EXPLANATORY MEMORANDUM

The explanatory memorandum of KMC's budget provides an overview and summary of revenue and expenditure budget estimates for various functions of the KMC as provided in the SLGA 2013. Its purpose is to serve as a guideline for the annual budget planning process of the KMC.

The memorandum covers two main components of the budget revenue and expenditure. In the revenue chapter, provides details about the revenue forecast for the upcoming fiscal year 2023-2024, as well as the performance of revenue in the preceding fiscal year 2022-2023. This section outlines the projected sources of revenue for KMC and helps in assessing the financial resources available for various projects and initiatives.

Similarly, the expenditure chapter, the memorandum explains significant details related to the spending aspects of the budget. It includes information about planned expenditures for different functions as assigned in the SLGA 2013. This section provides an overview of how the allocated funds will be utilized and gives insight into priorities and objectives of KMC's spending.

The explanatory memorandum consists of following three main chapters:

i. An Overview:

This chapter provides an overview of the fiscal policies of KMC. It outlines the guidelines, principles and strategies that govern the financial decisions and management of KMC's funds.

ii. Estimates of Receipts:

This chapter focuses on the revenue resources of KMC. It provides a detailed analysis and forecast of the expected receipts for the upcoming fiscal year 2023-24 as well as analyze the over performance during current fiscal year's in revised revenue estimates. This chapter may also include information on various sources of revenue, such as taxes, fees, grants and other income streams.

iii. Estimates of Expenditure:

This chapter covers the current and development expenditures of KMC as well as its obligatory responsibilities. It outlines the projected expenditures for various functions and departments within KMC. This section provides a breakdown of the allocated funds to be utilized and may include information on priority areas. It highlighted the commitments & responsibilities of KMC for better infrastructure and maintenance of public services.

Karachi is a city of immense cultural diversity and economic significance and driving force behind Pakistan’s economy, with thriving industries and major ports. Further a gateway for international trade and centre of opportunity for businesses and individuals.

➢ The Vibrant Metropolis:

- Karachi is a city with a rich history and significant importance in Pakistan.
- Ancient Names are Caranjee, Crochey, Krotchey, Currachee, Kurrachee earlier known as Kalachi-jo-Goth, meaning "the village of Kalachi.

➢ The Capital of Sindh:

- Capital of province Sindh Pakistan.
- Largest city and biggest Metropolitan Corporation of Pakistan spread over 4000 Sq.KM.
- The twentieth largest metropolitan area and twelfth-largest city in the world.
- Located on the coast of the Arabian Sea, northwest of the Indus River Delta.

➢ The Global Business Hub:

- Cultural, Economic, and Philanthropic Center of Pakistan.
- Largest Tax-paying City and contributing over 85% of Pakistan's total tax collection in the country.
- Formal economy worth $114 billion annually, the largest in Pakistan.
- Industrial output accounts for approximately 30% of the country's production.

➢ The Gateway for Trade:

- Two major seaports i.e Karachi Port and Bin Qasim Port.
- Karachi Port handles approximately 95% of Pakistan’s foreign trade.
- Vital economic hub, facilitating international business and commerce.
- Strategic location facilities global business connections and economic growth.

Local government institutions are recognized as essential grassroots-level democratic entities and are considered the basic administrative units in civilized societies across the world. They are elected by the residents to regulate and manage public affairs, aiming to improve the efficient delivery of services at the doorstep of the general public. These institutions have the responsibility to address the needs and concerns of the local residents, ensuring effective service delivery and enhancing the overall quality of life.

The fiscal policy of the Karachi Metropolitan Corporation (KMC) faces similar challenges as other local councils and institutions in the whole province. One of the primary challenges is the shortage of funds released by the GoS on account of Octroi & Zila Tax (OZT) share and Grant-in-Aid. Moreover, the non-finalization of various major recovery heads of KMC's own resources adds to the financial predicament. Unfortunately, these challenges have continued to increase over time, creating a significant strain on the financial situation of the KMC.

Furthermore, in the absence of the Provincial Finance Commission (PFC) Award, it has affected the ability of almost all local councils in Sindh, including Karachi. It has prevented them from effectively addressing the problems faced by the people. The last PFC Award was granted in 2007. The lack of a new award for the past thirteen years has hindered the ability of local government institutions to meet the needs and demands of the poor people / residents in Karachi including the entire province. Consequently, the local government institutions have been unable to redress the challenges effectively.

Despite the financial challenges and the absence of a new PFC Award, KMC and other local government institutions in Sindh continue to play a vital role in managing public affairs and delivering services to the local residents. They strive to improve the lives of the people by addressing their needs and concerns in a responsible and accountable manner.

Brief History (Laws, ACT & Ordinances)

Local government institutions are essential democratic entities and are recognized as the fundamental administrative units worldwide. These bodies are elected by the residents themselves to regulate and manage public affairs, meet the needs of the local population, and improve the delivery of efficient services at the local level. Their objective is to develop a sustainable quality of life for the people they serve.

From the perspective of Karachi, the local government system has a strong historical background. It can be proudly claimed that Karachi is one of the few cities in the Indo-Pak sub-continent where municipal administration was initially established during the early British period. The establishment of the municipal administration was primarily driven by the need to address the epidemic of cholera, which was devastating the city at that time.

Since its early beginnings, the local government in Karachi has played a significant role in managing public health and addressing the needs of the residents. Ultimately, its responsibilities have expanded to cover a wide range of areas, including infrastructure development, service delivery, urban planning, and environmental management.

It can easily be declared that local government institutions are crucial in promoting democratic governance and ensuring effective service delivery at the local level. In Karachi, the history of municipal administration dates back to the early British period when it was established to address the cholera epidemic. Since then, the local government in Karachi has evolved and expanded its role in meeting the needs of the residents and developing a sustainable quality of life for the people of the city.

- In the year **1846 "Board of Conservancy"** was established.
- In the year **1852** the Board of Conservancy was converted into a **"Municipal Commission"** under the **Municipal Act of 1850** with its

temporary offices established at McLeod Road (present I.I.Chundrigar Road).

