



# Functional Review of Excise & Taxation Department

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E&TD

## Punjab Government Efficiency Improvement Programme

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**Final**



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## Table of Contents

List of Abbreviations	(i)
List of Tables	(i)
List of Figures	(ii)
Executive Summary	(iii)

Section	Page
<b>1. Background</b>	<b>1</b>
1.1 Approach & Methodology	1
<b>2. Findings, Conclusions &amp; Recommendations</b>	<b>3</b>
2.1 Assessment of Departmental Functions & Activities	3
2.2 Summary of Major Issues	3
2.3 Function 1: Tax Administration	6
2.4 Function 2: Regulation & Licensing of Controlled Substances	10
2.5 Function 3: Regulation & Licensing of Motor Vehicles	11
2.6 Function 4: Policy, Planning & Management	12
<b>3. International Experience of Structural Tax Administration Reforms</b>	<b>17</b>
3.1 Modern trends in revenue management	17
3.2 Arguments for and against semi-autonomous revenue authorities	17
3.3 Potential implications of a revenue authority model in Punjab	18
<b>4. Excise &amp; Taxation Legal &amp; Regulatory Framework</b>	<b>21</b>
4.1 Legal and Regulatory Frameworks	21
4.2 Analysis of Legislative framework	26
<b>5. International Experience of Functional Reviews</b>	<b>29</b>
5.1 Objectives of functional reviews	29
5.2 Aligning functional reviews with the budget process	30
5.3 Key elements of the process for E&TD	30

Appendices	Page
<b>Appendix A: Overview of the Excise &amp; Taxation Department</b>	<b>33</b>
<b>Appendix B: Methodological Details</b>	<b>38</b>
<b>Appendix C: Functional Review Matrix For The Excise &amp; Taxation Department</b>	<b>44</b>
<b>Appendix D: Completed Functional Review Questionnaires</b>	<b>50</b>

## List of Tables

---

Table 1 - Assessment of Departmental Functions & Activities	3
Table 2 - Mix between revenue and regulation functions	4

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## List of Figures

---

Figure 1 - Process for Conducting Functional Review	2
Figure 2 – E&TD Receipts 2006-07 to 2009-10	5
Figure 3 - Viewing Taxes as Function	6
Figure 4 - Policy Objectives of Motor Vehicle Licensing	12
Figure 5 - Rationale for an IT/IS Strategy	14

# Executive Summary

## Summary

This is a final report summarising the findings of a functional review of the Excise & Taxation Department (E&TD) conducted by consultants from 8 November to 17 December 2010 under the auspices of the Punjab Government Efficiency Improvement Programme.

The methodological approach adopted for this analysis is one that has been tested and proven in multiple operating environments and that, as a result, has been endorsed as sound and 'good practice' by the World Bank, DFID and other international agencies.

The general aim of a (vertical) functional review is to establish:

- Whether the Department's functions and activities are *appropriate*: i.e. are they the 'right' functions and activities, given the Department's mandate?
- Whether these functions and activities could be better delivered through alternative means: e.g. the private sector, an alternative department, an executive agency, a different level of government, etc.

Our draft findings were presented to E&TD in advance of the production of the draft report in December 2010, and were largely supported by DG E&T and his staff. We are very grateful for the support provided by the Department throughout this review. Following the submission of the draft report, comments were received from PRMP, upon which basis the draft report was revised in some minor areas to result in this final version (submitted on 21 January 2011).

## Findings

Our review has found that Excise & Taxation Department has 4 main functions:

- Tax administration
- Regulation and licensing of controlled substances
- Regulation and licensing of motor vehicles
- Policy, planning and management

Some of these functions are, in terms of expertise and intended policy outcome, quite different from each other. This is not inherently a problem, but one of our key findings is that in E&TD's case there is a tension between the Departments' **revenue and regulatory functions**. This is because staff are performing a mixture of functions – some regulatory and some revenue-focussed – sometimes without a specialised focus on one or the other.

The operations of the Department are further complicated by confusion over **devolution** (discussed at length in previous reports). E&TD staff at the local level government report both to the Department and to their TMA and District managers. This dilutes clarity of purpose, accountability and transparency.

In this complex environment E&TD is also having to consider the potential impact of the 18<sup>th</sup> Amendment, which could see responsibility for the collection of a **Reformed General Sales Tax** transferred to the Provinces. This would be the biggest constitutional change since PLGO in 2001, and the biggest change to provincial revenue management in several decades.

In our analysis of the individual functions our findings include:

### **Tax administration**

- Tax administration is a core function that should remain in government hands, but:
  - Tax policy should largely be separated in some way from tax implementation
  - Tax administration should ideally be concentrated in a single entity, most radically a semi-autonomous agency but perhaps a Directorate (especially if RGST administration is transferred)
  - Tax appeals should be handled by an agency independent of the original tax imposition

### **Regulation and licensing of controlled substances**

- Enforcement of this regulatory and licensing regime should remain within government hands, but:

- E&TD should consider, as part of a wider review of local government relations, separating regulatory design at the central level with regulatory enforcement and licensing at the local government level
- E&TD should consider privatising (under license) the Opium Alkaloid Factory, or even abolishing it

### ***Regulation and licensing of motor vehicles***

- This function can in theory be self-contained (and even self-financing) and arguably in policy terms is as relevant to transport policy as it is in revenue generation terms. Therefore:
  - E&TD should consider whether management of the motor vehicle licensing regime could be entrusted to a newly-created semi-autonomous Executive Agency
  - This decision should be subject to assessment of legal constraints, and effective arrangements for maintaining a province-wide customer interface

### ***Policy, planning and management***

- These are of course core internal Departmental functions, but we recommend that the Department:
  - Review the recommendations shortly to be made under the HRM and BPR reviews commissioned under PGEIP
  - Seek to establish an IT support function, and commission an IT strategy

### ***Supporting Analysis***

The report also provides supporting chapters that provide further detail on the context of the proposed reforms, and lessons learnt on similar reforms internationally. In particular:

- A legal and regulatory analysis spells out some potential constraints to reform, finding that:
  - The legal and regulatory framework relating to taxation needs substantial modernisation
  - Financial and HR regulatory constraints may hinder the creation of 'arms length' agencies
  - Current devolution legislation may be an obstacle to reforms generally
- A summary of international lessons on tax administration structural reforms finds that:
  - Many governments are seeking to radically improve tax administration by creating specialised, semi-autonomous revenue authorities
  - Because of the potential arrival of RGST this option should at least be discussed, but such a reform may be subject to constraints, including devolution legislation

### ***Next steps***

The review proposes a number of next steps, including:

- Commission a study on the likely impact of the transfer of RGST administration responsibility. This study should present options for restructuring and reform, including the option of a revenue authority as well as the appropriate institutional position of tax policy analysis and the appeals process
- Review existing relationships with local government to understand what changes might be needed to clarify responsibilities and reporting lines
- As part of this review, assess the possibility of separating regulation design (central government) with regulation enforcement (local government) for controlled substances
- Assess potential demand from the private sector for outsourcing of opium reprocessing under license
- Consider the potential establishment of an executive agency for the management of motor vehicle licensing and regulation

PGEIP can potentially provide support in any of these areas.

## 1. Background

This report has been commissioned under the Punjab Government Efficiency Improvement Programme (PGEIP) under the auspices of the Punjab Resource Management Programme (PRMP) Project Management Unit (PMU). The research and analysis to support the writing of this report began on 8 November 2010. A draft was submitted on 17 December 2010, and following comments received from PRMP (but not the Department itself) this final version was submitted on 21 January 2011.

Given that full-scale functional reviews usually take months to complete (sometimes as long as a year in OECD countries), we are grateful for the extensive support of the Department granted to us during this 6-week period.

The aim of this report is to identify the main functions and activities of the Department, in order to establish:

- Whether the Department's functions and activities are *appropriate*: i.e. are they the 'right' functions and activities, given the Department's mandate?
- Whether these functions and activities could be better delivered through alternative means: e.g. the private sector, an alternative department, an executive agency, a different level of government, etc.

Many of these issues are familiar to E&TD, which as a Department has been subject to many recent studies and analyses. Therefore we intend for this report to provide a structured analysis of these issues, based on an internationally accepted methodology, that can more effectively inform the Department how best to move forward into implementation.

The report focuses on the findings from our analysis, but also provides further advisory guidance for the Department on:

- International experience implementing structural tax administration reforms (with the potential devolution of RGST in mind)
- International experience implementing Functional Review recommendations
- The legal and regulatory framework within which the Department operates

### 1.1 Approach & Methodology

The methodological approach adopted for this analysis is one that has been well tested and proven in multiple operating environments and one that, as a result, has been endorsed as sound and 'good practice' by the World Bank, DFID and other international agencies (more detail on this methodology is provided in Appendix B: ).

The idea of a Functional Review can often be perceived as threatening, for a number of reasons:

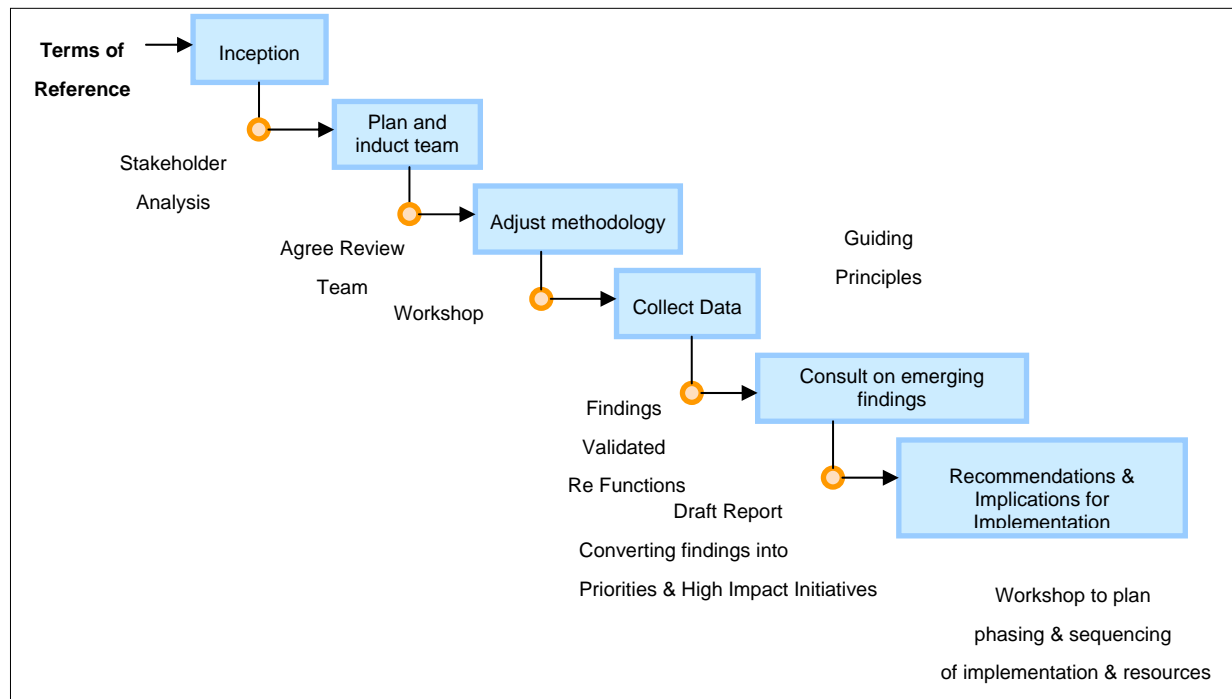
- It is often seen as the lever or excuse for downsizing and redundancies
- It may be seen as potentially threatening to the status or power of Departments, Senior Officers or institutions
- It inevitably presages major change and upheaval which managers (e.g. Secretaries, DGs or Directors) may feel is threatening to their personal positions, their competence in terms of their ability to manage the changes, or their Department's capacity

It can also be construed as inappropriate 'market fundamentalism', and a 'backlash' to earlier growth of the bureaucracy where there appears to be an agenda to outsource as much as possible to the private sector. However, as there is not yet a dynamic and competitive market for take-up of many such service delivery functions, we recognise it may prove impractical or unwise to attempt to implement such initiatives, even where there may seem to be a rationale to do so. Similarly, as with the recent High Level Government Review, GoPb is clear that it is not considering wide scale downsizing or redundancies.

Altogether there are 6 recognisable steps in the whole process of a Functional & Management Review which are shown in the following diagram:



Figure 1 - Process for Conducting Functional Review



The first 3 of these steps involved the essential logistics of agreeing the Terms of Reference with the Department as well as inducting the team of National Consultants who would conduct the review. We also adjusted the methodology to reflect the fact that there had been several previous analyses and reports, including the High Level Government Review (HLGR), a horizontal functional review of the whole of Government of the Punjab that provided the initial basis for our analysis. The team also conducted a situation and stakeholder analysis during this time and reviewed all previous studies and reports.

