Policy Brief for

Fiscal Autonomy NSE

FOR SCHOOLS

KHYBER PAKHTUNKHWA

Institute of Social and Policy Sciences
Informing Policies, Reforming Practices

Elementary & Secondary Education Department, Khyber Pakhtunkhwa (E& SED KP):

Strengthening School Service Delivery through Fiscal Autonomy for Non-Salary Expenditures in KP

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Executive Summary Dashboard

Non-salary budgets are a binding constraint on school functionality in KP.	District education financing remains overwhelmingly salary-driven, with non-salary allocations averaging only 2–3 percent of the original budget—far below the level required to sustain basic school operations such as utilities, maintenance, sanitation, and minor repairs.
Execution failure stems from centralised release control, not only low allocations.	Even when non-salary ceilings increase at the final grant stage, funds do not reliably reach schools. Releases remain volatile and under-executed because non-salary expenditures are subject to district-level approval and release decisions rather than being directly accessible to schools.
Deputy Commissioner–led control disconnects budgets from service delivery needs	Although schools are responsible for maintaining functional learning environments, non-salary funds are released through the district administration, with the Deputy Commissioner retaining approval authority even after verification. This institutional arrangement weakens timeliness, predictability, and responsiveness of spending at the school level.
Fragmented processes dilute needs-based prioritisation.	Aggregated budgeting, demand-driven releases, and discretionary re-appropriations mean that school-identified needs are filtered through multiple administrative layers, reducing visibility of urgent facility gaps and contributing to persistent under-execution of non-salary budgets.
A tested decentralisation pathway already exists within Pakistan.	Punjab's district authorities demonstrate that devolving operational control—through formula-based transfers, sector-led budget execution, and retained audit oversight—can improve service delivery without weakening financial discipline, offering a credible reform model for KP.

Context and Rationale

Across education systems, schools depend on more than teachers alone to function effectively. Adequate non-salary budgetary resources are essential to keep classrooms usable, utilities running, learning materials available, and basic facilities safe and functional. Yet in most public education systems, education spending is heavily skewed toward salaries, leaving limited fiscal space for non-salary needs such as maintenance, sanitation, minor repairs, and teaching-learning inputs. This imbalance weakens everyday learning environments and places schools in a position where even small operational gaps remain unaddressed.

In many developing contexts, non-salary allocations fall well below actual school-level requirements, limiting schools' ability to respond to local infrastructure gaps and urgent operational needs, even when such needs are clearly identified. International evidence consistently shows that how resources reach schools—and how flexibly they can be used—matters for both equity and quality: predictable, well-distributed operational funding at the school level improves learning conditions, supports disadvantaged students, and strengthens local accountability. Ensuring a reliable and needs-responsive non-salary budget is therefore not a peripheral financing issue, but a foundational requirement for effective service delivery, community trust, and sustained progress toward inclusive and quality education.

Snapshot of Education Financing in KP: Salary vs Non-Salary Trends

FY	BE	Final Grant	Releases	*PKR in Million* Expenditure
2020	**133,648**	**143,498**	**108,894**	**140,755**
Salary	129,261	132,020	98,230	131,054
Non-Salary	4,387	11,478	10,664	9,701
2021	**146,866**	**171,216**	**116,808**	**168,452**
Salary	141,036	158,211	104,048	156,378
Non-Salary	5,831	13,005	12,760	12,074
2022	**175,994**	**176,907**	**44,607**	**88,367**
Salary	171,747	171,760	42,135	86,992
Non-Salary	4,247	5,147	2,472	1,375
2023	**200,033**	**245,859**	**183,095**	**240,277**
Salary	195,426	234,165	171,822	229,700
Non-Salary	4,607	11,695	11,273	10,576
2024	**245,699**	**276,611**	**220,676**	**275,603**
Salary	240,906	263,690	208,368	264,095
Non-Salary	4,794	12,921	12,308	11,508
2025	**238,619**	**238,708**	**10,995**	**39,392**
Salary	233,507	233,512	9,891	39,138
Non-Salary	5,112	5,196	1,104	254

Across FY2020–FY2025, KP's district education financing remains overwhelmingly salary-driven, with non-salary allocations accounting for only around 2–3 percent of the original budget in most years. While non-salary ceilings are sometimes increased at the Final Grant stage—particularly between FY2020 and FY2024—this expansion does not translate into consistent execution. Releases remain volatile and uneven, and actual non-salary expenditure frequently falls short of both the original budget and the approved final grant.