- In the year **1878**, the Bombay District Municipal Act (Act VI of 1873) was extended to the Province of Sindh areas including the **"City Municipality of Karachi."**

- The promulgation of Local Government legislation was continued when in the year **1933** the "City of Karachi Municipal Act, 1933" was promulgated and the **"Municipal Corporation of the City of Karachi" came into being.**
- In the year **1947,** Karachi Metropolitan Corporation formulated its own Rules - **The Karachi Municipal Corporation Rules 1947.** In the same year India was partitioned and Pakistan, the dream of millions of Muslims of the sub-continent, came into being. All the affairs of the KMC continued to be dealt with under the Karachi Municipal Corporation Rules 1947 until 1960 when the Local Bodies system was altogether changed through the Basic Democracies Act 1959 introducing the Basic Democracy System throughout the country. The new system was enforced through the promulgation of
- "**West Pakistan Municipal Administration Ordinance 1960**.

- Elections of the local bodies under this system were held twice - first in 1960 and then in 1965.
- With the enforcement of Martial Law in 1971 the Basic Democracies system was also abolished in 1971.
- After the separation of East Pakistan to deal with the affairs of local bodies in the respective jurisdiction of each province promulgated its own local bodies laws. Accordingly in Sindh "
- **The Sindh Peoples' Local Government Ordinance"** was promulgated in 1972.
- In the year **1976** the status of Metropolitan Corporation was awarded on KMC the constituting Landhi Korangi Municipal Committee, Drigh-Malir, Baldia Township and North Karachi and were merged into the Corporation.

After the imposition of Martial Law in 1977, a Citizens' Committee comprising nominated members was formulated in 1978.

- It was in the year 1979 when the Sindh Peoples Local Government Ordinance 1972, was superseded by another ordinance namely **"The Sindh Local Government Ordinance, 1979"** promulgated.
- At the same time for the management of Water Supply System, a Water Management Board was constituted in 1982 which was later on converted into **Water & Sewerage Board** to function under the umbrella of KMC.
- On 12-2-1986 the council of Karachi Metropolitan Corporation was dissolved by the Government of Sindh and the elected council was substituted by an Advisory Committee.
- With a view to administering the development and maintenance of civic services in Karachi the two-tier federated system was introduced and pursuant to the Sindh Local Government (Fourth Amendment) Ordinance, 1987, the 4 Zonal Municipal Committees (district-wise) came into existence i.e. South, East, West and Central respectively. For the first time in the history of KMC the elected council was constituted through Zonal Municipal Committees by adopting one-third members of each Zonal Municipal Committees. The distribution of functions between the KMC and the Zonal Municipal Committees were made on the principle that city-wide functions were entrusted to the Metropolitan Corporation and function of local nature particularly the maintenance of infrastructure and delivery of services were entrusted to the Zonal Municipal Committees. To ensure that the functions are clearly enumerated eliminating any overlapping it was provided that the Zonal Municipal Committees would perform all functions of Municipal Committees as laid down in the law and would not perform the functions assigned exclusively to the Metropolitan Corporation. The distribution of resources between KMC and Zonal Municipal Committees was made in a manner to ensure that both institutions remain financially viable and have proportionately sufficient resources in relation to the functions assigned to them.

- Again, the council of Karachi Metropolitan Corporation was abolished on 18-7-1992 along with all the Zonal Municipal Committees. To run the affairs, Administrators were posted in KMC as well as in all the respective Zonal Municipal Committees.
- In the year **1994,** a two-tier federated system was done away and all the Zonal Municipal Committees were merged into KMC, to continue to function as District Municipal Offices under the supervision and control of KMC. In the meantime a new district, namely the District Malir was established. Consequently, the District Municipal Office Malir also came into existence.
- So, to say the unified KMC system was allowed to continue up till mid-**1996** when through an amendment in the Sindh Local Government Ordinance 1979, the two-tier federated system was restored again and now 5 District Municipal Corporations viz. South, Central, West, East and Malir were established in **1996** on almost the same pattern as former Zonal Municipal Committees. This time the District Municipal Corporations have been given a wider scope of functions and more funds as per the formula fixed by the Government.
- For the accomplishment of objectives, the District Municipal Corporations have been allowed to levy taxes and collect Advertisement Tax, License Fee (Dangerous/offensive trades) and general trades, etc. The KMC revenues comprising Octroi (the mainstay and constitutes 93% of its revenue receipts and 81% of the total receipts of the financial year 1996-97), Fire Rate (collected by Karachi Water & Sewerage Board) and other minor sources and also the Capital Receipts generated through the sale of land and cottage industries including development charges. After deducting the committed liabilities from the total revenue income so generated by KMC, the net revenue was distributed amongst the District Municipal Corporations on the basis of 70% on population and 30% on inverse ratio, which in percentage terms comes to as under:

(a)	Karachi Metropolitan Corporation	33.00 %
(b)	District Municipal Corporation (South)	14.98 %
(c)	District Municipal Corporation (East)	16.15 %
(d)	District Municipal Corporation (Malir)	05.99 %
(e)	District Municipal Corporation (West)	12.96 %

(f) District Municipal Corporation (Central) 16.93 %

- In the year **2001** through the promulgation of the Sindh Local Government Ordinance 2001 a third tier was added to the earlier two-tiers and replaced the earlier provincial administrative units of divisions, districts and talukas in Sindh with three-level of local governments viz. District/City District Governments, Talukas / Town Municipal Administrations and Union Councils.

  a) The District Governments have been assigned the functions which were formerly being performed by the Provincial Governments including district developments planning, revenue collection, education, health, community development, infrastructure development, agriculture extension, development of strengthening the information technology etc.

  b) Whereas the Talukas and Town Administrations have been made mostly responsible for the municipal functions.

- The Sindh Local Government Ordinance 2001 was promulgated to devolve the political power and decentralize administrative and financial authority to accountable Local Governments for good governance, effective delivery of services and transparent decision-making through institutionalized participation of the people at a grass-roots level. Under the devolution plan the City District Government Karachi emerged replacing the Karachi Metropolitan Corporation and various departments from the Provincial Government as provided in the First Schedule of Sindh Local Government Ordinance 2001 were devolved to City District Government. Besides the merger of various civic agencies like KDA, KW&SB, MDA, LDA, KBCA etc. with all their assets and liabilities.

- In 2001 with the promulgation of Sindh Local Government Ordinance 2001 the City District Government Karachi and 18 Town Municipal Administration emerged in place of KMC and DMCs respectively.

