts
Core Team	Team established in each Ministry to oversee 'New Budgeting System' (also known as 'Medium Term Budgetary Framework' - MTBF) implementation
DDO	Drawing & Disbursing Officer
FA/DFA	Financial Adviser/ Deputy Financial Adviser
FAO	Financial Adviser Organisation
FD	Finance Division
FY	Financial Year
Guidelines	Framework and procedures for preparing Medium Term Budget (2010-13)
Indicator	An indicator is performance information which is used to measure an organisation's progress towards its objective. For example, in order to measure progress of immunisation programme, the number of recipients can be an indicator
Line Ministry	A Federal Ministry which is responsible for administering the delivery of a

particular designated line of services as opposed to central ministries (i.e. Ministry of Finance and Planning Commission) which are responsible for overall planning and management of Federal Government resources.

LM Forms	Line Ministry Forms. These are the forms which each Ministry/Division is required to fill in.
MSR	Ministry Strategic Review - a structured analysis of a Ministry that takes into account the past trends and future requirements
MSR Report	Ministry Strategic Review Report - A formal report developed by the Core Team to review ministry progress against goal and objectives and to identify appropriate modifications in ministry strategy and prioritisation of interventions. Part of MSR can also be gender review (where applicable) which articulates Government's response to gender related interventions
MoF	Ministry of Finance
MTBF	Medium Term Budgetary Framework: The concept of budgeting as explained in the Guidelines for Preparing Medium Term Budget (2010-2013)
NIS	New Item Statement
PAO	Principal Accounting Officer
PDD	Planning and Development Division
P&D	Planning and Development Section
PRSP	Poverty Reduction Strategy Paper
Sector	Jurisdiction assigned to a Ministry
SU	Spending Unit
Target	Targets provide a forward-looking perspective on how and when objectives will be achieved. They can be based on previous performance, political priorities, benchmarking against other units. Targets can be all-the-time targets (promise of a constant level of service), quantitative (how much service to expect), qualitative (what level of service to expect), time-bound (a service delivery promise)

Guidelines for ‘Medium Term Budgeting’

I. Purpose of the Guidelines

The purpose of these Guidelines issued by the Ministry of Finance is to provide an explanation for Ministries of the Federal Government on the rationale and steps required to prepare Medium Term Output based budget.

II. What is ‘Medium Term Budgetary Framework (MTBF)’?

MTBF is, as its name implies, a system for making the budget process more strategic and responsive to the priorities of the government, by introducing a medium term (3 year) horizon to the budgetary process. The principal objectives of the MTBF are:

- To further strengthen fiscal discipline in the management of the budget of the federal government
- To strengthen the alignment of budgetary allocation and expenditures with the policies and priorities of the government, and
- To strengthen the process of budgeting and budget resource management within the ministries so as to ensure efficiency and cost-effectiveness of the use of public sector resources by line ministries/divisions in the delivery of public services.

In order to achieve these objectives the MTBF is built on two main components:

- a) a strategic or “top-down” component, which is strengthening the overall management of resources in the federal budget and the alignment of the allocation of budgetary resources to ministries on the basis of government policies and priorities; and
- b) a component of MTBF which aims to strengthen the budgetary management process within the line ministries/division. This is often referred to as the ‘bottom-up’ component of the MTBF.

III. MTBF as a component part of the modernisation of the budget system

The MTBF reforms are mainly concerned with the budget preparation stage of the wider budget process, up to the point where the budget is appropriated by the National Assembly. However, it is important that the reforms introduced under the MTBF are seen in the context of a wider process of reform and modernisation which will eventually affect all stages of the budget cycle and all stakeholders in the federal budget.

The MTBF reforms are one element of a package of reforms which together are intended to modernize budget management across the federal government. The vision for the modernisation of the budgetary process, which will take several years to implement, is oriented towards the following key objectives:

- making the budget a flexible and responsive mechanism for carrying forward the policies, strategies and priorities of the government;
- introducing a progressive process of the empowerment of the line ministries, which are responsible for the delivery of public services, to manage their own budgetary cycles in an overall context which provides the maximum achievable level of predictability of resource flows
- Shifting the role of the central agencies (Ministry of Finance and the Planning Commission) in budget management from micromanagement of transactions to strategic management of the application of resources to achieve results.