Once these initial exercise were completed, the team proceeded with data collection through interviews, followed by analysis, derivation of emerging themes and findings, validation of these by the Senior Management Team of the Department and finally production of Recommendations.

Functional reviews consider a number of potential destinations for a function or activity, including:

- Retain as a **core function** in the Department (in these instances we have also suggested options for strengthening delivery of these core functions)
- **Abolish** the function or activity (as it provides insufficient positive policy impact to justify the cost of its continuation)
- Employ a **public-private partnership** (which could range from simple contracting-out to more complex capital burden-sharing initiatives)
- **Transfer** to another Department, to an existing or new Executive Agency (on a 'eyes-on, hands-off' basis) or to an alternative level of government (e.g. federal or district level)
- **Privatise** the function or activity (either immediately or more likely through a phased approach employing cost-recovery models and/or corporatisation first)

## 2. Findings, Conclusions & Recommendations

This section of the report summarises, function by function, our analysis of the activities of the department. Each function is discussed in three parts:

- A description of the **activities** currently being carried out by the department under this function
- **Recommendations** as to the potential ‘destiny’ of this function or activity, supported by an analytical justification
- Some proposed **next steps** to enable E&TD to progress this study into implementation

Decisions regarding restructuring, outsourcing or privatisation are inherently complex. While we have adopted a strong conceptual and methodological approach to underpin our analysis (as described in Appendix B: ) it remains the case there are no easy solutions or quick fixes. Most of our recommendations involve trade-offs between one objective and another; most will produce ‘losers’ as well as ‘winners’; and many should only be progressed in a gradual, incremental manner in order to ensure the risks associated with structural change risks are mitigated.

### 2.1 Assessment of Departmental Functions & Activities

On the basis of a mixture of secondary data review and primary stakeholder interview, we understand the Excise & Taxation Department to have 4 major functions, under which there are several significant activities.

Table 1 - Assessment of Departmental Functions & Activities

Functions	Activities
Tax Administration	<ul style="list-style-type: none"> <li>• Determination of rates, rebates and concessions</li> <li>• Tax assessment and imposition</li> <li>• Tax collection</li> <li>• Review of appeals</li> <li>• Management of customer service centres</li> </ul>
Regulation and Licensing of Controlled Substances	<ul style="list-style-type: none"> <li>• Management of license and permit regime for controlled substances</li> <li>• Crime detection and reporting relating to controlled substances</li> <li>• Management of the Opium Alkaloid Factory</li> </ul>
Regulation and Licensing of Motor Vehicles	<ul style="list-style-type: none"> <li>• Regulation and licensing of motor vehicles</li> </ul>
Policy, Planning & Management	<ul style="list-style-type: none"> <li>• Policy Formulation</li> <li>• Preparation of ADP/MDTF and PC1s</li> <li>• Budget preparation</li> <li>• Human resource management</li> <li>• Project implementation &amp; monitoring</li> <li>• Support to legislative framework</li> <li>• Information &amp; awareness campaigns</li> </ul>

### 2.2 Summary of Major Issues

The institutional environment in which E&TD operates is particularly complex. While there are a number of areas where functional/structural reforms can bring about efficiency improvements (as discussed below) this institutional complexity presents (at least) 3 major strategic issues which deserve particular attention. We describe these issues as strategic for three reasons:

- They affect almost everything the Department does, and will be ever-present concerns in any other (internal) reform effort
- Any change designed to address them would necessarily be ‘transformative’: incremental change would achieve little

- Change in these areas would most likely require major political decisions that (we understand) the Department itself does not have the authority to make

### 2.2.1 Revenue vs Regulation

The Department has two main types of functions that it concentrates on: revenue collection and regulation (of motor vehicles and controlled substances). To some extent these functions are mixed: the Department actually earned around 45% of its revenue from motor vehicle licensing related activities in 2008-09. But we distinguish in this report between primary and secondary purposes for these functions. The primary purpose of the motor vehicle function, for example, is regulation & licensing; the secondary purpose is revenue. Table 2 demonstrates this.

Table 2 - Mix between revenue and regulation functions

Function	Primary Purpose	Secondary Purpose
Tax Administration	<ul style="list-style-type: none"> <li>• Revenue collection</li> </ul>	<ul style="list-style-type: none"> <li>• Records maintenance of property title</li> </ul>
Regulation and Licensing of Controlled Substances	<ul style="list-style-type: none"> <li>• Regulation, licensing, control</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue collection through duties</li> </ul>
Regulation and Licensing of Motor Vehicles	<ul style="list-style-type: none"> <li>• Regulation, licensing, control</li> </ul>	<ul style="list-style-type: none"> <li>• Revenue collection through fees</li> </ul>
Policy, Planning & Management	<ul style="list-style-type: none"> <li>• Internal support function</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>

In fact the Department historically started out with a focus on its regulatory and licensing functions, only adopting more of a revenue collection focus over time.

There is no inherent problem with a Department being responsible for multiple types of functions. But with E&TD we find that there is a tension between the demands of these two function types, for the following reasons:

- While E&TD has multiple responsibilities, it is widely thought of as the Department with primary responsibility for GoPb own-tax collection, and the fact that it can only apply part of its resources to this effort may be only partially recognised
- Many E&TD staff (even up to DG level) have multiple responsibilities for both revenue collection and regulatory functions, which inhibits focus and specialisation and makes it hard to hold staff to account for performance

In GHK's 2009 report, it was proposed that the Department be restructured along functional lines, with three directorates created to focus on:

- UIPT administration
- Motor vehicle license administration
- Other taxes

This structure also envisaged the Secretariat's role becoming more clearly focussed on policy (with the establishment of a tax policy unit) and overall support functions (including a new IT strategy unit). In fact, separation along functional lines already exists to an extent, especially with respect to excise (regulatory) and revenue (taxes) functions at the lower tiers in districts.

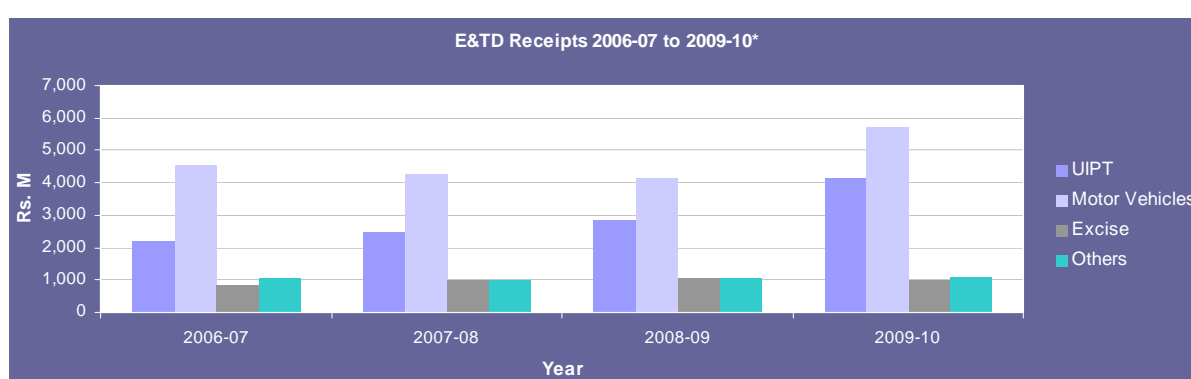
Such a structure clearly focussed only on the Department's taxation remit. If the Department was to be more focussed on taxation administration, a more radical restructuring option would be the establishment of a semi-autonomous Revenue Authority. This has been recommended both by the recent HLGR report, as well as by AF Ferguson reports commissioned by PRMP in 2005. The pros and cons of this argument are discussed in detail in sections 3.2 and 3.3. In the long run, such a reform holds major potential to radically improve tax administration, but it would be a highly political endeavour (as most ambitious reform initiatives are) and it could only incorporate the taxation elements of the Department's remit (not the regulatory elements).

### 2.2.2 Potential Impact of the 18<sup>th</sup> Amendment

This functional review has been carried out in advance of what is likely to be the biggest constitutional reform since the introduction of PLGO in 2001. The introduction of the 18<sup>th</sup> Amendment currently seems likely to transfer receipt of, and potentially also responsibility for, the collection of a Reformed General Sales Tax on services. At present E&TD collects in the region of Rs 12 billion each year (Rs. 13 billion budget estimates for 2010-11)<sup>1</sup>. Whereas the combined goods and services sales tax take at the federal level amounted to around Rs. 540 billion in 2009-10 (Rs. 675 billion budget estimates for 2010-11<sup>2</sup>). Therefore, even a partial transfer of this tax (if collection responsibility is also transferred) would require major reforms of revenue management at the Provincial level.

These reforms would primarily focus on the Excise & Taxation Department, which might also be transferred additional functions relating to the regulation and licensing of controlled substances.

Figure 2 - E&TD Receipts 2006-07 to 2009-10



\* Sources: "Estimates of Receipts 2010-11" and "Rapid Sector Review: PKD Consultancy Limited in association with PRMP".

### 2.2.3 Relations with Local Government

When PLGO was introduced in 2001, the original intention was to transfer responsibility for property tax to the TMA level. This is in line with international best practice, which suggests that property tax can be levied effectively at a local level: property tax is typically considered a municipal tax.

However this intention was never fully realised, partly due to capacity constraints at the local level. Therefore at present TMAs effectively pay the Provincial Government to collect UIPT on their behalf (GoPb takes a 5% collection charge and E&TD is still responsible for assessment and collection of UIPT). But this arrangement is not a clear-cut one: staff at the local level responsible for collection of UIPT report both to E&TD at the Provincial level as well as to their DCO at the District level. This confusion, as noted in previous analyses, inhibits clarity of purpose, transparency and accountability.

Previous reports have offered a number of possible options for UIPT, ranging from a decentralized model that would give UIPT policy and implementation completely to districts, to a centralized model for keeping policy and implementation at the provincial level.

In GHK's 2009 report, E&TD stated a preference for a partially devolved model whereby policy (i.e. the power to set rates) is devolved to TMAs, but administration is still managed by the Province. This is in line with the intent of PLGO and is very similar to the current system except that:

<sup>1</sup> Source: Estimates of Receipts 2010-11; Finance Department, Government of the Punjab

<sup>2</sup> Source: Ministry of Finance, Government of Pakistan

- We understand that TMAs in practice have never been able to exercise their power to adjust UIPT rates independently
- E&TD staff at the district level are on the payroll of the district governments, even if for all practical purposes they report to the ETO, who in turn reports to E&TD HQ in Lahore

We have no reason to disagree with the Department's preference, but whichever model is eventually selected there are likely to be legal, regulatory and human resources issues. The new local government law has also to be assessed for changes with respect to UIPT.

#### 2.2.4 Recommendations

As discussed above, these issues are complex and to be resolved would require at least some degree of political support and leadership. Nonetheless, there are still things E&TD could do (potentially with PGEIP's support) that would help to move the debate on these issues forward. We suggest the following:

- With the potential impact of the 18<sup>th</sup> Amendment in mind, E&TD can commission a study on the likely impact of the transfer of RGST administration responsibility to the Provincial level, which would present options for restructuring and reform (including the option of a dedicated revenue authority of some sort, in line with international trends – see section 3)
- E&TD can consider the potential of an internal restructuring along functional lines, which at a minimum would seek to separate responsibility for regulatory and tax collection functions.
- E&TD can review existing relationships with local government to understand what changes might be needed to clarify responsibilities and reporting lines (including legislative changes) to achieve their already-stated preference of a partially decentralised model

### 2.3 Function 1: Tax Administration

As discussed above, over the years the strategic focus of the Department has tended to stress more on revenue generation than regulation and licensing. Externally, tax policy is divided between Finance and Excise and Taxation Departments with the result that tax collection targets are often set by Finance Department without realizing inherent limitations.

The assessment and collection of taxes is clearly E&TD's responsibility, however, and is a core government function that includes the conduct of surveys, the preparation of valuation tables and associated data bases, the determination of various policy measures and the actual collection of tax payments. The desired policy outcome for this function can simply be defined as revenue maximization through an efficient and responsive tax regime.

This function comprises 5 activities:

- Determination of rates, rebates, and concessions for different taxation measures
- Tax assessment and imposition
- Tax collection
- Management of Customer Service Centres
- Review of appeals

*Figure 3 - Viewing Taxes as Function*

#### Viewing Respective Taxes as Individual Functions

In this review we have classified 'tax administration' as a single function, and broken down the generic steps in tax administration into activities. An alternative approach would be to consider each type of tax that E&TD collects as a separate function in its own right. This would highlight particularly the fact that different taxes require different activities (and skills). In fact, this differentiation often leads tax administration agencies to structure themselves on 'tax' lines rather than functional lines.