- The Local Government Ordinance 2001 expired on 9th July 2010 and local government system became again the provincial subject. The Local Government Ordinance 1979 was restored but from 09-08-2011, the Sindh Local Government Ordinance 2001 was again implemented, on 4-11-2011 the Sindh Local Government Ordinance 1979 was again restored which was continued till the promulgation of Sindh People Local Government Act 2012 which was withdrawn in February 2013.
- In the year 2013 on the promulgation of Sindh Local Government Act 2013, the Karachi Metropolitan Corporation re-emerged in place of City District Government Karachi and the following District Municipal Corporations were restored:-

  (1) District Municipal Corporation (South)

  (2) District Municipal Corporation (East)

  (3) District Municipal Corporation (Malir)

  (4) District Municipal Corporation (West)

  (5) District Municipal Corporation (Central)

Through an amendment in Sindh Local Government Act 2013, two more District Municipal Corporations namely Kemari & Korangi also created in Karachi Division. Further again through an amendment to Sindh Local Government Act 2013 has been established and the following 26 Town Municipal Corporations are being established in place of Six District Municipal Corporations:

S.#	Division / District	Name of Existing Local Council	S.#	Name of Newly established Town Municipal Corporations
1	Karachi Division	Karachi Metropolitan Corporation		Karachi Metropolitan Corporation
2	District Korangi	District Municipal Corporation, Korangi.	1	Town Municipal Corporation, Model Colony
			2	Town Municipal Corporation, Shah Faisal
			3	Town Municipal Corporation, Landhi
			4	Town Municipal Corporation,Korangi
3	District South	District Municipal Corporation, South	1	Town Municipal Corporation, Saddar
			2	Town Municipal Corporation, Lyari
4	District West	District Municipal Corporation, West	1	Town Municipal Corporation, Orangi
			2	Town Municipal Corporation, Mominabad
			3	Town Municipal Corporation, Mangopir
5	District Malir	District Municipal Corporation, Malir	1	Town Municipal Corporation, Gadap
			2	Town Municipal Corporation, Malir
			3	Town Municipal Corporation, Ibrahim Hyderi
6	District Central	District Municipal Corporation, Central	1	Town Municipal Corporation, New Karachi
			2	Town Municipal Corporation, North Nazimabad
			3	Town Municipal Corporation, Gulberg
			4	Town Municipal Corporation, Liaqatabad
			5	Town Municipal Corporation, Nazimabad
7	District Kemari	District Municipal Corporation, Kemari	1	Town Municipal Corporation, Maripur
			2	Town Municipal Corporation, Morrio Mirbahar
			3	Town Municipal Corporation, Baldia
8	District East	District Municipal Corporation, East	1	Town Municipal Corporation, Soharab Goth
			2	Town Municipal Corporation, Safoora
			3	Town Municipal Corporation, Gulshan
			4	Town Municipal Corporation, Jinnah
			5	Tow Municipal Corporation, Chanesar

BUDGET 2023-2024.

The KMC's budget is prepared as provided in the Sindh Local Council Budget Rules 2017 and adheres to its schedules and procedures.

The Government of Sindh announced a revised basic pay scale 2022 for government employees. The financial implication for KMC employees was calculated to be Rs. 140.00 million per month. To meet the increased salary and pension expenses the Government of Sindh increased KMC's monthly share on account of OZT (Octroi Zila Tax) and Grant in Aid after laps of 3 months (August 22 to October 2022), starting from October 2022 paid in November 2022. The breakup of the increased share is as follows:

- OZT Share: Rs.126.369 million per month.
- Grant in Aid: Rs. 50.000 million per month.

Total: **Rs.176.369 million per month.**

However, it is pertinent to mention that the Government of Sindh deducted / adjusted an amount of Rs.50.00 million per month from the increased Grant in Aid to KMC against the development funds released exclusively for "**Undertake the repair & maintenance works for Deteriorating Infrastructure in whole city of Karachi**". This monthly deduction was resulted in a significant shortage of funds for the disbursement of monthly salaries according to the revised basic pay scale 2022. Additionally, the shortfall in salary has been further aggravated on increase in annual increments, which was due in January 2023 and paid in February 2023.

Owing to the unlawful deduction of Rs.50.00 million per month from the Grant-in-Aid to KMC has significantly impacted the present fiscal pendulum. Resultantly the volume of establishment liabilities is being increased tremendously causing financial strain for the KMC. Additionally, the shortfall in payment of monthly salary disturbed the timely payment of Fire Risk allowance to Fire Brigade employees.

➢ Establishment Liabilities

Based on the provided table, it can be observed that the total establishment expenditure liabilities have increased to Rs.276.408 million over the fiscal year 2021-22 liabilities. These unpaid bills of the salary portion have been shifted to the next financial year, 2023-24, which is evident as under:

1. **Salary Portion** **(Rs.in Million)**

Sr. No.	Nature of Claims / liability	Amount 2021-22	Amount 2022-23	Increase over 2021-22
1	Leave encashment in lieu of LPR	104.717	221.817	117.100
3	Supplementary bills.	85.383	131.860	46.477
4	Stipend of Doctors (PGs/HOs)	81.978	125.304	43.326
5	Financial Assistance.	0.00	16.000	16.000
5	Unpaid Fire Risk Allowance bills since January 2020	646.830	759.000	112.170
	Total.	**918.908**	**1253.981**	**335.073**

Above table reflects that an amount of Rs.335.073 has increased over last year 2021-22 figures, which increased due to deduction of Rs.50.000 million from grant in aid for salary and pension.

2. **Pension Portion** **(Rs.in Million)**

Sr. No	Nomenclature	Amount
1	Unpaid 15% increase in monthly pension as announced by the GoS from July 2019 to June.2021	1,452.000
2	Unpaid 10% increase in monthly pension as announced by the GoS from July 2020 to June.2021	750.00
3	Unpaid 5% increase in monthly pension from Jlu-22 to Nov.22	110.00
	Total.	**2,312.000**

The KMC is facing the agitation of pensioner's / retired employees as well as families of the deceased employees in the Main Head Office of KMC frequently due to non-payment of pension dues to the retired employees since March 2016.

The Government of Sindh is releasing Rs.281.437 million per month (Rs.261.437 million for pension fund & Rs.20.000 million for Provident Funds) to KMC by at source deducting from the OZT Share of DMCs & DCK of their employees contribution, which is fully utilized for disbursement of monthly pension to retired employees of DMCs & DCK.