The MTBF is one of several reform measures which will contribute to the achievement of the vision of a strategic, results-oriented federal budgetary management system. Apart from the MTBF, other important reforms include:

- The continuing roll-out and full implementation of the PIFRA accounting system, which will ensure that managers have reliable and up-to-date information on the status of their budgets and expenditures;
- The strengthening of the budget management capacities of the line ministries through the creation and filling of the posts of Chief Financial and Accounting Officers (CFAO) in all federal ministries. The CFAOs report to the Principal Accounting Officer in each line ministry and are a key element in enabling the process of empowerment of the ministries to manage their own budgets;
- Modification and reduction in the role of the Financial Advisers and Deputy Financial Advisers both at budget preparation and during budget execution consistent with the shifting role of the Ministry of Finance. This process will proceed as line ministries develop the capacity to prepare and manage their budgets.

IV. How is the MTBF Different from Traditional Budgeting

The Traditional Budgeting System

Under the traditional process of budgeting and costing in Pakistan, prior to the MTBF process, the system followed was very largely one of incremental budgeting (particularly so for the current budget). Following the issue of the annual Budget Call Circular (BCC) in September or October, the line ministries instructed their Fund Centres (Spending Units) to prepare their

proposed budgets for the forthcoming budget year. The methodology whereby the SUs prepared their budgets was:

- Based on expenditures and any supplementary appropriations granted during the first half of the year, to prepare Revised Estimates for their Fund Centre (Spending Unit). The Revised Estimates are derived from the original budget allocation as set out in the Appropriation Accounts, with an allowance for the expected impact of anticipated Supplementary Budget appropriations which are expected to be made during the current year;
- The budget for the coming year is then calculated on the basis of a forward projection of the Revised Estimate using a growth factor; SUs were not provided with an indicative budget limit within which they should prepare their estimates;
- The budget proposals thus prepared by the SUs are submitted to the Budget Section for the current budget and P&D Section for development budget for scrutiny and internal approval;
- Once approved the ministry's budget proposal is submitted to the Financial Adviser/Deputy Financial Adviser in the ministry. Typically the FA/DFA recommends a series of cuts in the budget proposal;
- Adjustments are made to accommodate the instructions of the FA/DFA and a revised budget is then submitted to Finance Division (Expenditure Wing) for approval.

While the traditional budgeting system has the advantage of familiarity, its **shortcomings** are generally well recognised, and include:

- Focus only on the next immediate year. This leads to inadequate predictability of resources over the medium term with the result that ministries are unable to undertake proper medium term planning for the delivery of services;
- The lack of any requirement for ministries to demonstrate the linkage between the strategies and priorities of the ministry and its actual budget as part of the preparation process;
- The bifurcation of the current budget preparation process and the development budget preparation process to the extent that it is difficult to see how the two relate to each other;

- The tendency to use simple incremental budgeting based on the previous year's budget without any careful attention to the costing of individual line items or services;
- The extensive use of cuts in the proposed current budgets by the FAs/DFAs late in the budget preparation process, which means that the final approved budget may bear little relation to the budget proposal prepared by the line ministry;
- The generally limited role of the senior management of the ministry faced with the arbitrary initial budget preparation process and the cuts applied to the budget proposals as it passes to final approval and appropriation.

The MTBF Process

In its implementation to date, the MTBF process has introduced a set of innovations into the budgeting procedures followed in the line ministries. These include:

- The instructions that Medium Term budgets were to be prepared on a three year basis, that is to say, for the year immediately ahead to be appropriated, and for two outer years. This initiative was aimed at increasing the predictability of the budgeting process;
- Modifications to the formats for budget preparation which required a shift towards a more planned approach. The MTBF requires that line ministries define the outputs which they expect to produce or contribute towards (thereby starting a process of change in thinking in the direction of output-oriented budgeting in what had previously been an almost entirely input-driven budgetary process);
- The MTBF process also saw the development of a dedicated software application to capture the information prepared by ministries during the preparation of the MTBF budget estimates, including the information on outputs;
- The preparation of the overall Medium Term Budget Estimates in a document which set out the higher level objectives of the ministry and the purposes for which funding is required.