To cover this alternative approach, we highlight the different requirements of each tax:

- Assessment and collection of Urban Immovable Property Tax (UIPT)
  - Assessment including survey, invitation of objections, authentication of PT 1, and appeals related to assessment

- Collection of property tax including preparation of demand registers, issuance of notices and recovery of arrears
- Assessment, levying and collection of fees related to Motor Vehicle Registration (MVR)
  - Revenue collection from commercial and non-commercial vehicles; issuance of notices to defaulters and road checking; collection of token tax for tied and non-tied vehicles
  - Collection of Capital Value Tax and Advance Income Tax (these change with time) on behalf of Federal Government at the time of registration of a vehicle and collection of Motor Vehicle Tax respectively
- Assessment and collection of excise duties and fees
  - Assessment and collection excise duty and fee;
  - Determination excise fee on the manufacture, import, export and sale of liquor
  - Assessment and collection of fees related to relevant licenses
- Assessment and collection of professional tax
  - Data collection, assessment and collection of professional tax
- Assessment and collection of cotton fee
  - Estimation of cotton received in ginning factories
  - Collection of cotton fee and associated arrears
- Assessment and collection of hotel tax
  - Assessment of tax assessed by hotel management and maintenance of associated record
  - Collection of hotel tax and associated arrears
- Assessment and collection of entertainment duty/miscellaneous
  - Examination of duty assessed by management
  - Collection of duty and arrears

### 2.3.1 Activities

#### 2.3.1.1 Determination of rates, rebates and concessions

This activity entails determination of policy measures for each tax. This is a core policy function that feeds into revenue generation components and in this sense provides a rationale and base for tax administration generally.

The responsibility of determination of rates, rebates and concessions is shared by Excise and Taxation Department's secretariat and the office of Director General Excise and Taxation Department (with Finance Department also playing a role at times). For UIPT, TMAs are responsible for determining zoning areas, which of course have a major impact if an apparent urban zone is classified as a rural zone.

Outputs for this activity includes various notifications, schedules, tables which then feed into calculations for assessing demand for the department and the liability of tax payers. Users or customers for this activity include internal sections of Excise and Taxation Department and tax payers.

#### 2.3.1.2 Tax assessment and imposition

Tax assessment and imposition is a core Departmental activity, carried out by DG Excise & Taxation. The activity focuses on the Department identifying the tax base (e.g. through a property tax survey). Outputs for this activity include various kind of duly filled forms such as Form PT-1 (main property record) or Form PT-8 (The Demand Register) concerning property tax. Customers for this activity include property owners, various enterprises for excise and entertainment, professional, cotton ginning mills, hotels and cinemas.

#### 2.3.1.3 Tax collection

Tax collection is achieved through several payment and recording procedures and is executed primarily through the staff of the office of Director General, E&TD with its various field establishments and offices.

### **2.3.1.4 Review of appeals**

Different appeals procedures exist for procedure for each type of tax. Either Excise or Taxation Officers (ETOs) or Directors are entrusted with appellate authorities in different districts. Therefore, the overall organizational responsibility for appeals falls under the purview of the office of Director General, E&TD. The outputs for this activity include decisions on appeals and refunds, if the appeals are decided in favour of the applicants; the customers, therefore, are various appellants involved because of different taxation regimes.

There is no separation between appeals and execution functions, as there is at the federal level and as there typically is in tax administration regimes internationally.

### **2.3.1.5 Management of customer service centres**

E&TD is basically a customer-oriented department where access for citizens is mostly through district offices. There are limited numbers of customer service centres and other channels of access for citizens such as web, text messaging etc. Where these do exist, they tend not have been extensively developed. This makes the provision of customer services low in terms of quantity and quality.

## **2.3.2 Recommendations**

The tax administration activities described above are usually considered core public services that cannot be delivered by the private sector (except through some limited contracting out, see below). Consequently, our recommendations for this function centre on which part of government is best placed to deliver efficient, effective and fair tax administration.

### **2.3.2.1 Determination of rates, rebates and concessions**

As discussed above, tax policy is shared between FD, E&TD and the TMAs (with respect to UIPT). As FD's actual tax policy capacity is very limited, it has recently been proposed to create a Tax Policy Unit within E&TD. In practical terms, the creation of tax policy analytical capacity anywhere in government would be a positive step. However, in the long run best practice suggests that responsibility between tax policy and tax administration be separated - to the extent possible.

There should of course always be feedback from those responsible for administration to those responsible for setting tax policy, not least because one of the main considerations in setting tax policy is the administrative costs and complexities of any particular taxation proposal. Nonetheless, in most countries tax policy is the responsibility of Department/Ministry of Finance, with a revenue agency or department focussed entirely on tax administration subservient to this Department/Ministry.

The realisation of this shift is unfortunately impractical under current institutional arrangements: E&TD does not report to FD. However, if RGST is transferred to the Provincial level, we recommend that GoPb re-consider this arrangement, along with the consideration of the establishment of a revenue authority (as proposed by Sindh and as discussed in section 3).

During validation of emerging findings meeting with the department, it was mentioned that valuation may be a candidate of outsourcing as in the case of other institutions such as banks, therefore, the details of this suggestion would be further deliberated with E&TD.

### **2.3.2.2 Tax assessment and imposition and tax collection**

These activities consume a large part of the Department's resource and level of effort. In most revenue focussed agencies/departments, in fact, these activities would represent 90% of the level of effort (and would include activities somewhat absent in E&TD including audit and risk assessment).

Therefore, our recommendation for these activities can only once more centre around the potential creation of a dedicated agency focussed almost entirely on these tasks (rather than the current situation where staff have multiple responsibilities). If an actual revenue authority were not possible, the Department should at a minimum consider separating these functions from the Department's regulatory functions (e.g. through separate Directorates General for Revenue and Regulation and Licensing).

### 2.3.2.3 Review of Appeals

Best practice in tax administration is that responsibility for administration of taxation and responsibility for adjudication on appeals by taxpayers be separated. There is a clear conflict of interest if a single agency is responsible for both, which is likely to substantially reduce trust in the system and reduce the number of appeals made (as taxpayers will likely consider the effort involved not worthwhile).

Therefore we recommend that E&TD consider separation of this function, either through the creation of a new appeals agency or (if this is not cost-effective<sup>3</sup>) by transferring responsibility for review of appeals to another, existing government department or agency.<sup>4</sup>

### 2.3.2.4 Management of customer service centres (CSC)

Existing customer service facilities are limited and access is mostly through district offices, while multiple channels of access such as web, kiosks etc. are largely absent. To its credit the department has committed to align its focus with regards to citizen requirements as improving service delivery, building public trust and departmental image are provided in the vision statement of the department.

Potentially, this could be achieved through the contracting-out of services to run customer service centres (CSCs). Such an initiative has been investigated by BoR recently; and such services are in theory specific, measurable and output-oriented (thus they lend themselves to a contract-oriented solution). The outsourcing of CSC contracts can be done under the PPP Law for Punjab and we believe that management or service contracts may be an appropriate PPP modality for this kind of project if the Department decides to go ahead with outsourcing of this function as one of its chosen priorities.

### 2.3.3 Next Steps

In the short term, we recommend the Department:

- Review the potential impact of the 18<sup>th</sup> Amendment and, in doing so, consider the ideal position of a tax policy function and the potential of a revenue authority solution
- Consider the separation of revenue and regulatory functions in order to enable the development of a specialist focus on tax administration
- Consider the separation of the tax appeals function, including whether an alternative appropriate government body exists for this activity
- Consider outsourcing some of the sub-activities such as valuation as mentioned by the department in the validation of emerging findings meeting
- Consider the potential of an outsourcing solution for the management of customer service centres

PGEIP can potentially provide technical support in any of these areas.

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<sup>3</sup> Discussion around this issue is likely to focus on cost-effectiveness: that there are too few appeals to make such a separation worthwhile. While such issues are relevant, they may not be critical. The right to independent and fair appeal is a fundamental right for a citizen that goes to the heart of the 'social contract' between that citizen and the state; cost of arguably of secondary concern.

<sup>4</sup> In the Federal Government, appeals against the orders of the decision by a Taxation Officer are filed with the Commissioner for Appeals. This Commissioner for Appeals is different from other functional Commissioners in the RTOs/LTUs. The Commissioner for Appeals is not under the administrative control of the DG RTO but is paid and transferred by the FBR. The RTO has the position of Commissioner Legal, and facilitates the department in defending cases with the Commissioner for Appeals. The Department or the taxpayer may file an appeal against a decision to the Income Tax Appellate Tribunal (ITAT). This is usually composed of officers of the Income Tax Service. The ITAT is under the control of Ministry of Law. A further referral on points of law can be filed with the High Court if the department or taxpayer is still aggrieved.



## 2.4 Function 2: Regulation & Licensing of Controlled Substances

Excise and Taxation has two functions focussed on regulation, records maintenance and licensing. The first of these is focussed on controlled substances.

E&TD's responsibilities in this regard are largely defined in legislation (see section 4.1). Controlled substances in Punjab include Opium, Liquor, Rectified Spirit, Vinegar, Methylated Spirits, Fused Oil, Rectified Spirit Denatured with Kerosene Oil and Denatured Spirit. The Department's role (as well as to collect excise duties on these products) is to provide licenses and permits for the legal production and sale of these products, as well as to investigate and report violations of regulations. It is also directly manages re-processing of confiscated opium products.

### 2.4.1.1 Management of license and permit regime for controlled substances

Excise and Taxation Department collects Excise Fees according to the Punjab Excise Act 1914 and the Prohibition (Enforcement of Hadd) Ordinance, 1979. These provisions enable the Excise Fee/Duty to be levied on various excisable articles including liquor, medicinal opium powder, liquor vends etc. In this case, licenses are awarded for managing the usage of various restricted substances while collection of revenue is incidental to the regulatory framework. Outputs for this activity are various kinds of licenses that are awarded by the office of Director General or field offices depending on the type of license/permit while customers include manufacturers and traders of liquor and other substances and general citizens.

### 2.4.1.2 Crime detection and reporting relating to controlled substances

While E&TD is not a law enforcement agency, the objective of this activity is to contain and limit violations of the regulatory regime related to controlled substances. Overall responsibility for this activity primarily falls within the office of Director General and its field establishment across the province. Users for the information related to violators are internal as well as external: primarily other law enforcing agencies

### 2.4.1.3 Management of the Opium Alkaloid Factory

The Opium Alkaloid Factory produces opium medicinal powder for use in local medicines and opium tablets. The factory operates under the control of D.G. Excise, although the scale of operations is fairly limited with only around 20 staff and limited production. After promulgation of Prohibition Order 1979, input to the factory only consists of confiscated opium that is then either converted into tablets or medicinal powder.

## 2.4.2 Recommendations

### 2.4.2.1 Management of license regime and crime detection and reporting

These two activities are clearly sensitive and focus on the implementation of legislative requirements. As such they should be considered core government activities and are not amenable to a private market solution.

Nonetheless, it does not necessarily follow that licensing should be a central government function. In many countries around the world, the establishment of a licensing regime is a central government function (e.g. the definition of what defines a controlled substance, the setting of fees and duties, the nature of penalties, etc.). But the implementation and enforcement of that regime is entrusted to local government agencies.

In reality in Punjab, actual implementation of this regulatory regime is decentralised (as it is implemented through E&TD staff at the local government level), but not in practice devolved due to the confusion over PLGO implementation discussed above. Our recommendation, therefore, is to consider this issue in relation to the review of relation with local government discussed above.

### 2.4.2.2 Management of the Opium Alkaloid Factory

At present, input to the Opium Alkaloid is uncertain since it depends on confiscated opium. Furthermore, the operations of the unit are fairly limited: high quality confiscated opium is separated from the other confiscated material and is then either crushed into opium powder or converted into tablets.

The conversion of tablets has already been outsourced to a private contractor and in theory the management of the entire process could be provided by private sector (pharmaceutical) suppliers under license from the government. We recommend this option be investigated, and if not viable due to absence of demand or interest from private sector suppliers, that abolition of this function be considered. The output of the factory and the revenue it generates is so limited that it may well be a distraction from core Departmental priorities.

### 2.4.3 Next steps

We recommend that the Department:

- Review the enforcement of the controlled substances regulatory regime as part of a wider review of E&TD's relations with local government agencies, in order to assess the possibility of separating regulation design (central government) with regulation enforcement (local government)
- Assess potential demand from the private sector for outsourcing of opium reprocessing under license

PGEIP can potentially provide support in both of these areas.

## 2.5 Function 3: Regulation & Licensing of Motor Vehicles

Excise and Taxation Department's second function on regulation, records maintenance and licensing relates to motor vehicles.