The divergence between approved allocations, releases, and expenditure is especially pronounced in FY2022 and FY2025, where non-salary releases and spending decline sharply despite budgetary provision. This pattern indicates that the binding constraint is not limited to low budgetary prioritisation, but lies in the release and control architecture governing non-salary funds. In effect, even modest operational resources approved for schools are not converted into timely service delivery inputs, reflecting a system where execution authority is disconnected from school-level operational needs.

Problem Statement: Non-Salary Budgets as a Binding Constraint

Problem.

Schools are the frontline service delivery units, expected to keep learning environments safe, functional, and responsive to local needs. This requires predictable non-salary resources and limited operational autonomy for routine expenses (utilities, minor repairs, learning materials, and WASH). In KP, however, the non-salary envelope is structurally small and crucially its release and execution are inconsistent relative to both the original budget and the final grant, leaving schools dependent on upstream decisions for day-to-day functionality.

Cause.

The constraint is rooted in a fiscal architecture that separates responsibility for school conditions from authority over operational spending. Non-salary requirements are consolidated through district DDO structures and funds are accessed through demand-driven releases, administrative clearances, and ex-ante verification, with approval authority remaining outside the school. While these controls aim to manage fiduciary risk, they also reduce timeliness and predictability, limiting schools' ability to plan, prioritise, and respond to low-cost but high-impact operational needs.

Impact.

This misalignment contributes to under-execution and weak translation of approved budgets into service delivery improvements. When non-salary funds arrive late or unpredictably, routine maintenance and essential services are deferred, and small gaps accumulate into larger facility deficits—reflected in persistent shortages in electricity, water, toilets, boundary walls, and repair backlogs documented in KP's school assessments. International evidence suggests that formula-based school operational grants, paired with basic safeguards (clear eligibility rules, simple procurement thresholds, post-audit, and reporting), can improve responsiveness and maintenance outcomes without weakening accountability. For KP, strengthening school-level fiscal autonomy for non-salary spending is therefore a practical system reform: it aligns budget authority with service delivery responsibility and improves the value of existing investments in teachers.

Problem Statement: Non-Salary Budgets as a Binding Constraint on School Functionality

Issue 1: Chronic Underfunding of School-Level Non-Salary Expenditures

International experience shows that effective schools require a balanced mix of salary and non-salary resources. While teachers account for the largest share of recurrent education spending, global benchmarks suggest that approximately 20–30 percent of school-level recurrent budgets should be allocated to non-salary inputs, such as utilities, routine maintenance, teaching and learning materials, sanitation, and minor repairs to sustain functional learning environments. In Khyber Pakhtunkhwa, however, district education financing remains overwhelmingly salary-dominated, leaving non-salary allocations structurally misaligned with actual school-level needs.

This imbalance has tangible consequences. Data from the Schools Statistical Report (SSR) 2024–25 shows that, despite near-universal staffing, a significant number of government schools lack basic facilities, including electricity, drinking water, toilets, boundary walls, and structurally sound classrooms. More than 19,000 classrooms require reconstruction and nearly 18,000 require major repairs—deficits that reflect routine operational gaps rather than capital-intensive investments. The persistence of these shortcomings points to a financing structure in which schools are staffed but not operationally resourced, limiting the effectiveness and sustainability of investments in teachers.

Issue 2: Centralised Control of Non-Salary Funds and Limited School-Level Autonomy

While schools are the frontline units responsible for delivering education services, they exercise little control over the non-salary resources required to maintain functional learning environments. In Khyber Pakhtunkhwa, non-salary budgets are not directly accessible to schools and are instead released through district administrations, with approval authority retained at the level of the Deputy Commissioner (DC) and district Drawing and Disbursing Officers (DDOs), even after verification of need. Although fiduciary oversight is important, this highly centralised approval structure weakens the connection between school-level priorities and budget execution decisions.