On the contrary, KMC is disbursing monthly pension Rs.480.321 million to over 23,500 pensioners of KMC/DMCs & DCK throughout Pakistan via 590 designated branches of HBL on the very first day of every month. The shortfall of Rs.63.886 million + Rs. 22.877 million (Rs.86.737 million) per month is managed by KMC from additional monthly salary releases as well as its own resources.

Since 2015 KMC are approaching the Government of Sindh to help out to resolve the chronic issue of payment of legitimate retirement outstanding dues to over 8500 retired employees of KMC, DMCs & DCK and devise a mechanism for long-lasting solution for grievances of retired employees / widows of expired employees and pensioners.

Due to non-payment of pensioner's outstanding dues, a Constitution Petition No.7530/2019 filed by Dr. Mir Nusrat Ali Panwar & others v/s Province of Sindh & others along with CP No.D-2193/2019, 5817,5898,58507 and 1625/2020 before the Sindh High Court, wherein the Honorable Sindh High Court directed to Government of Sindh to finalize the long-term issues of pensioners of KMC with collaboration of all stake-holders.

In the light of aforesaid orders passed in the month of October 2020 by the Honorable High Court of Sindh on the request of KMC, a bailout package amounting to **Rs.4.246** billion in the shape of a Grant to KMC for clearance of at least pension liability of Commutation / Gratuity to over 8500 retired employees of KMC, DMCs & DCK may be sanctioned in one go or otherwise. In anticipation of Honorable Sindh High Court orders, the Government of Sindh has constituted a committee under the chairmanship of the Minister for Local Government & HTP

Department, GoS. The committee has moved a summary in the cabinet sub-committee meeting on dated: 07-04-2022 which was chaired by the Minister for Energy, Government of Sindh.

The sub-committee has recommended the following to the Hon'able Chief Minister Sindh for making the final decision on the matter:

1. The GoS may release the remaining Rs.2.76 billion funds to KMC as a loan and the same may be adjusted against land owned by KMC opposite the Shaheen Complex namely Elvender Road at M/s K-Electric Grid Station spread over 5000 Sq.Yds (approx.) which may be sold out for clearance of pension liabilities.
2. The rest of the financial requirement may be met from KMC's own Fund recourses viz-a-viz "Pension Fund"
3. Request for additional funds of Rs.1.90 billion may be made in the next financial year to be considered if resources permit.

It is worth mentioning that due to the non-settlement of retirement dues in time as well as releasing of Grant to KMC, the above retirement liabilities of pension commutation, family pension-cum gratuity, revised pension, restoration and other time-to-time benefits as announced by the GoS have swelled upto Rs.8277.500 millions belonging to 8500 retired and expired employees of KMC, DMCs & DCK. The organization-wise details are mentioned below.

(Rs. in million)

Sr. No.	Name of Councils& Govt. Departments	No. of Pension Claims	Amount of Pension Claims (Till 15-06-23)
1.	K.M.C	3538	3029.682
2.	DMC-Central	1301	1257.785
3.	DMC-East	927	846.021
4.	DMC-West/ Keamari	678	668.634
5.	DMC-South	1343	1276.699
6.	DMC-Korangi	690	745.429
7.	DMC-Malir	285	338.609
8.	District Council	141	119.796
9.	SCUG	156	190.828
10.	KMDC	20	8.259
11.	KDA	60	25.495
	Grand Total	**9139**	**8507.237**

Besides the above, an amount of Rs.2.00 billion will further required for clearance of un-paid monthly pension as an increase announced by the Government of Sindh in monthly pension for the year 2019-20 and 2022-23 @15%, @10% and 5% respectively.

Further, it is high time to resolve that the devolution of the post-retirement dues / payments may be decentralized at the level of District Municipal Corporations and District Council, Karachi as required under section 125(1) of the Sindh Local Government Act, 2013 which stipulates that each local council has to establish separate accounts for Pension, Provident & Benevolent Fund.

Presently, only KMC is maintaining pension and provident fund accounts as no other District / local Council in Karachi is maintaining these accounts. It is pertinent to mention that KMC has already devolved Group Insurance claims to DMCs / DCK w.e.f. 01.7.2015.

Budget Preparation Exercise.

The KMC's budgeting is being prepared as per the Sindh Council Budget Rules 2017 adhering to its schedules and procedures.

The budgeting process for Karachi Metropolitan Corporation for the upcoming fiscal year 2023-2024 has faced numerous challenges and constraints. These challenges include resource constraints, difficulties in aligning projected income with essential expenditures, and the need to accommodate the demands of newly elected council members and the vision of the incoming Mayor. Whereas heavy funds are already required for the most necessary and immediate nature following expenditures:

- **Petrol, Oil & Lubricant:** Adequate provisions need to be made for the supply of fuel and lubricants required for officials vehicles, heavy machinery and equipment used by KMC for the various operations in the whole city.
- **Repair & Maintenance of Fire Tenders and Snorkel:** Funds are also required to be allocated to ensure the proper repair and maintenance of Fire-fighting Tenders / Vehicles and Snorkel to ensure their operational readiness.

- **Maintenance of Service Vehicles:** The maintenance of service vehicles and Heavy Machinery used by the different departments of KMC, requires funding to keep them in proper working condition.
- **Maintenance of Medical Equipment:** Necessary provisions must be made to maintain medical equipment in KMC hospitals and healthcare facilities to provide quality healthcare services.
- **Utility Bills (Telephone, Gas, etc.)**: Funds are also required to cover the utility bills for various KMC offices, including telephone bills, gas bills, and other essential services.
- **Supply of Oxygen to Hospitals:** Given the ongoing need for medical oxygen in hospitals, enough funding is to be allocated to ensure a continuous and reliable supply.
- **Janitorial Services:** The provision of funds is necessary for janitorial services to maintain cleanliness in public hospitals and KMC Head Office Buildings.
- **Hiring of Heavy Machinery:** (Removal of Encroachments & Cleaning of Nallahs): Funds required to be allocated for the Hiring of Heavy Machinery and Equipment needed for the removal of encroachments and cleaning of Strom Water Drains.

The budgeting process for KMC is certainly complicated by various additional key factors:

- **Devaluation of Currency:** If the country's currency has experienced heavy devaluation, it can have significant implications for the budgeting process. Imported goods and materials required for maintenance services may become more expensive, which can put pressure on the available funds.