Excise and Taxation Department is required to register vehicles under several legislative provisions. The registration of motor vehicles serves a number of purposes:

- It regulates ownership (equivalent to recording of land title by BoR)
- It enables a variety of law enforcement activities, from prosecution of traffic offences to prevention of smuggling
- It provides a basis for implementation of road safety and related environmental policies (to the extent that they exist).
- It enables the collection of fees

The primary responsibility for this activity falls within the purview of the office of Director General (E&TD) with respective district offices and Directorates acting as execution agents. Outputs for this activity includes Registration Marks, Certificates, NOCs, Duplicate Records, etc while customers are vehicle owners, motor dealers, potential buyers, other agencies (law enforcing, customs, tax officials etc.).

### 2.5.1 Recommendations

Motor vehicle related fees provided around 15% of provincial government tax revenue in 2009-10<sup>5</sup>. However, in most countries the collection of this revenue is considered of secondary importance, and usually fees are set at a level intended purely to cover the costs of the licensing regime (not to act as an alternative tax, which is usually achieved through a road tax or transport-focussed user fee regime).

Equally, as a largely self-contained operation, motor vehicle (and driver) licensing is typically entrusted to an Executive Agency. In the UK, for example, the Driver and Vehicle Licensing Agency is a semi-autonomous body that operates on a 'revolving fund' basis (i.e. it is to a large extent self-financing). Typically these agencies report to a Ministry of Transport, or equivalent, since the primary policy objectives of a motor vehicle licensing regime are related to road safety and transport management.

Therefore we recommend that E&TD consider whether management of the motor vehicle licensing regime could be entrusted to a newly-created Executive Agency, granted financial and

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<sup>5</sup> Source: Estimates of Receipts 2010-11: Finance Department, Government of the Punjab

personnel management autonomy. Such a review would have to assess potential constraints, as well as potential benefits, of such a reform, including:

- Any regulatory or legislative constraints to granting an agency financial and/or personnel management autonomy (see section 4.2.3)
- How the citizen interface would be managed if the agency was separated from existing E&TD staff structures at district and local government levels

Figure 4 - Policy Objectives of Motor Vehicle Licensing

#### Motor Vehicle License Fees – Revenue Source or Transport Policy Instrument?

Punjab is somewhat unusual in international comparative terms in viewing motor vehicle licence fees primarily as a source of income. In most countries, the licensing and regulation of motor vehicle ownership is designed to serve a range of transport sector policy objectives, such as:

- The provision of incentives to reduce environmental impact (e.g. charging higher fees for vehicles that emit greater levels of CO<sub>2</sub>)
- The enforcement of road safety standards (vehicles cannot be licensed unless they have passed standard safety tests)
- Support to law enforcement (cars must be registered to a single owner so that vehicle-related police enquiries can be facilitated)

Consequently, in many countries the licensing of vehicles falls under the remit of the Ministry of Transport, or equivalent. In fact, the collection of fees for licensing is often considered a secondary priority: designed to cover costs rather than generate significant revenue. Major revenue sources related to road transport usually come from user fees (e.g. tolls) and fuel tax, both of which more accurately charge road users for the amount they actually use publicly funded road infrastructure. Nonetheless, there is no ‘single best way’ of organising government departments. Kenya, for example, manages vehicle licensing through its semi-autonomous revenue agency. Motor vehicle licensing could continue to be managed by a revenue-focussed department, although if this were to be through an executive agency structure, governance arrangements could be established to ensure the Department of Transport is involved in decisions regarding licensing/fee/taxation policy.

#### 2.5.2 Next steps

We recommend E&TD commission the study described above. PGEIP could provide technical support in this regard.

### 2.6 Function 4: Policy, Planning & Management

Policy planning and management entails various activities related to policy formulation, setting strategic direction and prioritization. The outcome of this function is responsive and implementable policy formulation; this can only be performed in an enabling, able and structured institutional environment. Theoretically, policy formulation falls within the domain of Secretariat while the office of Director General (E&TD) primarily focuses on execution. However, practically, the division between policy formulation and execution between these two sections is blurred while both are performing each of these formulation and execution components to an extent.

The Department manages 7 activities in this field.

#### 2.6.1.1 Policy formulation

Policy formulation entails setting strategic direction for responsive revenue imposition and collection regime as well as maintenance of public records and regulation. In the case of E&TD, it covers both the prime functions of revenue generation and regulation. Theoretically, this function belongs to the Secretariat (there is a section under Deputy Secretary (Technical)); however, practically, the office of Director General plays its role in policy formulation as well.

#### 2.6.1.2 Preparation of ADP/MDTF and PC1s

The main objective of this activity is to prepare annual financing estimates and project development. Because of the introduction of MTBF, there has been an attempt to provide strategic focus to this activity. This is primarily performed by Technical wing in the Secretariat and

the office of Director General while the outputs are Annual Development Plan (ADP) and Medium Term Development Framework (MTDF).

### *2.6.1.3 Budget preparation*

Budget preparation entails preparing estimates primarily for current expenditures and Schedule of New Expenditure so that recurrent financing needs of the department are met. Departmental responsibility is divided between the Secretariat and the office of Director General and the customer for this activity is basically Finance Department and internal organization. Output is the draft annual budget and collation efforts are primarily focused at Budget and Accounts Sections of E&TD.

### *2.6.1.4 Human resource management*

Human resources management in E&TD is carried out through administration wings in Secretariat through Deputy Secretary (Admn.) in the office of Director General through Director (HQ). The primary objective of this activity is management of these resources for an efficient and effective policy implementation whereas the departmental responsibility is shared between the Secretariat and office of Director General. Outputs for this activity includes various notifications related to transfers, postings, promotions, appointments, leave etc. and this activity mostly involves internal working of the department.

### *2.6.1.5 Project implementation & monitoring*

This function entails monitoring of development projects so that desired policy outcomes are achieved and projects' outputs remain aligned with the department's expectations. Depending on the size of project, this function is carried out by respective geographical offices or centrally by Secretariat or the office of Director General. Outputs for this function are usually confined to expenditure reviews that are carried out periodically and users of this information are either internal or other government entities such as Finance Department, Planning and Development Department and CM Secretariat.

### *2.6.1.6 Support to legislative framework*

E&TD performs in a complex legal and regulatory environment where the objective is to develop an enabling legal regime ensuring quality service and effective enforcement of regulation. Deputy Secretary (Technical) and the office of Director General provide input in terms of drafting legislation, which is then sent to Law Department for vetting and Provincial Legislature for statutory enactments.

### *2.6.1.7 Information & Awareness Campaigns*

This is a support function where objective is to inform public regarding various measures related to tax imposition or regulation. The offices of Deputy Secretary (Admn.) and Director General are mainly responsible for this activity, although it is executed through the office of Director General Public Relations. Outputs for this activity entail advertisements, brochures etc.

## **2.6.2 Recommendations**

Policy planning and management is a core government function and as such should be retained by the department however, there are substantial opportunities for improvement in this function, which could result in cross-cutting improvements across the spectrum of functions performed by the department.

### *2.6.2.1 Policy formulation*

As of now there is no formal institutional structure existing within the department to review, formulate and update departmental policies or strategies on a regular and periodic basis. This results in outdated policy regimes, ad hoc decision-making, lack of consistency and sometimes conflicting decisions. One of the potential areas for therefore could be to review the existing planning processes and frameworks in the department and coming up with an improved and informed planning framework. This framework should then be linked with formulation of a medium term development plan, based on departmental strategy/policy.

Analysis performed under the review has highlighted that policy formulation is being performed in an ad hoc manner. It seems appropriate, therefore, that a single specialized policy unit should

have the responsibility and capacity to carry out impact assessments, scenario analysis, and the building of requisite data bases etc as required within E&TD. If this is chosen by the Department as a priority area, the next steps would consist of developing TORs and criteria for recruitment/selection of staff, etc in consultations with the department. With this tax policy unit, it should be possible to build more effective policy development capacity in E&TD so that it can not only interact with the Finance Department, putting forward better and more structured arguments, but also carry out essential policy making activities such as scenario and sensitivity analysis, succession planning etc.

### *2.6.2.2 Human resource management*

The administration wings in E&TD are theoretically not only responsible for effective and efficient deployment of human resources but also for long term capacity building and succession planning. However, these wings are ill equipped in terms of capacity and technology to carry out these tasks with the result that staff is not equipped to meet departmental objectives. To this extent the Department can be said to have a 'personnel management' function, but not a wider, more performance-focussed human resource management function. Consequently we recommend strengthening of this function, and more detailed recommendations will be provided in the HRM review currently underway under PGEIP.

### *2.6.2.3 Project monitoring & implementation*

Current project monitoring is mostly done through expenditure reviews. Therefore there is a need to develop a dedicated institutional mechanism not only to monitor various projects undertaken by the department, but also to facilitate different wings in objective project development and formulation, along with verifiable M&E indicators and the use of Project Cycle Management (PCM) tools. Such a cell, if developed, can greatly help the top management in reviewing the performance of various initiatives and can also feedback into planning and policy making processes.

This process will be reviewed under the ongoing Business Process Reengineering (BPR) review currently ongoing under PGEIP.

### *2.6.2.4 Information technology support*

As section 3 notes, modern tax administration agencies rely heavily on information technology solutions. Tax administration is an information-intensive function; as, indeed, is the management of motor vehicle licenses. E&TD is currently introducing an IT solution (MTMIS) in support of motor vehicle registration management and is committed to introducing IT solutions in other areas as well: UIPT administration in particular. IT solutions in a tax environment do not just improve efficiency, they improve effectiveness. Revenue management IT systems act as an enabler for modern methods of tax audit and risk management, which have been proven to significantly increase tax collection levels.

Notwithstanding issues of investment (E&TD currently lacks sufficient investment in such IT solutions, both hardware and software) the Department lacks an IT support function. This is an essential support function in modern organisations, since such a function does not just enable procurement and commissioning of systems, but maintenance, improvement and troubleshooting.

The addition of this function should ideally be accompanied by an IT strategy, which would spell out the costs and benefits of potential solutions, the timeframes required, skills and human resource implications and preferred sequencing of changes. Such strategies are particularly useful at ensuring Department's do not fall into the trap of introducing IT solutions without taking into account necessary corollary changes to 'people' and 'processes'.

*Figure 5 - Rationale for an IT/IS Strategy*

#### **Rationale for an Information Technology Strategy**

In the public sector, IT or IS projects are famously prone to failure or completion over budget/schedule. In many countries there are countless examples of IT systems being implemented that are then rarely used, or not used to their full potential – including Pakistan.

IT-related change is only partly about the procurement of software/hardware. Successful introduction

of new information systems and application of technology in reality requires (a) institutional change and (b) skills and resources of appropriate quality and quantity to understand, plan, use and operate new systems.

Consequently, the development of a new IT system or process in an organisation should only be undertaken with after careful planning and assessment. In particular, organisations should seek to understand the benefits IT can provide the organisation by producing an IT strategy. An IS or IT strategy responds to the basic purposes, objectives and policies of the organisation by identifying, prioritising and advocating complementary requirements for information, communication and data processing. By considering IT requirements for the organisation as a whole, rather than on a case-by-case basis, it possible to identify synergies between different systems; to prioritise and sequence activities; and to compare investment potentials of different systems. A well thought-out IT strategy may well indicate, for example, that an organisation needs to spend a year developing basic network capability, or strong in-house system administrations skills, before investing in a specific new system, for example.

An IT/IS strategy can also form a persuasive basis for investment, either from the development budget or from external partners (e.g. donors).

### 2.6.3 Next steps

We recommend the Department:

- Review the recommendations shortly to be made under the HRM and BPR reviews commissioned under PGEIP
- Seek to establish an IT support function, and commission an IT strategy (PGEIP may be able to provide support in this regard)



### 3. International Experience of Structural Tax Administration Reforms

The policy and reform challenges faced by the Government of Punjab in its efforts to improve revenue administration are not unfamiliar internationally. In past years, many countries have undertaken wide ranging structural reforms to tax administration structures in an effort to focus and professionalise revenue services. While each country is unique and must formulate its own specific reform programmes, there is still much that GoPb can learn from these experiences.