From a public financial management perspective, this arrangement reflects a misalignment between expenditure responsibility and financial authority. Head teachers and school management are held accountable for school conditions, enrolment, retention, and learning outcomes, yet lack the authority to address routine operational needs such as minor repairs, utilities, sanitation, and basic maintenance. Financial control over non-salary resources, particularly for primary and middle schools, rests upstream with district-level actors who are institutionally removed from day-to-day service delivery realities. This stands in contrast to high and higher secondary schools, where principals act as DDOs and exercise greater control over non-salary expenditures, demonstrating that decentralised financial arrangements are administratively feasible within the existing PFM framework.

Evidence from the Schools Statistical Report (SSR) highlights why this misalignment matters. Province-wide, primary-level survival rates average only 64 percent, with significantly weaker outcomes in merged districts. At the same time, 32 percent of primary-level girls are enrolled in boys' schools, an indicator of infrastructure and facility constraints rather than teacher shortages. These outcomes are closely linked to school conditions, including the availability of classrooms, toilets, water, electricity, and basic learning facilities, all of which depend on timely and predictable non-salary expenditures.

When schools lack authority over even modest operational resources, minor maintenance issues and service gaps accumulate, escalating into persistent barriers to enrolment, retention, and learning. In this context, centralised control of non-salary budgets does not merely delay spending; it systematically weakens accountability and responsiveness at the point of service delivery. Limited financial autonomy and constrained non-salary execution together therefore constitute a binding institutional constraint on education service delivery at the school level in KP.

Issue 3: Fragmented Budgeting and Execution Process Undermine School Level Responsiveness

Despite recurring identification of school needs, the design of the non-salary budgeting and execution process weakens the system's ability to translate priorities into timely and targeted action at the school level. For primary and middle schools in KP, non-salary requirements are aggregated upward—first at the sub-divisional level and then at the district level—resulting in budgets that are DDO-centric rather than school-centric. Individual school needs, such as urgent repairs, utility connections, or essential consumables, are merged into consolidated demands before reaching finance and approval forums, limiting visibility into school-specific conditions.

This aggregation is reinforced by execution arrangements that are sequential and demand-driven. Even after approval, non-salary releases flow through multiple administrative layers—from the Provincial Finance Department to district finance offices and then onward to schools—often requiring repeated formal demands through DDOs. For special or one-line allocations, the process becomes even more elongated, with additional stages of approval and verification. As a result, fund availability is driven by procedural compliance rather than operational urgency, reducing predictability and delaying access to resources needed for routine school functioning.

In-year budget adjustments further weaken alignment with school priorities. Re-appropriations are typically managed during the revised budget exercise and remain largely discretionary at the DDO level. Schools do not have direct authority to initiate or safeguard reallocations against their identified needs, and there are no standardized criteria to ensure that essential non-salary requirements—such as maintenance, utilities, or basic services are protected during re-appropriation decisions. Outcomes therefore vary across districts and depend more on individual discretion than on institutional rules.

Together, these budgeting, release, and re-appropriation practices dilute prioritisation and reduce allocative efficiency. Schools with acute needs are not systematically distinguished from better-resourced schools, while delays in releases prevent timely response to minor but critical operational issues. Over time, these weaknesses contribute to persistent facility gaps, uneven service delivery, and higher downstream costs, despite regular budget cycles and repeated reporting of needs from the school level. In effect, the non-salary budget framework constrains schools not only by how much funding is available, but by how fragmented and inflexible the processes of allocation and execution remain.

Issue 4: Institutional Design Gap in School Financing

Beyond funding levels and execution processes, a deeper constraint lies in the institutional design of school financing in KP. The current framework does not formally recognise schools as fiscal units within the public financial management system, despite their central role in service delivery. Non-salary resources intended for school operations are embedded within district-level administrative structures, rather than being structured around schools as the primary locus of expenditure planning, execution, and accountability. This design choice limits the system's ability to translate policy intent into operational effectiveness at the school level.