- **Inflationary pressures:** Inflation can impact the purchasing power of the budgeted funds. Prices of goods and services may rise, including the cost of maintenance materials, utility bills, and other essential expenses. It is crucial to account for inflationary trends and to ensure that allocated funds are sufficient to meet expenses.

- **<u>Rising costs of maintenance materials:</u>** If there has been an increase in the cost of maintenance materials. The budgeting process needs to consider these rising costs and adjust the allocations accordingly to ensure adequate provision for maintenance requirements.
- **<u>Annual salary increments:</u>** Annual salary increments and increases in salary announced by the GoS for employees need to be incorporated into the budget estimates 2023-24. The projected increase in salaries should be considered to ensure that sufficient and additional funds are required to be projected in the revenue estimates to cover the additional expenses associated with salary increments.

Considering these factors, the budgeting process becomes even more challenging as KMC needs to navigate through various financial considerations.

It appears that there have been no significant changes or improvements in achieving budgeted revenue targets and managing development projects during the current financial year 2022-2023 for KMC and other councils in the province of Sindh as well. This has affected various sectors such as infrastructure, medical and health, recreational and sports activities, social welfare, and essential municipal services in Karachi.

To optimize the current fiscal deficit, the following recommendations and suggestions can be considered:

- **Pending Issues of different heads of recovery with GoS.**

Distribution of Property Tax collection:

To reinstate the pre-September 2015 arrangement where the Finance Department, GoS, shares the collection of Property Tax in Karachi with the KMC.

Collection of Entertainment Tax:

As specified in the Sindh Local Government Act 2013, the collected Entertainment Tax should be remitted to the KMC by the Excise & Taxation Department.

Fee on BTS Towers:

The already collected Fee on account of BTS Towers should be remitted to the KMC by the SBCA from its promulgation of Local Government Act 2013. Further, a new provision for renewal of license can be introduced to boost up of the recovery on account of Fee of BRS Towers.

Commercialization Fee on KMC Land:

The issue regarding the commercialization fee imposed by the KMC and subsequently banned by the Housing Town Planning Department, GoS, needs to be resolved.

License Fee on Mulching Animals:

The collection of the License Fee for Mulching Animals is required to be resolved properly and assigned to KMC authority.

Sharing formula of Betterment Tax between:

The sharing formula between KMC, KWSB, DMCs, and SBCA should be revised to ensure a fair distribution of Betterment Tax share in the following manners:

S.No.	Department	% of share	Revised/ proposed % of share
1.	SBCA	25%	05%
2.	KWSB	20%	25%
3.	KMC	10%	25%
4.	DMCs	45%	45%

PFC Award:

The pending finalization of the PFC Award, as provided in the Sindh Local Government Act 2013 since 2007, should be addressed.

- **Steps required for enhancement of income of Own Resources generation.**

MUCT"

If the Honorable High Court disagrees with the KMC's proposal to collect the Utility Charges/Tax (MUCT) at source through M/s K-Electric bills, alternative measures should be taken to enhance and improve the recovery of MUCT, which remains a vital source of income for the KMC.

Pending issues with Court:

The pending issues with Courts are to be settled i.e the recovery of amounts deposited with the Nazir of Court of Landhi Abattoir, PD Orangi, claim against PTCL, and any other pending cases.

Auction of unserviceable articles:

Conduct auctions for unserviceable articles by the Store & Procurement Department, KMC.

Road Restoration Recovery:

Develop a new mechanism for the recovery of road restoration/trenches costs and ensure the collection of the 16% service charges from the relevant parties.

New Avenues of Revenue:

Direct departmental heads of revenue collecting departments of KMC to explore new revenue generation avenues, such as:

- Identifying untapped sources.
- Expedite the matters for collection of arrears.
- Assessing licensing fees.
- Computerization/ Digitalization of all revenue portfolio of KMC.

This will diversify income streams and optimize revenue generation for the KMC. Implementing these recommendations and addressing the pending issues and revenue heads will help to optimize the current shortfall in payments of salary and pension and to improve the financial position of the KMC.

In the absence of a Provincial Finance Commission (PFC) Award it has contributed to the ongoing financial problems faced by KMC and other local councils in Sindh. It is worth noting that the last PFC Award was announced in 2007. The PFC Award plays a crucial role in allocating financial resources to local government bodies, including the KMC, and it is mandated by Section 112(1) of the Sindh Local Government Act, 2013.

To address these financial challenges and enable effective management and planning of development projects, it is necessary for the government to announce a new PFC Award. This would provide much-needed financial support and resources to local government bodies, allowing them to overcome long-standing financial issues and effectively deliver essential services to the residents of Karachi and other areas in Sindh.

Adhering to the provisions provided in the Sindh Local Government Act, 2013, including the announcement of a new PFC Award, enable KMC and other councils in the province to run their functions for the improvement and development of infrastructure, healthcare, recreational activities, social welfare, and other vital sectors in Karachi and the wider province of Sindh.

KMC's Sources of Revenues:

The followings are the main sources of KMC from which the income is derived;

(a). Matching Grant (in lieu of Octroi / Zila tax) from the Provincial Government.
(b). Special Grant-in Aid for salary & pension from the Provincial Government.
(c). Income from Municipal Utility Charges bills.
(d). Newly established Advertisement Tax.
(d). Sale of land and transfer/ mutation of lease.
(e). Funds for District ADP from the Provincial Government.

Besides, some other departments of KMC collected revenues income like Veterinary, Estate, Enforcement, Zulfarqarabad Oil Terminals, Charged Parking and Katchi Abadies.

Matching Grants in lieu of Octori and Zila tax

Historical Mismatch of OZT Share:

Karachi Metropolitan Corporation appears to be cash strapped entity today while it was not the case before the prime most Octroi incomes were not taken away from the federal government.

The Octroi & Zila Tax (OZT) was abolished by the Federal Government in 1999 and the rate of General Sales Tax (GST) was increased from 12.5% to 15% to absorb the proceeds of 2.5% additional GST, given to the provinces as compensation for the loss of Octroi revenue for distribution amongst Local Governments. The funds were meant to be utilized primarily for salaries and non-development expenses which constituted around major allocation and the rest had to be used for the development schemes. Thus from this source, KMC was able to meet its development outlay along with other sources of revenue.