However, it is recognized that MTBF procedures for budget preparation require a further round of modifications in order to derive the full benefits of this approach.

V. Logic of Intervention

This approach which is being adopted under the new budgeting system (also known as MTBF) helps planners and managers think through the logic of their interventions and how they relate to the ministry's overall objectives. It requires that the ministry/division specify how its activities, outputs and outcomes are linked. This logic can then be tested by asking a series of 'if-then' questions, as follows:

*If inputs (i.e. resources) are provided **then** activities can be undertaken – If activities are undertaken **then** outputs will be produced – if outputs are produced **then** outcomes will be achieved – if outcomes are achieved **then** the ministry/division will have made progress towards achieving its overall goal(s).*

The approach involves identification (in the following order) of ministry goal(s), outcomes, outputs and activities. The following terms relate to the 'logic of intervention' of a ministry/division and are therefore grouped together:

Goal	A summary of the overall objective(s) to which the ministry/division is aspiring. The goal provides a vision statement that embraces the desired future that the ministry is working towards (e.g. increase national income, improved nutritional status of the overall population, reduced crime). Where a ministry has multiple objectives that cannot be subsumed within a single 'goal' (e.g. Ministry of Minorities, Culture, Sports, Tourism and Youth Affairs) it may have multiple goals, each with its own set of outcomes and outputs.
Outcome	The results (or impact) on a target population of a particular service (output) being delivered. Examples would include improved health, increased agricultural production, functional literacy, improved local management systems or capacity. Some results are immediately measurable; others come about only after a longer period of time. Outcomes reflect the intended results from government actions
Output	A delivered service or product. Outputs are produced by activities. Outputs are delivered to an external party - usually the public, individually or collectively (e.g. infrastructure built/rehabilitated, licenses issued, provision of policy advice, investigations, vaccinations provided, better trained staff). A particular output may be the result of a set of activities that are funded through the current budget, the development budget, or both. If the logic of intervention has been designed correctly, the delivery of outputs will lead to achievement of a successful outcome for the target population. Fund Centres (Spending Units) may produce ministry outputs, or they may contribute to the delivery of ministry outputs (in which case the term 'sub-output' may be useful)
Activities	The specific tasks undertaken to achieve the required outputs (e.g. for water supply these may include design, site preparation, establishment of users committees, health and sanitation education, collection of local materials, tank construction, pipe laying, digging soak pits, commissioning)
Inputs	The resources required to undertake activities that contribute to an output (e.g.

VI. Reforms to the MTBF Process introduced in 2009/10

Important modifications to the MTBF budget preparation process have been introduced in the 2009/10 budget preparation cycle which will continue and would be strengthened in 2010-11. These modifications are based on an analysis of the experience to date with the implementation of the MTBF with the aim of strengthening the contribution of the MTBF to the wider objective of modernisation of the budgetary process.

Major modifications to the MTBF budget preparation implemented with effect from 2009/10 include the following:

- **Introduction of budget ceilings for all Federal Ministries:** Federal Ministries were issued ceilings for the current budget. All of the Federal Ministries prepared their current budget within the ceilings issued. The ceilings were developed using Medium Term Fiscal Framework & Budget Strategy Paper.
The introduction of budget ceilings is an important innovation in the system of budget management and will provide a greater degree of predictability of likely resources within which ministries can prepare their budgets.
- **Strengthening the strategic process of budget preparation in each Federal Ministry:** Ministries prepared their budgets through a budget process, in which the stated strategic priorities of the ministry were used to determine the allocation of resources between departments, projects and fund centres (spending units). Introduction of top-down budgetary preparation within Line Ministries involves several important new steps in the budget process, especially at the start of the budget preparation process;
- **First steps towards Results-Based Budgeting:** Greater emphasis was placed on the articulation of the results which were expected to be achieved through the application of budgetary resources. This was achieved by clarifying and quantifying, the services (outputs) which each ministry was expected to produce, and the setting of targets for service delivery;
- **Clear identification of the Cost of Services (Outputs) to be delivered:** The Federal Ministries identified the cost of each major line of service which they deliver. This was achieved through the linking of budget allocations to the services to be delivered (outputs). Achieving this linkage is an important element in making future budget preparation more oriented towards cost-effectiveness and efficiency;

- **Preparation of 'Medium Term Budget Estimates for Service Delivery' (GREEN BOOK).** The Federal Ministries produced 'Green Book' i.e. 'Medium Term Budget Estimates for Service Delivery'. The 'Green Book' states the performance related information of the ministries/division for various stakeholders and decision makers in the Federal Government by presenting the stream of services (outputs) and the outcomes that will be achieved by delivering such services in the medium term. These outputs and outcomes have been linked with budget allocations hence giving the cost of services. The 'Green Book' further elucidates how these services (outputs) will be achieved and measured in a given cost by presenting output indicators and targets.

Further reform initiatives to be introduced in 2010-13 budget preparation cycle:

- Single Budget Call Circular
- Development Budget Ceilings
- Enhancing the mandate and role of Priorities Committee
- Presentation of 'Green Book' as part of Budget 2010-11 to the Cabinet and Parliament.

i.

The Budget Preparation Process for the Federal Ministries / Divisions

This section sets out the process for the preparation of the Medium Term Budget for 2010/11 to 2012/13. All Federal Ministries / Divisions will prepare their budgets based on 'New Budgeting System' also known as 'MTBF'. The following are details of list of stages in the Medium Term budget preparation process which are part of 'Budget Calendar' (BCC 2010-11, Appendix A, Page: 7).

The overall process in Federal Ministries will be supported by the FD / MTBF team.

1. Issue of 'Budget Call Circular 2010/11' to the PAOs of the Federal Ministries / Divisions

As a first step the Finance Division will issue 'Budget Call Circular' to the PAOs of all the Ministries / Divisions. This is the budget call circular that is required to be completed under the leadership of the PAO.

2. Issue of Indicative Budget Ceilings for current expenditure to the PAO's of Ministries / Divisions

Approval of Budget Strategy Paper (BSP) 1

Budget strategy paper, which details the Government's policies, priorities and strategic allocation of resources, is approved by the cabinet.

Federal ministries will receive indicative budget ceilings for three years. The ceilings for current budget are prepared by Finance Division. Copy of ceiling letter is sent to the concerned FAs / DFAs.

3. Issue of Indicative Budget Ceilings for development expenditure to the PAO's of Ministries / Divisions

Federal ministries will receive indicative budget ceilings for three years. The ceilings for development expenditure are prepared by the Planning Commission and issued by the Finance Division. Copy of ceiling letter is sent to the concerned FAs / DFAs and Sector Chiefs in the Planning Commission.

4. Submission of Section I and Section II (Fund Centre Form 1) by Ministries/Divisions for current budget to FAs/DFAs &

5. Submission of Section I and Section II (Fund Centre Form 1) by Ministries/Divisions for development budget to Sector Chiefs in Planning Commission and copy to FAs/DFAs

After receiving the ceilings for current & development expenditure, the ministries will go through the following process before they are able to submit Section I and Section II (Fund Centre Form – 1) Forms.

A. Review of Ministerial Policies and Strategic Spending Priorities

Ministries should conduct a Strategic Review of their performance and priorities prior to the preparation of medium-term budget. The process can start before the Budget Call Circular is made available every year; in some years the review will be comprehensive while in others it may update earlier findings. The process will substantially assist the Ministries in completing Line Ministry 'LM Forms'. This review will cover the period of 2008-09 budget cycle and part of the 2009-10 budget cycle up to the review date. The output of this strategic review is a 'Ministry Strategic Review Report'. This report should be approved by the relevant Principal Accounting Officer (PAO).