#### 3.1 Modern trends in revenue management

Revenue management reform is usually a high priority in both development and developed countries. Governments embark on revenue management reform in order to:

- Increase revenues and improve their fiscal positions
- Minimise the economic distortions that can be caused by poorly thought-out (and poorly administered) tax regimes, and
- Achieve fairness and (usually) an effective degree of progressivity in the tax system

International experience of revenue management reforms in recent decades highlights that such reforms often include some or all of the following elements:

- The unification of tax services (direct, indirect and customs/excise) to achieve economies of scale and more effective information and intelligence sharing
- An increased focus on taxpayer communication and facilitation, in order to minimise the costs of compliance and thus improve voluntary compliance
- An increased use of IT systems to improve the efficiency of records management and enable the introduction of better investigative methods (as well as greater transparency)
- A stronger customer focus orientation, including through the establishment of tax payer information centres and internet-enabled customer interfaces
- The use of audit and risk management methodologies to enable the allocation of resource to areas likely to achieve the greatest impact
- The balanced use of a focus on large taxpayers (with the proviso that ‘fairness’ does not suffer as a result)
- The introduction of VAT/GST-type indirect taxes, due to their ability to incentivise self-regulation
- The reduction of tax exemptions

Many of these reforms have been attempted as a result of, or in conjunction with, reformed institutional structures for revenue management. An increasing number of countries, in line with ‘New Public Management’ reforms introduced in OCED countries in the 1980s and 1990s, have sought to move responsibility for tax administration to a semi-autonomous revenue authority (a form of executive agency). Semi-autonomous revenue authorities are frequently seen as an effective way to professionalise tax administration, primarily because they offer freedom from centralised budgetary, planning and human resource control.

Any functional review of tax administration must, therefore, consider the advantages and disadvantages of a potential move to a semi-autonomous revenue authority. This is particularly relevant in the current context, as GoPb considers the implications of a potential transfer of responsibility for the collection of RGST to the Provincial level.

#### 3.2 Arguments for and against semi-autonomous revenue authorities

A semi-autonomous revenue authority is usually characterised by the following features:

- A ‘pure’ focus on revenue administration (rather than other functions, such as licensing or permits)



- Freedom to manage human resources (including hiring, firing, pay and performance) without control from central government
- Freedom to budget and allocate resources, with only periodic reporting to central government
- Often, some method that enables the agency to retain a portion of the revenue it collects (performance-related funding)
- Governance arrangements that include clear performance objectives, reporting arrangements and a 'board'-style oversight agency (usually chaired by the Minister of Finance)
- The retention of tax policy control in central government (usually in a Ministry of Finance)
- The creation of a revenue authority is often accompanied by the merging of multiple tax departments to achieve economies of scale (so-called unitary revenue authorities)

Revenue authorities have often been created at times of significant fiscal constraint, as the state seeks ways to maximise revenue collection in a short period of time. But increasingly, revenue authorities have come to be seen as a mechanism to enable the professionalization of revenue management in the absence of wider civil service reform. In other words, free from central government control, revenue authorities can increase salary levels to enable recruitment on a par with private sector companies, invest in their own infrastructure without requiring approval from central government (and without having to use central public works agencies) and allocate their budget as they see fit. In short, revenue authorities are intended to operate on a far more commercial basis than central government departments usually are capable of.

In many countries, the introduction of a revenue authority has led to significant increases in revenue. In Ghana, which created a revenue authority at a period of very weak performance, tax revenues increased from 4.6% of GDP in 1983 to 17.0% in 1994. In South Africa, which had less scope for such efficiency gains, tax revenue as a percentage of GDP still increased from 26.8% to 30.4% in 5 years in the late 1990s. Many other countries around the world have introduced revenue authorities – from Singapore in Asia, to Peru and Colombia in Latin America, and Spain and the United Kingdom in Europe.

However, studies have shown that the introduction of revenue authorities in several of these countries has not been an unqualified success. Potential problems and disadvantages include:

- Newly created revenue authorities usually bring higher collection costs, not least because expenditure on salaries and infrastructure typically increases. So long as such costs are justified by increased revenue, this may not be considered a problem, although in developing countries in particular reduced financial control can risk increased profligacy unless compensated for by effective oversight and accountability
- Semi-autonomous agencies can often create problems of coordination and control. A single purpose agency will focus on its specific mandate and objectives (e.g. annual revenue collection levels) and so may not pay attention to wider policy issues with which it would otherwise interface (e.g. tax fairness, border security)
- There is no systematic evidence that the creation of revenue authorities eliminates corruption. In fact there are some cases of corruption increasing, especially where governance and oversight arrangements fall prey to political or patronage considerations
- Revenue authorities are typically created to escape central government restrictions on budgeting, planning and human resource management. This of course begs the question as to whether wider civil service reform should not really be the answer

### 3.3 Potential implications of a revenue authority model in Punjab

The revenue authority model is an intuitively attractive one for several stakeholder groups:

- For the political executive, as it holds the potential to substantially improve revenue collection
- For revenue departments, as they can gain increased management autonomy
- For taxpayers, as compliance can become simpler, fairer and more reliable

But what would be the specific implications of a revenue authority model in Punjab?

Firstly it is worth noting that revenue agencies are typically attempted at the national level, where the scale of revenue collection operations often merits such a major structural change. There are few examples of revenue agencies being established at the sub-national level.

Of course Punjab is one of the largest sub-national entities in the world, larger in economic and demographic terms than many of the countries that have implemented revenue authority reforms at the national level. And executive agencies have been formed at the sub-national level in other spheres of public administration (e.g. licensing, utilities management). Nonetheless, a useful area of research for GoPb to investigate if seriously considering the revenue authority model would be ways in which the nature of GoPb tax collection (mostly property and possibly sales tax) would affect the viability of the model.

That point aside, GoPb would need to consider a number of specific questions and implications:

- **E&TD Non-Tax Functions:** An important pre-requisite in the establishment of a revenue authority is that it focuses entirely on revenue collection. It cannot have major policy responsibilities: such policies need to be maintained in departments, close to Ministerial oversight. In E&TD's case it also could not keep its anti-narcotics, licensing or regulatory functions. Executive and/or autonomous agencies are in general only successful if they specific, clear, limited and measurable mandates and objectives. A GoPb revenue authority, therefore, would focus only on tax collection (UIPT, RGST and others) with other functions being transferred to Home Department, Transport Department or other appropriate departments
- **Tax Policy:** In a similar vein, tax policy would need to be transferred to or created in an appropriate central government agency (ideally Finance Department). Current E&TD plans to create a tax policy unit would need to be reconsidered (although tax planning and/or research may still be relevant). In all cases, the development of tax policy capacity and thus the capacity to oversee a new revenue authority in (ideally) FD should be a pre-condition of a reform such as this
- **Governance Arrangements:** Successful revenue agencies are not those that operate entirely outside government supervision, but instead those that are closely and professionally governed, usually by 'Boards' comprising both public and private sector members. In GoPb's case there would be a strong case for FD to be responsible for this Board, although this would raise two sets of questions. Firstly, does FD have the capacity to play this role, given it has no real tax policy function or capacity itself at present (as above)? And secondly, what would then be the role of P&D's (P&D often 'outranks' FD) and/or the Chief Minister's office? In the latter instance, there can be advantages and disadvantages from the close involvement of Chief/Prime Ministers and Presidents in the governance of revenue agencies. More widely, would governance arrangements be able to avoid being 'captured' or unduly influenced by political or patronage considerations?
- **Inclusion or Exclusion of Board of Revenue:** Often one of the main elements of a revenue authority reform is the merger of multiple revenue departments in order to achieve economies of scale (in particular more efficient expenditure on common functions such as taxpayer communication, litigation and legislation, HR, IT and finance) and improved information management. The creation of a GoPb revenue authority that excludes land and income tax may bring only limited benefits, as well as significant problems in coordination and control – would BoR expect to be involved in the governance of a new revenue authority?

It is worth noting that E&TD currently collects only around 30% of the Province's own tax revenue (with around 60% being collected by BoR). And when compared to the Province's total receipts (i.e. tax + non-tax revenue) E&TD's share reduces further to around 20%. Consequently a revenue authority-type reform for E&TD-managed taxes alone might not have sufficient critical mass to bring genuine benefits.

- **Implications for Devolution:** At present one of E&TD's major institutional concerns is the confusion over whether revenue collection staff at the district level should be reporting to E&TD as a provincial agency, or to district governments themselves. Under a revenue authority model, it would be important for all staff to be employed directly by the agency, under agency-specific terms and conditions. This, therefore, would require agreement that

districts are to play no administrative role in tax collection (although in theory there could be district representation in revenue authority governance arrangements).

- **Political Economy of Autonomy:** Many countries that have created revenue agencies have had problems maintaining optimal levels of autonomy. Newly created agencies tend to immediately increase salaries far beyond civil service salary levels, and invest in visible infrastructure and equipment (offices and vehicles). In fact, revenue agencies often produce steadily increasing levels of cost-to-collection. Whether overall revenues increase as a result or not, this can create jealousy and enmity and leave the new agency vulnerable to political and bureaucratic criticism. Even semi-autonomous revenue agencies still depend to an extent on budget allocations from finance departments, meaning a key lever of central control will always be in place. In a personalised policy environment such as in Pakistan, the political skills and influence of the agency's Chief Executive would likely be critical.

## 4. Excise & Taxation Legal & Regulatory Framework

This Section provides a legal and regulatory review of the E&T Department.

The review

- Maps the legal and regulatory framework underpinning the work of the department and
- Analyses legislative enactments pertaining to the department in order to determine clarity, comprehensiveness, gaps and constraints these enactments impose on better functioning of the department

### 4.1 Legal and Regulatory Frameworks

#### 4.1.1 Decision making processes in Departments

Provincial and Federal Departments are created by their respective Rules of Business. Decision-making processes in Departments are also regulated by these Rules. These Rules are issued under Article 139(3) of the Constitution and are not subject to review/amendment by the Legislature. The Governor acting on the advice of the Chief Minister can amend the Rules<sup>6</sup>. This Advice is binding. Subjects allotted to the Departments, non-statutory powers of the Secretaries/other departmental officers, the manner of processing cases and decision-making powers of ministers and secretaries are all explained and provided by these Rules. Rules of Business also regulate in some measure the relationship between Departments or Departmental heads and Non -departmental public bodies or their heads<sup>7</sup>. The business of amending and administering the Rules of Business is allotted to the Services and General Administration Department. The Rules are generic and provide/form basis of overall similarities in work processes of various Government Departments. A summary of rules pertaining to various types of decision-making is as follows:

Nature of work	Decision making process	Issues
Policy making in the shape of Legislation	Formulation of legislative proposals by Department → Submission of proposals for approval of cabinet <sup>8</sup> → Referral to Law Department for giving shape to draft legislation → Submission of draft bill to Cabinet → Submission of Bill to the Assembly by the Law Department	Language capable of varying interpretations; varying interpretation lead to non-uniform practices
Policy making without resort to legislation	Formulation of proposals for Cabinet/CM <sup>9</sup> → Issuance of policy directions	Lack of clarity in rules as to areas which can be properly regulated by non-legislative instruments
Provision of information/Collection of Information – Monitoring the work of NDPB	Requests for information issued by Officers	Absence of detailed rules regulating provision of information obligatory
Decision making on the	Cases processed by clerical staff →	

<sup>6</sup> See Item No 10, Schedule III- Part A, Rules of Business, 1974

<sup>7</sup> Some part of this relationship is also regulated by various Financial/ Procurement Rules, Rules issued under the Civil Servants Act, and the powers of the Government in various statutory enactments where these enactments create a Non – departmental Public Body

<sup>8</sup> Rule 22(1)(a)(b), Rules of Business, 1974

<sup>9</sup> Rule 22 (1) (e) (f), Rule 12-A (1)(a), Rules of Business, 1974

basis of existing law/rules/practices/policy decisions	Decision made by officers (Section Officer/Deputy Secretary/Additional Secretary/Secretary)	
Coordination	Consultation with other departments/stakeholders as part of policy making process <sup>10</sup>	
Appointments to key positions	Proposals made by Section Officer/Deputy Secretary of appropriate department <sup>11</sup> → Orders issued by CM <sup>12</sup> /CS/Secretary	Duplication. Decision making processes are also defined in various Rules issued under the Civil Service Act and special acts.

#### 4.1.2 Non Departmental Public Bodies (NDPBs) attached to E&TD

The Department performs its functions both directly and through various non-departmental public bodies attached. These Non Departmental Public Bodies (NDPBs) are classified as Attached Departments, Autonomous Organisations and Specialised Institutions by the Rules of Business. However the Rules of business do not explain or define why a particular body is classified as an Attached Department or an Autonomous Body. Most Non departmental public bodies are of an executive nature and bodies entrusted with monitoring and inspections are practically non-existent.