Historically, KMC was a cash-rich organization because its potential income from Octroi was not taken away from KMC. This can be gleaned from the fact that the Octroi income for the year 2001-2002 was pitched by the Government of Sindh budget as Rs.4,508,101,501/- (Rs.4.508 billion) whereas the 33% of that amount was supposed to be transferred to KMC which stood at Rs. 1,321.459 million while KMC received Rs 1,288.320 million. With each year, the OZT share was received often less and sometimes more.

The Octroi tax is basically a tax on commodities or things to sell that are brought into a town or city. The term could call it **"Municipal Customs"**. Honestly envisage, it's like a tax collected when the goods come into Karachi from outside the country bv sea or air and road. The word Octori emerged in the late 16th century from the French octroyer 'to grant', based on Medieval Latin Auctorizare. This way of earning money was working out well for Karachi, which is after all, a big business center with lots of products entering its jurisdiction and a population of millions buying them. The Octori tax was collected in-house and enabled the management of KMC for decades to develop the whole city as well funded employee's salary / pension and run their medical institutions and managed health facilities through non-development expenditures and citizens enjoyed a good time.

In the year 1999, the federal government had abolished the Octroi tax (backbone and 80% of revenue collected by the KMC) through a notification vide No.SDOIV//5)99-LCS(A.POLICY) dated 26-6-199, presumably to control and keep down the prices of goods as well as to safeguard the interest of importers. To make up for this loss of revenue, it was decided that the KMC would receive 2.5% share of what the Government collected in general sales tax. The GST was at 12.5% and was increased up to 15%. The proceeds of 2.5% additional GST were given to the province as compensation for the loss of Octroi collection for further distribution among local governments.

The total Octroi income for the year 1998-99 came out to be Rs.6,500 million out of which Karachi's share was fixed at Rs.3,904.236 million per annum which came to 60.065% out of the total reconciled collection of Octroi tax amounting to Rs.6,500.00 million of whole Sindh. The KMC's share was fixed @ 66.068% for Karachi and KMC's share @33% and those of 5 District Municipal Corporations (DMCs) @ 67%.

In the year 1998-1999 (the last year of Octri collection), the total income of KMC from Octroi head was Rs.4004.421 million duly reconciled with the Local Funds Audit Department, Finance Department, Government of Sindh.

As per the repealed Sindh Local Government Ordinance 2001, Education and Health were the functions of defunct Town Municipal Administrations (TMAs) which were transferred to the defunct City District Government Karachi (CDGK). Consequently, the share was revised to 52% and 48% between defunct CDGK and 18 TMAs respectively.

The table below gives an accurate figure that reflects that over the periods unto 2022-23, the shortfall in receipts of OZT share, KMC received whooping Rs. **44,736.32** million less than its due share and if we add the Grant in Aid given to KMC from the year 2011-12 to onward, reduced the outstanding amount.

The projected OZT Share of (KMC) on the basis of average rise in Octroi Receipts:-

Financial Year	OZT Released (KMC Share as per Indicative Share	Special Grant in Aid	Total OZT and Grant in Aid (B+C)	OZT Share for Karachi on assumption of 15% increase P.A	OZT Share for KMC @33% of total share for Karachi	Difference (Shortfall/ Surplus) (F-B)	Difference including Grant in Aid (F-D)
A	B	C	D	E	F	G	H
				4004.42			
2000-2001	1288.32	0	1288.32	4605.08	1519..68	-231.363	-231.363
2001-2002	2030.20		2030.20	5205.75	1717.90	312.30	312.30
2002-2003	2682.43		2682.43	5896.51	1945.85	736.58	736.58
2003-2004	2324.60		2324.60	6677.37	2203.53	-121.07	-121.07
2004-2005	1939.08		1939.08	7561.85	2495.41	-556.33	-556.33
2005-2006	2420.44		2420.44	8563.45	2825.94	-405.50	-405.50
2006-2007	2862.17		2862.17	9697.73	3200.25	-338.08	-338.08
2007-2008	3411.74		3411.74	10,982.25	3624.14	-212.40	-212.40
2008-2009	3411.74		3411.74	12,436.91	4104.18	-692.44	-692.44
2009-2010	3411.74		3411.74	14,084.24	4647.80	-1236.06	-1236.06
2010-2011	3923.50		3923.50	15,949.78	5263.43	-1339.93	-1339.93
2011-2012	3923.50	3,153.00	7076.5	18,062.42	5,960.60	-2037.10	1115.90
2012-2013	3923.50	6,000.00	9923.50	20,454.88	6,750.11	-2826.61	3173.39
2013-2014	3923.50	6,000.00	9923.50	23,164.25	7,644.20	-3720.70	2279.30
2014-2015	4,250.46	6,000.00	10250.46	26,232.48	8,656.72	-4406.26	1593.74
2015-2016	3,838.95	6,000.00	9838.95	29,707.11	9,803.35	-5964.40	35.60
2016-2017	1,911.41	4,000.00	5911.41	33,641.99	11,101.86	-9190.44	-5190.44
2017-2018	1,750.54	4,640.00	6390.54	38,098.05	12,572.36	-10821.82	-6181.82
2018-2019	1,920.65	5,160.00	7080.65	43,144.35	14,237.64	-12316.99	-7156.99
2019-2020	1,997.07	5,160.00	7157.07	48,859.06	16,123.00	-14126.42	-8966.42
2020.2021	1,880.48	6,010.00	7890.48	55,330.71	18,259.13	-16378.66	-10368.66
2021-2022	2,492.03	7,200.00	9692.03	62,659.57	20,677.66	-18185.63	-10985.63
2022-2023	2,920.89	7,200.00	10,120.89	70,959.18	23,416.53	-20495.64	-13295.64
Total	**64,438.93**	**66,523.00**	**130,961.93**	**575,979.39**	**188,751.27**	**-124,312.81**	**-57,789.81**

Municipal Utility Charges.

After the promulgation of the Government Ordinance 2000, the local bodies' elections were held twice during the years from 2000 to 2010. The elected representatives of both councils during their terms executed the major development works / schemes in the whole city. The council members of the defunct City District Government Karachi also executed the macro level development works under the umbrella of UC Development Programs and completed the schemes / works through utilization of old decades saving of defunct KMC's Own Resources and exhausted the many year's savings.