The analysis will involve the following:

- (I).** Review of expenditures and efficiency/effectiveness of current initiatives. Co-ordination between current and development expenditures. In particular this may include questions such as:
 - i. Were the budgeted funds released?
 - ii. Were the budgeted funds spent?
 - iii. Was expenditure in line with planned spending?
 - iv. What was achieved in terms of service delivery? What were the main gaps? What constraints were encountered?
 - v. Organisational and expenditure management issues which are likely to affect performance in 2010-11.

Ministries / Divisions are required to produce a report of not more than a single page and send it to Finance Division (Budget Wing) by 30 January, 2010. This report will also be made part of the 'Green Book'.

B. Completion and approval of the Line Ministry 'LM Forms'

Section II of the Budget Call Circular contains 5 'LM Forms' which are to be completed by all the Ministries / Divisions. The following is brief explanation of these forms:

LM Form 1: Identification of Ministry Goals, Outcomes and Outputs (services to be delivered)

During 2009-12 budget preparation cycle the Federal Ministries identified their Goals, Outcome(s) and Output(s). Senior Management team (including attached Departments) of the ministry should review the LM form - 1 for 2009/12 together with the 'Ministry Strategic Review Report' mentioned earlier. The ministry should amend and update LM Form-1 if needed.

The structure of linkage of outputs to outcomes is as per the 'Logic of Intervention' methodology described earlier in this document.

LM Form 2: Mapping of Outputs (Services) onto Fund Centres (Spending Units)

The Federal Ministries have mapped their Fund Centres onto their Outputs during 2009-12 budget preparation cycle. Ministry should review and update the mapping if needed.

The mapping of Fund Centres onto outputs (services) is very important, as it provides the basis for identifying the costs associated with delivery of each output. It is noted in particular that a single service delivery (output) may involve financing from both the current and development budgets. The form also requires ministry to identify the Medium Term budget years (2010/11 - 2012/13) in which these outputs are to be provided.

LM Form 3: Strategic allocation of ceilings – analysis of the difference between Baseline Budget and Allocated Budget Ceiling 2010-11 & 2011-12

This form provides a mechanism to the ministries to do Outcome, Output and Fund Centre wise analysis between the Baseline Budget (outer year ceiling in 2009-12 budget preparation process) and Allocated Budget Ceiling (Budget ceiling to be issued to the Fund Centres during 2010-13 budget preparation cycle). This facilitates the process of strategic allocation of ceilings through Output (Services).

This form is vital for the preparation of 'Medium Term Budget Estimates for Service Delivery' (Green Book). This form also becomes the basis of Fund Centre's medium term ceilings.

LM Form 4: Budget Ceilings to Fund Centres (Spending Units)

Having completed the LM forms 1 to 3, Ministry/Division will list all the Fund Centres and their three year ceilings in LM Form – 4. This form will be used to issue budget ceilings to the fund centres.

LM Form 5: Identification of Indicators/Measures and Targets

This form requires the Ministry/Division to provide Indicators/Measures of outputs (services) as identified in LM Form 1. It also requires Ministry/Division to provide 3 year's Targets (2010-13) and actual achievement during 2008-09.

A standard list of Output (Service) indicators should be developed by the ministry and sent to the fund centres (spending units) along with the 3 year budget ceilings. Fund Centres will provide targets for the relevant indicators through the use of Fund Centre Form – 1 (Section II of the BCC).

Note: *Where possible, the Indicators/Measures and Targets should be broken into gender related information. For example, primary education being an output (service) of Ministry of Education can have two indicators/measures namely; Number of male student enrolment and Number of female student enrolment. These two can be assigned different targets.*

Forward copy of 'LM Forms' to assigned Financial Advisors and Planning Commission's Chiefs for information

A copy of the LM Form - 3 after being approved by the PAO of the Ministry/Division will be forwarded to the Financial Advisors and Planning Commission's Chiefs for information.