NDPBs attached to the department are as follows:

Department	Attached Departments	Autonomous bodies
E&TD	Director General Excise and Taxation Punjab	Nil

#### 4.1.3 Laws underpinning the work of E&TD

Various enactments regulating the work of the department or administered by it are as follows:

#	Act/subordinate legislation	Year of Enactment	Relevant entry in Rules of Business <sup>13</sup>
1	The Punjab Excise Act, 1914	1914	Assessment and Collection of taxes on e) Duty on manufacturing, import and export of liquor, vend fee on retail sale of liquor and fees on grant and renewal of licenses /permits for liquor <sup>14</sup>
	The Punjab Liquor permit and Pass Rules		
	The Punjab Distillery Rules		
	The Punjab Liquor License Rules		

<sup>10</sup> See Rule 13, Rules of Business, 1974

<sup>11</sup> See Schedule V, Rules of Business, 1974

<sup>12</sup> Appointments requiring orders of CM are laid down in Schedule IV of the Rules of Business, 1974

<sup>13</sup> See Schedule II, Rules of Business, 1974

<sup>14</sup> Item 1(e), Excise and Taxation Department, Schedule III, Rules of Business, 1974

	The Punjab Liquor Import, Export, Transport and possession orders		
	The Punjab Brewery Rules		
	The Punjab Bonded spirit Ware-House rules		
	The Punjab spirituous preparations Bonded Ware-House Rules		
	The Punjab Excise Barrier Rules		
	The Punjab Intoxicants confiscation Rules		
	The Punjab Excise Bottles Rules		
	The Punjab Excise (Grant of rewards to informers and others) Rules		
2	The Punjab Duty on excessive wastage of spirits in distilleries (Validation) Ordinance, 1969	1969	Do
3	The Prohibition(Enforcement of Hadd) Order, 1979	1979	Do
	The Prohibition(Enforcement of Hadd) Rules, 1979		
4	The Punjab Urban Immoveable property Tax Act, 1958	1958	Policy Matters relating to property Tax <sup>15</sup>
	The Punjab Urban Immoveable property Tax Rules, 1958		
5	The Punjab Motor Vehicles Taxation Act, 1958	1958	Assessment and collection of taxes on Motor Vehicles <sup>16</sup>
	The Punjab Motor Vehicles Taxation Rules, 1958		
6	Chapter III of the Provincial Motor Vehicles Ordinance 1965	1965	Registration of Motor Vehicles as provided under Chapter III, of the Provincial Motor Vehicles Ordinance, 1965 and the Rules framed there under
	The Punjab Motor Vehicles Rules, 1969		
7	The Punjab Entertainments Duty Act, 1958	1958	No specific mention
	The Punjab Entertainments Duty Rules, 1958		
8	The Punjab Horse-Race Betting Tax Act, 1958	1958	No specific mention
9	The Punjab Finance Act, 1977 <sup>17</sup>	1977	Professions, trades,

<sup>15</sup> Item 7, Excise and Taxation Department, Schedule III, Rules of Business, 1974

<sup>16</sup> Item 1(b), Excise and Taxation Department, Schedule III, Rules of Business, 1974

	The Punjab Professions and Trades Tax Rules, 1977		callings, employments <sup>18</sup>
10	The Opium Act, 1878	1878	Control of opium, hemp, narcotics, liquor and intoxicating preparation; import licenses <sup>19</sup>
	The Punjab Opium Rules, 1956	1956	
11	The Punjab Tobacco Vend Act, 1958	1958	Professions, trade, callings and employments <sup>20</sup>
	Punjab Tobacco Vend Rules, 1958		
12	The Punjab Cotton Control Ordinance, 1966 <sup>21</sup>	1966	Assessment and Collection of Tax on Cotton ginning <sup>22</sup>
	The Punjab Cotton Control Rules, 1966		
13	The Punjab Finance Act, 1965 <sup>23</sup>	1978	Assessment and Collection of Tax on hotels <sup>24</sup>
	The Punjab Hotel Tax Rules, 1992		
14	The Punjab Real Estate Agents and Motor Vehicles Dealers (Regulation of Business) Ordinance, 1980	1980	Professions, trade, callings and employments <sup>25</sup>
	The Punjab Real Estate Agents and Motor Vehicles Dealers (Regulation of Business) Rules, 1980		
15	The Punjab Finance Act, 2008	2008	Assessment and collection of taxes on Motor Vehicles <sup>26</sup> ; Registration of Motor Vehicles as provided under Ch III, of the Provincial Motor Vehicles Ordinance, 1965 and the Rules framed there under
	Tax on imported Luxury Car Rules, 2008		

<sup>17</sup> See § 3, Punjab Finance Act, 1977

<sup>18</sup> Item 1(c), Excise and Taxation Department, Rules of Business, 1974

<sup>19</sup> Item 2, Excise and Taxation Department, Schedule III, Rules of Business, 1974

<sup>20</sup> Item 1(c), Excise and Taxation Department, Rules of Business, 1974

<sup>21</sup> Section 7 of the Ordinance, Ibid

<sup>22</sup> Item 1(a), Excise and Taxation Department, Schedule III, Rules of Business, 1974

<sup>23</sup> § 12, Punjab Finance Act, 1965

<sup>24</sup> Item 1(d), Excise and Taxation Department, Schedule III, Rules of Business, 1974

<sup>25</sup> Item 1(c), Excise and Taxation Department, Rules of Business, 1974

<sup>26</sup> Item 1(b), Excise and Taxation Department, Schedule III, Rules of Business, 1974

#### 4.1.4 Non-statutory tools used by the Department for regulatory purposes

Government departments occasionally use non-statutory methods for regulation. Thus the Federal Government allows Tax Exemption status to NGOs who have obtained certification from the Pakistan Centre for Philanthropy- a section 42 company.

#### 4.1.5 Departmental functions devolved to Districts

The district offices of Excise and Taxation Directorate perform functions allotted to both Provincial and Local Government. On the taxation side Tehsil Municipal Administrations have a right to fix property tax rates and extend rating areas<sup>27</sup>. Local Governments can also impose levies and taxes in accordance with the Local Government Ordinance, 2001 and entrust collection responsibilities to Excise and Taxation Offices in Districts. The powers of District Governments over Excise and Taxation offices include some level of HR control and budgeting. The District Officer (Excise and Taxation) reports to the Executive District Officer (Revenue). No officer of Excise and Taxation occupies the post of EDO (Revenue).

The dual use of district offices of Excise and Taxation Directorate for collection of provincial and local government taxes may be justified on efficiency grounds but it also leads to dual control, diluted and reduced accountability and reluctance to collect Local Government Taxes.

#### 4.1.6 Impact of 18<sup>th</sup> Amendment

The 18<sup>th</sup> Amendment of the Constitution has repealed the Concurrent Legislative List and now there are only three subjects on which the Centre and provinces can legislate concurrently<sup>28</sup>. While this has made legislative reform easy, it has also increased the work load of provincial departments which will have to create institutions for performing these hitherto federal functions and administer the laws enacted by the Federation on these subjects. The subjects deleted by the 18<sup>th</sup> amendment which have relevance to the work of these departments are as follows

Department	Concurrent subjects which will fall within the domain of E&TD	Relevant legislation
E&TD	Poisons and dangerous drugs	The Poisons Act, 1919; Control of Narcotic Substances Act, 1997; Anti-Narcotics Force Act, 1997
	Control and manufacture of opium	The Opium Act, 1878

The department has already written to S&GAD to increase its functions. However this increase has not been merely with regard to the functions now removed from the Concurrent Legislative List but it also includes other subjects<sup>29</sup>. The subjects however remain inappropriately defined.

#### 4.1.7 Legal compulsion on Departments to perform functions

The Government is under no legal compulsion to regulate a particular subject merely because of its inclusion in the Rules of business. Such a legal compulsion only arises where a statute imposes a positive duty on the Government or an NDPB to regulate. However there have been instances where legislation has had to be brought in due to court orders.

Regulations affecting citizens require statutory cover; however Government can lawfully regulate the working of its departments through non-statutory instruments. Regulatory intensities in key areas remain poor both because of a paucity of regulations and weak enforcement mechanisms.

<sup>27</sup> § 116, 117, LGO 2001, Rule 10, Punjab Local Government (Taxation) Rules, 2001

<sup>28</sup> Except criminal law, criminal procedure and evidence, see Article 142(b) and 143 of the Constitution of Pakistan, 1973

<sup>29</sup> The provinces can add functions by merely listing them as the Provinces have jurisdiction to legislate on all residuary subjects



## 4.2 Analysis of Legislative framework

### 4.2.1 Analysis of existing statutes/rules

Law/Rules	Legal Issues	Impact
Rules of Business	Subjects allotted to departments inappropriately defined	Leads to overlap, inadequate regulation,
	Acts administered by Departments not comprehensively listed	Leads to overlap, inadequate regulation, lack of focus
	Basis of classification of NDPBs into attached departments, Autonomous bodies and Specialised Institutions not defined	Varying interpretations of autonomy
The Punjab Excise Act, 1914	Needs updating	
	Needs redrafting <sup>30</sup>	Leads to multiple interpretation and litigation
The Punjab Duty on excessive wastage of spirits in distilleries (Validation) Ordinance, 1969	Nil	
The Punjab Urban Immoveable property Tax Act, 1958	The Rules empower Excise Officers to determine the charitable status of institutions for purposes of Tax exemption <sup>31</sup> . There are no parameters for this exemption.	Leads to loss of revenue.
The Punjab Motor Vehicles Taxation Act, 1958	To be determined	
Chapter III of the Provincial Motor Vehicles Ordinance 1965		
The Punjab Entertainments Duty Act, 1958		
The Punjab Horse-Race Betting Tax Act, 1958	Needs updating	
	Implies that betting is legal when it's not	
The Punjab Finance Act, 1977		
The Punjab Tobacco Vend Act, 1958	Needs updating ( e.g. the Head of the Excise and Taxation Department is designated as the Commissioner under the Act <sup>32</sup> )	
The Punjab Cotton Control	To be determined	

Ordinance, 1966		
The Punjab Finance Act, 1965		
The Punjab Real Estate Agents and Motor Vehicles Dealers (Regulation of Business) Ordinance, 1980 <sup>33</sup>	Does not place any duty on Real Estate Agents and Motor Vehicle Dealers to ensure that title of Land/vehicle is sound	The purpose of regulation is lost
	Regulatory duties have been assigned to Excise and Taxation officers by section 9 of the Ordinance with regard to both Land and Motor vehicle transactions when E&T officers have no training in the former area or access to that record.	

Most enactments and their subordinate legislation create posts and/or prescribe their powers, methods of appeal etc. Standards to be followed in service delivery and/or manufacturing are prescribed by few enactments<sup>34</sup>.

#### 4.2.2 Additional legislation/amendments/structural reform contemplated by the Department

Department	Area	Legal issues
E&TD	Creation of separate directorates pertaining to UIPT ( Urban Immoveable Property Tax), MVT (Motor Vehicle Tax), excise etc.	None
	Provision of clarity with regard to Local Government controlled taxes particularly UIPT	Overlaps with LG Ordinance
	Review of all enactments for updation/remove redundancies	
	Review of UIPT Law drafted by World Bank	
	Review of provincial VAT law on services	

#### 4.2.3 Legislative constraints on structural reform:

There are virtually no legal constraints on functions that may be allotted to Non-Departmental public bodies, which means that the law does not recognise anything as a core departmental function. Similarly the law does not require a particular legal instrument for creation of a Non Departmental public body.

There are however legal constraints on the extent of autonomy ('the extent of the arm's length') that a NDPB may exercise. These constraints arise both from the powers of Government to superintend these bodies and from various financial and HR rules. Generally control over bodies created through executive orders is considerably more than statutory bodies and incorporated entities.

With regard to the choice of legal instruments for creating Non-departmental entities one must be cognisant of the fact that governance regimes for entities like companies, trusts and charities is weak and uneven, which leads to excessive reliance on statute-based solutions.

Public private partnerships face another set of problems. While Public private partnerships are regulated through contractual arrangements they may, in addition to the terms of the Contract Act be regulated by special legislation both with regard to identification of private parties for contracting, dispute resolution, processing of contracts within the Government and so on and so forth. One such legislation is the Punjab Public Private Partnership for Infrastructure Act, 2010. This law however does not extend to non-infrastructure projects. This means both flexibility and difficulty in engaging in public private partnerships with regard to areas not covered by the PPP Law. Public Private Partnerships also face difficulty in adoption due to inadequate capacities in the Law Department to formulate and draft contract agreements and poor contract enforcement mechanisms and possible inconsistencies between contractual provisions and Government procurement and/or financial rules.

Use of private entities for regulatory purposes is also subject to some constraints. Thus while the provision of the service of regulation may be lawfully assigned to private entities the parameters of regulation should be laid down by the Government and such private service providers should remain within close oversight of the Government.

## 5. International Experience of Functional Reviews

There is a wealth of information and sources concerning the experiences with functional and management reviews internationally. As a result there is now a general consensus concerning what constitutes best practice in this field, and there are many lessons from elsewhere that can prove informative and useful. A particularly useful paper from the World Bank<sup>35</sup> cites examples from 14 countries – many of them with Provincial reviews (6 in Canada). It also outlines other types of review e.g.