The institutional architecture assigns responsibility for budgeting, approvals, and financial control to district-level actors, while schools remain implementers without defined financial standing. As a result, schools' operational needs are mediated through multiple administrative layers, and financial accountability is upward-facing rather than service-delivery–focused. This weakens incentives for needs-based planning, reduces transparency around school-level allocations, and constrains the use of non-financial performance information such as facility gaps and enrolment pressures in budget decisions.

The impact is a persistent disconnect between education outcomes and financing arrangements. Schools are held accountable for learning conditions, enrolment, and retention, yet the institutional framework does not equip them with the financial instruments required to manage routine operational risks. International experience suggests that without formally embedding schools within the fiscal architecture—through clearly defined spending authority, predictable operational grants, and proportionate oversight—investments in teachers and enrolment expansion will continue to yield limited returns. Addressing this institutional design gap is therefore essential to aligning school financing with service delivery realities and improving system performance in KP.

Comparative Perspective: Punjab's District Authorities as a Model of Fiscal Decentralisation

Punjab's experience offers a relevant and practical example of how fiscal decentralisation can be operationalised within a provincial public service delivery framework. Under the Punjab Local Government Act (PLGA) 2013, District Education Authorities (DEAs) and District Health Authorities (DHAs) were established as autonomous district-level entities, separate from the Deputy Commissioner–led administrative structure. This reform fundamentally realigned financial authority with service delivery responsibility in both education and health sectors.

To operationalise this autonomy, the Punjab Finance Department (FD), in coordination with the State Bank of Pakistan, facilitated the opening of dedicated Accounts V and VI for each district authority. Funds are transferred directly into these accounts based on an interim Provincial Finance Commission (PFC) Award, first developed in FY 2016–17 and formally approved by the provincial cabinet. The PFC framework introduced a transparent, formula-based transfer system, using objective indicators such as population size, poverty levels, and selected non-financial service delivery metrics to determine district shares.

Crucially, this arrangement enabled district-level consolidation, re-appropriation, and execution of budgets under the leadership of Chief Executive Officers appointed by the respective provincial line departments (Health and School Education), rather than the district administration. While fiduciary oversight is maintained through pre-audit by the Accountant General Punjab, the Deputy Commissioner's role is limited to coordination, with no direct control over budget approval or releases for education and health. This separation clarified institutional accountability: provincial departments retained responsibility for sector performance, while districts gained operational control over resources needed to deliver results.

The Punjab case demonstrates that fiscal decentralisation is not merely a legal construct but a functional system that links budget authority, service delivery needs, and accountability mechanisms. By ensuring predictable, formula-based transfers and granting district authorities control over both salary and non-salary expenditures, Punjab addressed long-standing challenges related to delayed releases, fragmented approvals, and under-execution of operational budgets. Importantly, this reform was undertaken nearly a decade ago, providing a mature and tested reference point.

For KP, the Punjab experience demonstrates that devolving operational control over education budgets does not require weakening financial discipline or creating parallel systems. Rather, it shows that with clear institutional mandates, formula-based transfers, and retained audit oversight, fiscal decentralisation can be implemented within existing provincial PFM structures to strengthen service delivery outcomes.

What these Issues Mean to Service Delivery

Taken together, these structural and process-related constraints translate directly into weaker service delivery at the school level. When non-salary budgets are both limited and tightly controlled, schools are unable to address routine operational needs in a timely manner, even where problems are clearly identified. As a result, minor infrastructure gaps, utility disruptions, and maintenance backlogs persist and accumulate, affecting the safety, functionality, and usability of learning spaces.

The consequence is not merely administrative inefficiency, but reduced system effectiveness. Schools remain staffed but operationally constrained, limiting their ability to support regular attendance, student retention, and effective teaching. Without predictable access to non-salary resources and greater alignment between financial authority and service delivery responsibility, improvements in enrollment and staffing will continue to yield sub-optimal outcomes, as the basic conditions required for learning remain unmet.