In the best interest of the people of Karachi it was a big task to develop new infrastructure in city as well as to maintain the currently developed infrastructure. In order to maintain the major developed infrastructure i.e Major Roads, Flyover, Bridges, Street Lights, Parks & Play Ground, Green Belts, Sports Complexes and run the affairs of Fire Brigade services smoothly, the then authorities of defunct CDGK were planned to generate more funds from city and to cover up the gap of short releases by Government of Sindh on account of OZT share of KMC. Therefore, as provided under section 39(b) of repeal SLGO 2000, Municipal Utility Charges Tax (MUCT) was imposed by defunct City District Government Karachi during the financial year 2008-09 through CR No.364 dated 02nd February 2008 by replacing Fire Tax & Conservancy Charges and subsequently starting the quarterly billing in the year 2009 to around 1.3 million consumers. The Municipal Utility Charges Tax was imposed in municipal limits of Karachi Division on the fixed rates of the covered area of plots starting from Rs.70 to Rs.800 per month for residential units and Rs.500 to Rs.500 per month for commercial and Industrial units whereas Rs.500/- to Rs.1000/- per month for Amenity plots.

Year wise summary of collection and payment to the private printer and distributor is given here under:-

(Rs. in Million)

Income				Expenditure		
S. No.	F.Y.	B.E	Actual	B.E	Actual	Bal. After payment of Contractor
1	2021-22	1,000	130.326	50.000	51.028	79.298
2	2020-21	1,000	218.500	60.000	11.239	207.261
3	2019-20	1,000	160.814	60.000	18.534	142.280
4	2018-19	1,000	231.465	60.000	27.852	203.613
5	2017-18	1,000	196.186	55.000	46.526	149.660
6	2016-17	1,000	276.235	60.000	17.789	258.446
7	2015-16	1,000	205.877	60.000	55.401	150.476
8	2014-15	1,000	132.851	60.000	28.587	104.264
9	2013-14	1,500	220.307	52.200	28.875	191.432
10	2012-13	1,500	193.988	52.200	39.031	154.957
11	2011-12	1,500	70.049	36.736	36.736	33.313
12	2010-11	1,500	101.974	25.000	22.006	79.968
13	2009-10	2,500	109.042	-	-	109.042
14	2008-09	1,580	89.982	-	-	89.982

The original plan was to use the collected MUCT for regular maintenance and improvements of Karachi city's infrastructure, Major Roads, Fly over, Bridges, Street Lights, Parks & Play Ground, Green Belts, Sports Complexes and run the affairs of Fire Brigade services smoothly and other municipal services etc. which come under the defined KMC's functions, but the collection made by KMC was not up to the mark and the collected tax revenue was not enough to be utilized as planned by the defunct CDGK. Unfortunately, most of the collected revenue was utilized for payment of dues to MUCT contractor (for Printing & distribution of MUCT bills) and the remaining amount under this head was consumed to meet the shortfall in salary and payment of essential items i.e. Medical Gas, Diet for animals/ birds, Fire Brigades animals and POL only.

However, with the continuous efforts of the present KMC's authorities to club the MUCT charges with any other regular utility bills distributed in Karachi, the Secretary Local Government, GoS has issued a notification under section 139 read with section 96 and section 100 of SLGA 2013 vide No.SOV/(LG)12-06/22 dated 12-4-2022 and authorized K-Electric as a person to collect MUCT Charges on behalf of Karachi Metropolitan Corporation through monthly electric billing in the manner laid down in the KMC Municipal Utility Charges and Tax Rule 2022. Hopefully, the collection of MUCT Charges through the electricity bill (K-Elect.) will commence in July 2022.

Before implementation, the proper tax mechanism for MUCT was developed which was mainly based on electricity units consumed during the month and fixed slabs by reducing the current MUCT Charges.

The collection of MUCT Charges through the electricity bill (K-Elect.) was initiated in the month of July 2022.

The proper tax mechanism for MUCT has been developed which is mainly based on electricity units consumed during the month and fixed slabs by reducing the current MUCT Charges have been defined according to the units consumed by the consumers during each month.

The nature of consumers and unit-wise slabs is given under:-

Residential | General Services | Commercial | Industrial

Unit Slabs	Rates
0 to 50	0 Exempted
51 to 101	Rs.40
101 to 200	Rs.50
201 to 300	Rs.60
301 to 400	Rs.75
401 to 500	Rs.90
501 to 600	Rs.100
601 to 700	Rs.125
701 and above	Rs.199

General Services at fixed @Rs300

Commercial at fixed @Rs.400

Industrial at fixed @Rs.500

The benefit of this new mechanism was expected to be fetched Rs.3.00 billion to Rs.4.00 billion per annum, which can be utilized for the maintenance and development of Karachi city infrastructure.

Unfortunately, a political party filed a suit against this mechanism of recovery of MUCT charges through K-Electric Company and KMC was prevented by the High Court to collect the MUCT Charges through K-Electric Company. However, KMC has the right to appeal in the Hon'ble Supreme Court against the decision of the High Court. The Supreme Court's judgment will ultimately determine the legality and feasibility of this mechanism for revenue collection.

District Annual Development Programme 2023-24.

The allocated amount of Rs.5001.00 million was to be released in four (04) equal instalments on a quarterly basis by the Finance Department, Government of Sindh as per practice. The Finance Department, Government of Sindh has released an amount of **Rs.2,404.989 million** for on-going schemes during the current FY 2022-23, which has further been released to the concerned departments for incurring expenditures.

In the budget estimates for the year 2023-2024, the Government of Sindh has allocated Rs.30,000.00 million for District Development Schemes throughout Sindh. Additionally, Rs.10,000.00 million has been allocated for new schemes. For the Karachi District, which has a share of 16.67%, an amounts Rs.5,001.000 million under the District ADP 2023-2024 has reflected to be released by the Government of Sindh in the upcoming year 2023-24.

Therefore, in the budget estimates for the year 2023-2024, an amount of Rs.5,001.000 million has been allocated for the District Annual Development Program in the Karachi Metropolitan Corporation (KMC). It's important to note that this amount has been reflected in the budget estimates for the KMC in the following manners:

- On-Going Schemes. Rs.3,694.00 million
- Block Allocation Rs.1,200.00 million
- New Schemes. Rs. 107.00 million

Furthermore, an amount of Rs.,2404.989 million for the District Annual Development Program has been reduced in revised estimates for the year 2022-2023.