- UK : Prior Options reviews
- UK : Better Quality Services and Best Value Reviews
- UK : Market Testing
- UK : Fundamental Expenditure reviews

This paper also endorses the methodology for what it terms ‘downstream ministerial or departmental’ review (which has been used for this Department), and that for Tanzania’s Review for Executive Agency Status which were first developed by a team in Bannock Consulting (UK) that included the PGEIP CSR Lead Specialist.

### 5.1 Objectives of functional reviews

Reform teams in governments have launched programme and functional reviews for a number of reasons. The most common has been in response to fiscal pressures, with the reviews being designed explicitly from the outset to identify sometimes significant savings. Others have been designed in response to pressure from political leaders wishing to increase the policy responsiveness of the government machine and to strengthen the effectiveness with which policies are translated into actions and outcomes. Others have been driven at least in part by a desire to respond to pressures from either the private sector or citizens for better and more appropriate services.

Reviews can focus on two different subjects for potential reform: *organisation* and *policy*. Organizationally, broad whole of Government or ‘horizontal’ reviews can identify individual Ministries, Departments or Agencies that are to be merged or restructured for cost-effectiveness, effectiveness, and/or efficiency reasons. In terms of policy, reviews can require that all government policies and programmes be considered, or can focus on specific policy areas or programmes that are felt to require particular attention or to be particularly problematic.

A narrow review focus on how a group of organisations is structured and managed, without any attempt to review the policies that they are asked to implement, *is a classical review of operational efficiency*. The question in this case is: *"how can we reduce running costs or improve service quality while delivering these programmes?"* Conversely, a focus on government policy and programmes without any concern to review the organisational arrangements that deliver them represents a *'pure' effectiveness study of policies and programmes*. The question in this case is: *"what are we best at doing?"*

These different approaches are of course related. Operational efficiency and programme effectiveness are inextricably linked. What governments *should* do is inevitably linked to the question of what they *can* do well. However, the linkage is not mechanical and in undertaking efficiency and effectiveness reviews, different governments have made different choices at different times, with varying degrees of specificity regarding which organisations and which policies they are concerned about.

The World Bank paper lists 5 types of functional review:

- ‘Pure’ policy or programme reviews
  - These reviews aim at securing comprehensive policy reforms, with low priority programs being dropped and resources and efforts targeted at higher priorities. The reviews tend not to get into detailed organizational level arrangements, prescribe detailed restructuring, or identify changes at the level of business processes.
- ‘Pure’ efficiency reviews

- This type of review envisages no major changes in government policies and programs, but focuses instead on identifying organizational and business process changes which can generate the same outputs at greater efficiency.
- Upstream programme and efficiency reviews
  - This type of review envisages comprehensive policy reforms, including a shifting from low to high priority programs, together with the restructuring of government-wide processes including large scale restructuring of the machinery of government.
- Mainstream Ministry / Department / Agency level reviews
  - These reviews consider reshaping some programmes, dropping some activities, and restructuring some entire Ministries/agencies but without large scale changes to the overall machinery of government.
- Downstream organisational reviews and business process re-engineering
  - These entail dropping or changing specific activities and services within a specific Ministry/agency, or the detailed restructuring of a specific agency.
  - They tend to focus on the consolidation of similar services within the same ministry, department or agency, and could include pursuing options such as automation and contracting out or market testing (the introduction of competition in the provision of administrative services).

The review that we have conducted in this Department (together with the intended support that will follow through the HR, BPR and Change Management components of the PGEIP) can thus be seen to be comprehensive in that it includes elements of the second, fourth and fifth types as outlined in this typology.

## 5.2 Aligning functional reviews with the budget process

The defining characteristic of efficiency and effectiveness reviews is that they entail a discrete approach for developing recommendations for change outside of the usual budget and planning cycle. However, clearly the results of the review must ultimately be incorporated within the budget. Reviews will not lead to concrete outcomes if central government bodies (or donors funding programmes) are in the position of suggesting reforms that they have neither the budgetary information to fully justify nor the leverage to fully implement. Reviews may also lead to disappointing outcomes if they identify areas in which legislative change is required, but do not assess the feasibility of securing such changes. The CSR component of the PGEIP has the benefit of a legal specialist who has conducted a review of the legislative framework for the Departments being reviewed and this is summarised later in this report. Finally, there is a significant risk of mis-timing if the Department of Finance / Budget Office is provided with recommendations at an inappropriate point in the budget cycle. As the PGEIP has two main component pillars – one for the introduction of a MTBF and the other to address CSR, it will be the intention of the consultants to try as far as they are able to ensure that any restructuring that is agreed will be recognised in forward budget planning for the medium term as soon as possible.

## 5.3 Key elements of the process for E&TD

The general steps were to:

- 1) Obtain agreement to the methodology developed by the consultancy team from the Secretary and senior management of the Department to be reviewed, and from the National consultants and Departmental Coordinators who are to work on the reviews. This is important because they possess local knowledge of the context, the personalities, and ultimately have a good sense of what may and may not be acceptable, or ultimately work.
- 2) Facilitate extensive discussion on the review methodology with senior management.
- 3) Confirm that all parties understand the priorities and timelines as expressed in the programme.
- 4) Disaggregate the functions that the Department undertakes in relation to this programme (as indicated in Annex A.).

- 5) Review those functions with a view to shedding services for which there is no demand or justification, reducing the volume or quality of services that cannot be stopped, and determining the resultant basic list of necessary functions.
- 6) Determine the operating environment that is most appropriate for those necessary functions:
- 7) Structure the 'inherently governmental' environment in more detail by recommending that functions are allocated to:
- 8) Provide guidance on the internal structure of public sector organisations – indicating:
  - a) whether functions should be located in a common department
  - b) whether departments divisions need restructuring; and
  - c) whether managerial responsibilities are balanced and sustainable.
- 9) Conduct a consultation / validation meeting or workshop to discuss findings and correct any factual errors.
- 10) Prepare the final report with agreed findings converted into firm recommendations and with identification of senior management (of the Department's) articulated priorities for implementation.
- 11) Development of an implementation plan that defines:
  - a) main tasks to be completed, including redundancies and redeployments
  - b) likely resource requirements to implement agreed priority initiatives emerging from the review
  - c) legislative requirements to support the review
  - d) allocation of implementation tasks to designated managers
  - e) project management arrangements
  - f) a change management strategy and programme with key activities (workshops etc.) identified.
- 12) Possible consideration of a 'Citizens or Client Service Charter' that sets out what standards of service and service delivery stakeholders can and should expect, and how to seek redress in the event of these standards not being met.
- 13) Wide dissemination of the results of the functional review supported by a Communications Strategy, professionally conducted PR, public information campaigns media management etc.

The methodology for mainstream Departmental / Agency-level functional reviews is technically complex. This is because the reviews are seeking to suggest improvements both in the activities that are undertaken and in the organisational arrangements for undertaking them. In breaking down the functions into discrete components, the typology employed was along the lines of that now generally considered to reflect international good practice.



**Appendix A: Overview of the Excise & Taxation Department**



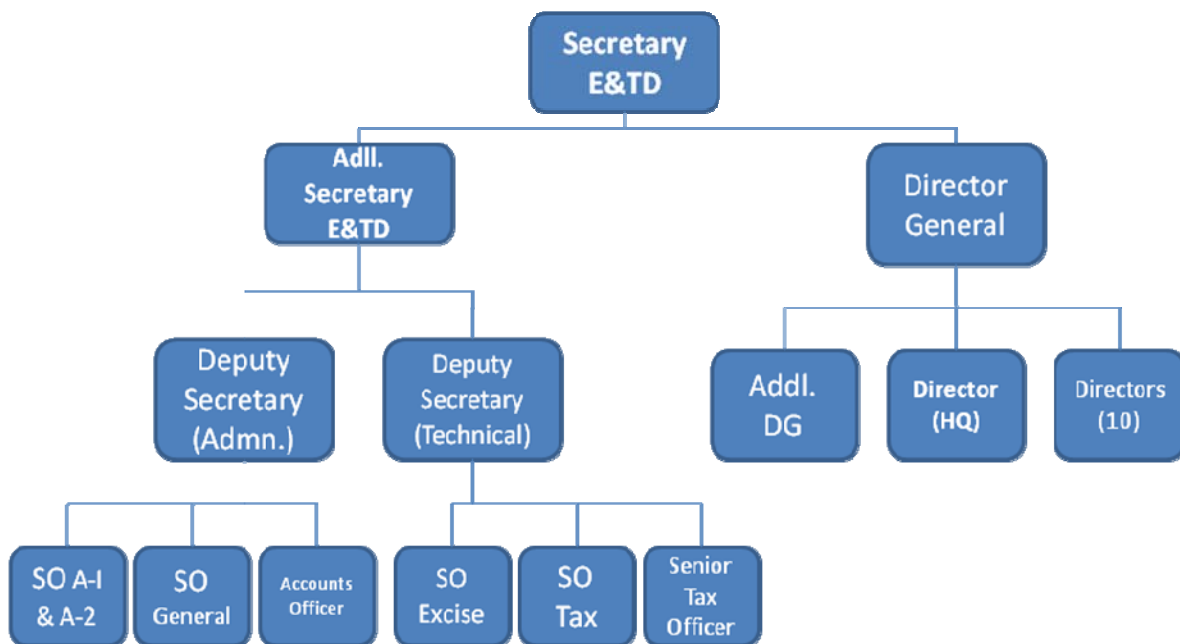
## 1. Objective/Mission

The department was established in 1974 as the Excise and Taxation Department. Prior to this it was part of the Board of Revenue.

The Department defines its mission as follows:

*“To mobilize fiscal resources through equitable and tax-friendly taxation, facilitate a reliable, transparent, hassle free and computerized registration of motor vehicles and transform in to an effective and self sufficient anti narcotics provincial agency.”*

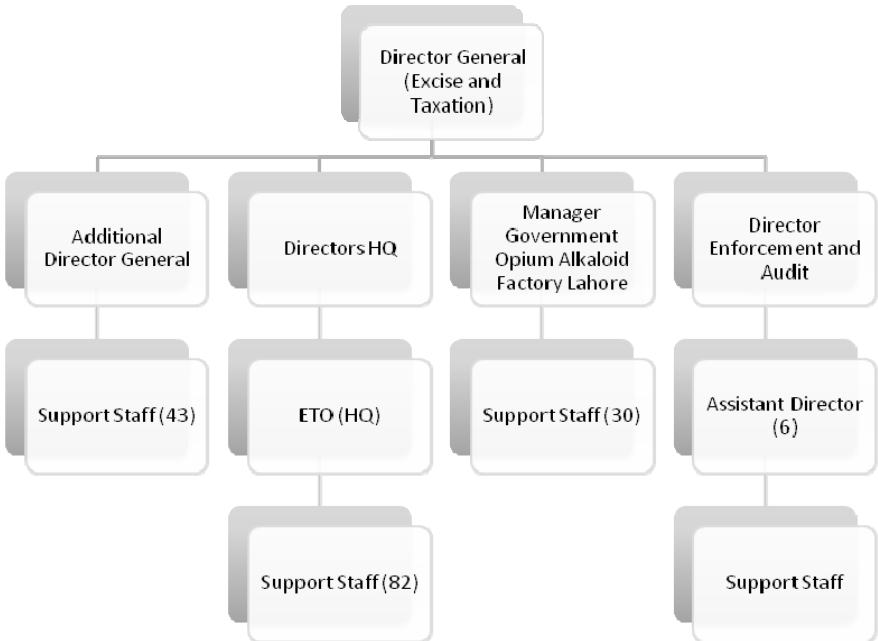
## 2. Organizational Chart of the Secretariat



### Some of the functions performed by Secretary: 36

- Administrative and executive head of the department, therefore, provides strategic direction to the department
- Decision on policy proposals for Excise and Taxation Department
- Coordination with Federal and District Governments
- Responsible for planning in terms of preparation and execution of annual development plan
- Acts as Principal Accounting Officer (PAO) of the department and, therefore, responsible for issues including internal accounts, audit, and audit observations.
- Responsible for efficient working of the department and complaint redressal..
- Establishment matters as provided in the various statutes and rules.
- Acting and Chairman of the Excise and Taxation Foundation.