C. Letter to Fund Centres (Spending Units) and transmission of budget preparation ceilings and completion of Medium Term Budget Estimates (Section I and Section II (only Fund Centre Form I) of BCC)

Having completed the 'LM Forms' 1 to 4, the ministry / division will forward the following to Fund Centres:

- i. The 3 year's ceilings;
- ii. Fund Centre Forms (Section I and Section II (only Fund Centre Form I) of BCC) along with the instructions.
- iii. A standard list of Output (Service) indicators of the ministry. Spending units will provide targets for the relevant indicators only.

Completion of fund centre forms (Section I and Section II (only Fund Centre Form I) of BCC)

The Fund Centre forms once completed by the fund centres will then be forwarded to the concerned ministries. The ministries will review and forward the Fund Centre Forms **for current budget** to the Financial Advisor for their approval. The Fund Centre Forms **for development budget** will be reviewed and approved by both the Sector Chiefs in Planning Commission and Financial Advisor.

In the presence of ceilings the Financial Advisors will quality assure the Fund Centre forms (BO / NIS) and give their recommendations (if so) to the concerned PAO.

6. Submission of Section I Forms (BO / NIS) for current expenditure to Computer Section (Budget Wing – Finance Division)

Section I Forms (BO/NIS, 'Posts Proforma' and 'Spending DDOs Budget Estimates') for current expenditure will be forwarded to the computer section of Budget Wing – Finance Division by the date mentioned in the Budget Calendar on Page 7 of the BCC 2010-11.

7. Review and approval of budget estimates and additional bids (current + development) by the Priorities Committee

Ministry will be invited to make presentations on their budget proposals to the Priorities Committee (comprising Finance Division and the Planning Commission). It is important to note that these presentations will deal with both the current and development sides of the budget proposals. Priorities committee would also consider and approve additional resource bids by the ministry. Before consideration of additional bids in the Priorities Committee, these bids would first be reviewed by the FAs/DFAs in case of current budget and by Sector Chiefs in the Planning Commission and FAs/DFAs in case of Development Budget.

Information such as LM Form 3 alongside other relevant information will be discussed in the Priorities Committee meeting.

8. Completion of budget review and approval process – APCC meeting

Self-explanatory.

9. Submission of Section I Forms (BO / NIS) for development expenditure to Computer Section (Budget Wing – Finance Division)

Section I Forms (BO/NIS, 'Posts Proforma' and 'Spending DDOs Budget Estimates') for development expenditure will be forwarded to the computer section of Budget Wing – Finance Division by the date mentioned in the Budget Calendar on Page 7 of the BCC 2010-11.

10. Capture of Section II Forms in Financial Management Application (FMA - IT Software)

Ministries will enter finalised LM forms and Fund Centre Form - 1 into FMA. This is essential for the preparation of 'Green Book'. Line Ministry Forms, LM 1 to LM 5, and Fund Centre Form 1 will be retained by the office of the PAO.

11. Submission of preliminary 'Medium Term Budget Estimates For Service Delivery' (Green Book) report (as per format in BCC 2010-11) by the Ministries/Division to Finance Division

'Green Book' is the summary presentation of LM forms and Fund Centre Form - 1. 'Green Book' should be approved by the relevant competent authority i.e. PAO. As part of the 'Green Book' approval process, the PAOs would need to brief their relevant Minister before giving approval.

12. Completion of budget review and approval process – NEC meeting

Self-explanatory.

13. Submission of Final 'Green Book' report (2010-2013)

After incorporation of changes to budget estimates (if any) the preliminary 'Green Book' should be finalised and approved by the PAO and submitted to the Budget Wing, Finance Division by the date mentioned in the Budget Calendar on Page 8 of BCC 2010-11.

14. Completion of all Budget Documents (including 'Green Book'), Schedules and Summaries for Cabinet etc.

Self-explanatory.

15. Presentation of Budget (including 'Green Books') to the Cabinet and Parliament.

Self-explanatory.