Policy Recommendations:

Recommendation Area	Policy Direction	Key Actions Required	Lead Institutions	Timeframe
1. Policy Ownership & Mandate	Establish non-salary financing and school-level operational autonomy as a formal reform priority	• Issue policy directive recognising non-salary budget execution as a service delivery reform• Assign lead ownership to ESED with FD concurrence	ESED, Finance Department	Short term
2. Institutional Reform Platform	Create a structured mechanism to steer cross-departmental reform	• Notify a joint ESED–FD taskforce• Define scope covering budgeting, releases, controls, and institutional roles	ESED, FD, AG/DAO, District Administration	Short term
3. Phased Fiscal Decentralisation	Introduce school-level operational control through a	• Design pilot for selected districts/school types• Approve ceilings	ESED, FD	Short–Medium term

Recommendation Area	Policy Direction	Key Actions Required	Lead Institutions	Timeframe
	sequenced approach	and eligible expenditure categories		
4. Predictable Non-Salary Transfers	Shift from demand-based to scheduled non-salary funding	• Define annual non-salary envelopes at budget approval stage• Introduce quarterly or bi-annual release schedules	Finance Department	Medium term
5. Needs-Based Allocation Framework	Align non-salary allocations with actual school conditions	• Develop simple allocation formula using enrolment, remoteness, and facility gaps• Integrate formula into budget call circular	FD, ESED	Medium term
6. School-Level Financial Authority	Align operational responsibility with spending authority	• Delegate defined non-salary powers to schools or designated district education authorities• Standardise delegation instruments	ESED, FD	Medium term
7. Fiduciary Safeguards & Controls	Maintain accountability without centralised approvals	• Replace transaction approvals with post-expenditure audit• Standardise reporting formats and thresholds	AG/DAO, FD	Medium term
8. Budget–Service Delivery Linkage	Ensure non-salary spending addresses facility gaps	• Link non-salary utilisation with SSR facility indicators• Require basic reporting on utilities, repairs, and classrooms	ESED	Medium term
9. Clarification of District Roles	Reduce overlap between administrative control and service delivery	• Redefine DC role to coordination and oversight only• Consolidate education financial authority under sector leadership	ESED, FD, District Administration	Medium term
10. Adapting Punjab's Experience	Use a tested domestic model to guide reform	• Review Punjab DEA/PFC framework for KP applicability• Develop KP-specific institutional and financing design	ESED, FD	Medium–Long term

Safeguards and Risk Mitigation

Strengthening school-level access to non-salary resources does not require relaxing financial discipline. International experience and domestic practice show that fiscal decentralisation can be implemented alongside robust safeguards that protect public funds while improving service delivery. Key risk-mitigation measures include:

(i) clearly defined eligibility rules and expenditure categories for non-salary spending;

(ii) modest, pre-approved spending ceilings aligned with school size and needs;

(iii) standardised financial reporting and simple utilisation statements linked to school-level identifiers; and

(iv) a shift from ex-ante transaction approvals to post-expenditure audit and compliance review by existing oversight institutions.

These safeguards preserve accountability while reducing administrative delays and discretion. By embedding proportionate controls within the existing PFM framework rather than relying on centralised approvals, KP can mitigate fiduciary risk, enhance transparency, and ensure that non-salary funds are used for their intended operational purposes at the point of service delivery.

Stakeholders and Implementation Arrangements

Effective reform of non-salary financing for schools requires coordinated action across a limited set of core institutions, each performing a clearly defined role. The Elementary and Secondary Education Department (ESED) should serve as the lead policy owner, responsible for articulating reform objectives, defining eligible non-salary expenditures, and linking resource use to school-level service delivery priorities. The Finance Department (FD) plays a critical role in integrating reforms within the provincial budget framework, approving transfer modalities, and ensuring consistency with broader fiscal rules and ceilings.

At the implementation level, district education leadership should be responsible for consolidation, oversight, and support functions, with a redefined role for the district administration focused on coordination rather than financial control. Fiduciary assurance should continue to be provided through existing oversight institutions, including the Accountant General and audit bodies, using standardised reporting and post-expenditure review. Where appropriate, reforms can be phased through pilots in selected districts or school categories to allow learning, refinement, and risk management before scale-up.

This arrangement ensures that accountability for education outcomes remains with sector institutions, while financial discipline is preserved through established public financial management systems.