These allocations demonstrate the financial resources allocated specifically for development schemes in the Karachi District under the District ADP. The funds will be utilized for various development projects and initiatives aimed at improving infrastructure, services, and other essential aspects in Karachi as part of the overall development efforts in the Sindh province.

BUDGET AT A GLANCE 2023-2024

The Budget at a Glance for the year 2023-2024 in a nut-shell is summarized as under:

(Rs. in Millions)

RECEIPTS	
Current Receipts	32,499.391
Capital Receipts	725.313
Total	**33,224.704**
Funds for District ADP.	5,001.000
Grand Total Receipts.	**38,225.704**
EXPENDITURE	
Establishment.	14,664.149
Funds of KMC, DMCs and Distt. Council Karachi transfer to Pension Account and Bailout Package for Pension.	9,100.000
Total	**23,764.149**
Contingent.	2,626.440
Repair & Maintenance.	388.105
Total.	**3,014.545**
Major Development Projects/ Works.	2,373.065
Funds for District ADP.	4,046.135
Total.	**6,419.200**
Grand Total Expenditure	**38,198.894**
Surplus(+)	**26.810**

The Budget at a Glance for the year 2023-2024 indicates a surplus of **Rs.26.810** million. The total outlay comprises of Current and Capital Receipts is **Rs.38,225.704** million inclusive of budget estimates of District ADP of **Rs.5001.000** million.

The total expenditure allocated in the budget estimates for the next financial year 2022-2023 is **Rs38,198.894.** million comprises of an allocation of **Rs.23,764.149** million for Establishment Expenditure (Salary Rs.14,664.149 million and Pension Rs.9,100.000 million), Contingent Expenditure **Rs.2,626.440** million, Repair & Maintenance Expenditure **Rs.388.105** million, Development Works / Project of KMC including CLICK Projects / Schemes **Rs.6,419.135** million and for District ADP **Rs.5,001.000** million have been earmarked for the year 2023-2024. The overall figures of receipts and expenditures incorporated in the budget for the year documents shows a nominal surplus of **Rs.26.810** million indicating that it is **Surplus Budget.**

CLICK Competitive and Liveable City of Karachi

The Competitive and Livable City of Karachi (CLICK) project has been introduced by the Government of Sindh to address the deteriorating livability and competitiveness of Karachi, the capital of Pakistan's Sindh province. Karachi is known for its linguistic, ethnic, and religious diversity, making it one of the most cosmopolitan and socially liberal cities in Pakistan. However, in recent years, the city has faced challenges in urban management, service delivery, and the business environment.

The vision of the CLICK project is to improve urban management, service delivery, and the business environment in Karachi. Its mission involves implementing institutional and policy reforms, as well as capacity building initiatives, to enhance service provision and address urban infrastructure deficiencies and institutional constraints. The project aims to tackle the challenges that have been affecting Karachi's urban management and provision of social infrastructure and basic services.

The vision of the CLICK project is to improve urban management, service delivery, and the business environment in Karachi. Its mission involves implementing institutional and policy reforms, as well as capacity building initiatives, to enhance service provision and address urban infrastructure deficiencies and institutional constraints. The project aims to tackle the challenges that have been affecting Karachi's urban management and provision of social infrastructure and basic services.

CLICK Project includes a set of investments for institutional and policy reforms, and capacity building to improve service provision and address urban infrastructure, deficiencies and institutional constraints to Karachi’s urban development. The Project seeks to address challenges affecting Karachi’s performance in urban management and the provision of social infrastructure and basic services. The Local Councils (LCs) of Karachi, namely KMC, DMCs and District Council, have limited financial management capacity over major sources of revenue to finance critical infrastructure. The World Bank (WB) provides annual performance-based grants to Karachi Local Councils upon achievement of specified institutional strengthening measures decided under the umbrella of

CLICK. Local Councils will use these grants to implement subprojects for the provision of local-level infrastructure and municipal services within their respective mandates, such as drainage works, local roads, parks, and urban roads among others. In addition, these funds will be used for supply-side capacity-building interventions for Local Councils in areas of financial management, project implementation, social and environmental management and to enhance metropolitan coordination between the LCs. To assist Local Councils in achieving the institutional strengthening measures, and to manage and implement the performance grants system, the CLICK project also provides centralized capacity building and implementation and management support through the Local Government Department, GoS.

The project primarily focuses on strengthening the financial management capacity of the Local Councils in Karachi, including KMC, DMCs, and the District Council. The World Bank provides annual performance-based grants to the LCs based on the achievement of specific institutional strengthening measures outlined under the CLICK project. These grants will be utilized by the Local Councils to implement subprojects related to critical infrastructure such as drainage works, local roads, parks, and urban roads. Additionally, the funds will be used for capacity building interventions in financial management, project implementation, social and environmental management, and metropolitan coordination among the Local Councils.

Overall, the CLICK project aims to enhance Karachi's livability and competitiveness by improving urban management, service delivery, and the business environment. It strives to strengthen institutions, attract private investment, improve municipal services, and establish sustainable city financing mechanisms. Through targeted interventions, the project aims to transform Karachi into a vibrant and prosperous city for its residents and businesses.

Development Projects / Works (Own Resources).

Despite the severe financial constraints faced by the Karachi Metropolitan Corporation, there is recognition of the acute financial crisis and the limited funds available for essential expenditures. This situation has slowed down the proper allocation of resources to the development portfolio, leading to a gap in addressing the needs and requirements of the people.

However, in the budget projection for the year 2023-24, there are allocations earmarked for development projects. These allocations aim to materialize projects that would enhance the quality of civic life for the citizens of Karachi. These projects are anticipated to uplift and improve various aspects of the city, addressing the needs and aspirations of its residents.

These development projects are expected to include a wide range of areas, such as infrastructure, social services, public amenities, and environmental initiatives. By focusing on these areas, the projects aim to create a positive impact on the lives of Karachi's residents and address the pressing issues faced by the city.

Due to severe financial constraints, KMC is currently facing an acute financial crisis with limited funds available for various essential expenditures. As a result, the development portfolio has not been adequately addressed, which hampers the fulfillment of the people's requirements.