### Organizational Chart for the Office of Director General



3. Relationships

Existing Formal/Informal Institutional Relationships

- With federal government: The department collects some taxes on behalf of the Federal Government, for example a withholding/advance income tax is collected along with the annual provincially levied motor vehicle tax.
- With local government: The department is collects property tax through its own staff and releases 85% share – retaining 15% as a collection charge – of this tax to the district government in which the property taxed is located.
- With other provincial government departments: none

4. Functions under Rules of Business

**Rules of Business, 1974**

1. Assessment and Collection of Taxes on:
  - (a). Cotton Ginning;
  - (b). Motor Vehicles;
  - ©. Professions, Trades, Callings, Employments
  - (d). Hotels;
  - (e). Duty on manufacturing, import, export of liquor, vend fee on retail sale of liquor and fees on grant and renewal of licenses/permits for liquor.
2. Control of Opium, Hemp, Narcotics, Liquor and intoxicating preparation licenses.
3. Budget and Accounts relating to the following heads:
  - 6-Opium;

- VI-Opium
  - 8-Provincial Excise;
  - VIII-Provincial Excise;
  - 12-Charges on Account of Motor Vehicles Acts;
  - XII-Receipts under Motor Vehicles Acts;
  - 13-Other Taxes and Duties; and
  - XIII-Other Taxes and Duties.
6. Registration of Motor Vehicles as provided under Chapter III of the Provincial Motor Vehicles Ordinance, 1965 and the rules framed thereafter.
  7. Policy matters relating to property tax

### 5. Actual functions being performed<sup>37</sup>:

The Excise & Taxation Department of the Government of the Punjab carries out the following Functions:

1. *Registers and certifies information of motor vehicles*<sup>38</sup>
2. *Levies and Collects Motor Vehicle Registration and Token Tax.*
3. *Levies and Collects duty on the manufacture, import, export and sale of liquor*<sup>39</sup>
4. *Liaises with law enforcement agencies relating to intoxicants and narcotic substances and liaises with law enforcement agencies on matters relating to the production and sale of intoxicants and narcotic substances*<sup>40</sup>.
5. *Issues and renews licenses to producers, distributors, sellers and consumers of alcohol, opium, hemp and narcotics*<sup>41</sup>
6. *Levies and Collects Property Tax:*
7. *Maintains records of properties liable to property tax (this includes recording transactions with respect to transfers of ownerships and change of status – i.e. rented to self-occupied, residential to commercial – and registering new properties)*
8. *Issues clearance certificates – on property taxes paid – to enable registration of property sale deeds and recording of names of new owners.*
9. *Manages the Opium Alkaloidal Factory*<sup>42</sup>
10. *Levies and Collects the following Taxes (other than Motor Vehicle and Property Related Taxes:*

#### **Relevant legislations for various functions:**

The following is the relevant legislation as provided by the Department:

- Property Tax Related Legislation:
  - The Punjab Urban Immovable Property Tax Act, 1958
- Motor Vehicle Tax and Registration related Legislation:
  - The Punjab Motor Vehicle Taxation Act, 1958.
  - The Punjab Motor Vehicles Ordinance, 1958 (Provisions related to Registration of M.V.s
- Other Legislation:
  - The Punjab Excise Act, 1914.
  - The Prohibition (Enforcement of Hadd) Order, 1979.
  - The Control of Narcotic Substances Act, 1997.
  - The PGLO 2001
  - The Punjab Entertainment Duty Act, 1958.

- The Punjab Cotton Control Act, 1966. (Provisions relating to the Levy and Collection of Cotton Fee).
- The Punjab Finance Act, 1977 (Provisions relating to the levy and collection of tax on professions, trades, callings of employments.)
- The Punjab Finance Ordinance, 1978. (Provisions relating to the levy and collection of hotel tax)

#### 6. Size of Department (including attached departments)

Staff	No of Sanctioned Posts	Actual Staffing
		3203

Budget	Recurrent (PKR millions)	Development (PKR millions)
		286

#### 7. Name of Attached Bodies/Autonomous Organization

Director General (E&TD); Attached Department

## Appendix B: Methodological Details

## METHODOLOGY

The reviews took into account the classification of functions that had been used previously in the whole of Government High Level Government Review (HLGR). This was necessarily a 'horizontal' review, the main purpose of which was to ascertain the optimum number, role and functions of Departments and other Government bodies. The functional reviews conducted in the two Departments were 'vertical' reviews that attempted to drill down to identify, confirm and consider the effectiveness and efficiency of functions, but also necessarily of a range of activities that together constitute these functions. Whilst arriving at conclusions and making recommendations concerning the most appropriate 'destiny' of functions, the reviews also considered the effectiveness and efficiency of the main management systems and processes to the extent possible in the limited timescale. This was with a view to the Programme eventually providing implementation support not only for any necessary (and agreed) restructuring, but also for strengthening, for capacity development, for improvement of core systems and processes (such as those for HRM), and for the process of change management itself.

The Functional Reviews should thus be considered to be Functional *and* Management Reviews because, given that the Terms of Reference cater and provide expertise for HR (planning, management and development), Business Process Re-engineering (and improvement), legal considerations, change management and communications, we have considered existing management systems and key processes as well as structure and a broader classification of the functions of the Departments. In this context, we have also reviewed the recommendations of previous reports – most notably the High Level Government Review (HLGR) and the GHK Report on Fiscal & Financial reforms (in the case of E&TD in particular).

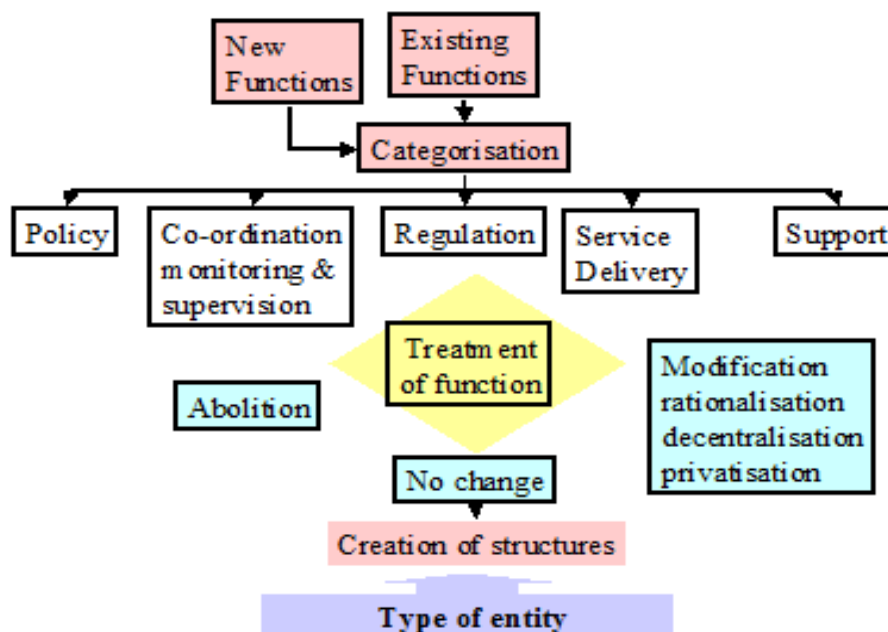
The output of this work was initially a set of 'emerging findings' which were presented to senior management of both Departments in order to allow the opportunity for validation of the factual correctness of the analysis. These consultation meetings also provided the opportunity for both Departments to consider the emerging findings and to offer initial endorsement or to question conclusions as the case may be. The intention was to point the way to new and more efficient structures that remove duplications, anomalies and out-dated arrangements. The reviews also form the basis and provide the rationale for further work and recommendations concerning the strengthening of core functions that should and will be retained centrally by the Departments in the areas of HRM, BPR and any changes that may be needed in the legislative frameworks.

Through a combination of desk work (studying previous reviews and reports), structured one-to-one interviews with managers, and international understanding of 'best practice', the consultants classified functions according to the following criteria:

- **Policy functions:** such as strategic planning, legal drafting, development of performance contracts, minimum standards, norms, policy analysis and evaluation, forecasting,
- **Regulatory functions:** such as licensing, certification, permissions, accreditation, compliance, and financial audit,
- **Revenue generating functions:** these are usually carried out by agencies such as Revenue Authorities, and institutions such as a national post office,
- **Executive functions:** such as planning for service delivery and executing service delivery (providing materials and facilities; constructing and maintaining; managing national funds),
- **Co-ordination functions:** such as co-ordinating relationships between bodies involved in policy making or service delivery,
- **Supervisory functions:** such as monitoring the performance of subsidiary bodies and private or NGO service providers.

- **Support functions:** such as financial, human resource and information management, infrastructure, staff training and secretarial services

Having applied this classification, we then considered how each function should be treated as shown in the following diagram:

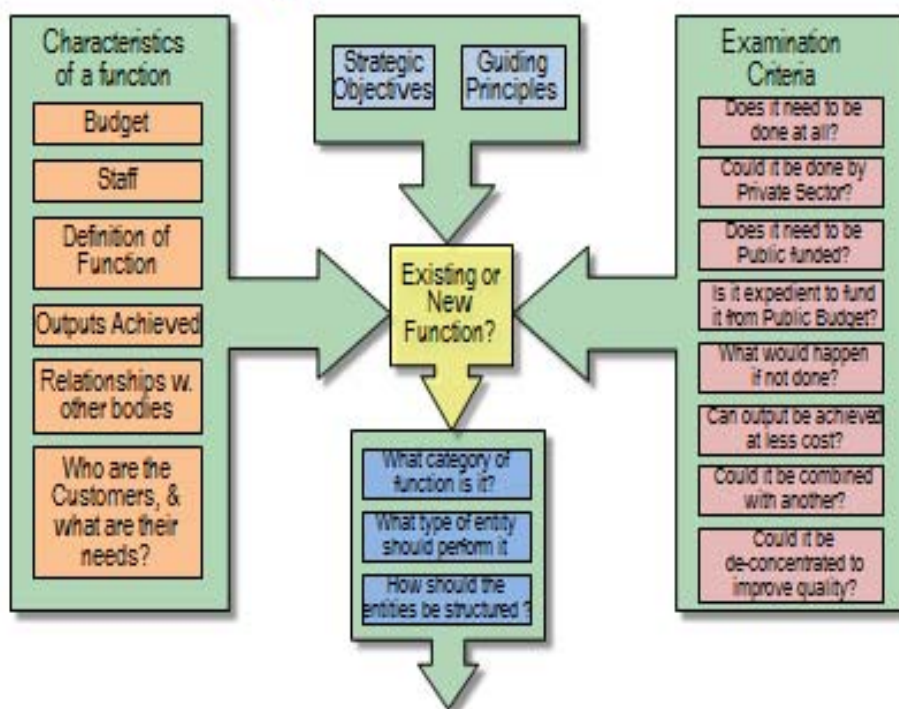


Guiding principles for organising (re-organising) functions are as follows:

- Group functions of the same type together for economies of scale and maximise synergies,
- Separate policy and executive (service delivery) functions,
- Ensure that policy functions are performed by the central Department,
- Executive functions by Department or by lower levels of government,
- Separate regulatory functions from executive functions to prevent conflicts of interest and corruption,
- Separate support functions (such as financial management, ICT, HRM&D) from all other functions that enable the core functions of the ministry to be performed; and
- Provide equal responsibility for DGs / Directors, in terms of spans of control and volume of workload.

The following Framework summarises the decision making process for the analysis:

## Functional Analysis Framework



Decision-making criteria for the appropriate 'destiny' of functions are as follows:

- **Identification of outputs**, 'customers' for these, and any key performance indicators (KPIs if in place) for each Directorate General or Directorate;
- **Identification of current structure** of Directorates General or Directorates in each Department or subordinate body;
- **Identification of existing and new functions (if required)** of each Directorate General or Directorate, and the categorisation by function type;
- **Analysis of appropriateness of functions** to avoid duplication or conflict;
- **Recommended 'destiny'** (possibly no change) for an existing or any required new function.

This then enables decisions to be made concerning a function as follows; it may be:

- **Abolished** because it is not required to protect public interests, or there is no demand for them from the public;
- **Transferred** to other Departments because there are greater synergies with other sectors;
- **Reduced** in quality or volume because they are not a priority function relative to the goals of the Department;



- **Rationalised or merged** with other similar types of function to realise economies
- **Decentralised / Devolved** to lower levels of government;
- **Privatised** by tender to the market for service provision,
- **Incorporated into self-financing national enterprises** (e.g. a nationalised Production Company);
- **Undertaken by the core Department;** (in effect probably no change),
- **Devolved to independent bodies** – e.g. Commissions;
- **Delegated** to supervised bodies;
- **Delegated** to Executive Agencies (at arms' length - 'Eyes on but Hands off')

### Objectives

The objectives of this functional and management review were therefore to:

- **review the organisation and operations** of Pilot Departments & subordinate organisations, their mandated and actual functions, structures and resources;
- **identify areas for improvement and strengthening** (perhaps cost savings; perhaps greater efficiency; perhaps better service delivery);
- **recommend any re-organisation** of structures, systems or processes in line with best practice;
- **feed into an Implementation Plan** to improve effectiveness and efficiency as part of the PGEIP (PRMP) framework of reform initiatives.

### Scope

The scope of the review was to seek answers (through one-to-one interviews or secondary sources) to the following questions:

- Are structure and functions aligned with policy, regulations and Departmental mandate?
- Do mandates, mission and responsibilities match the broader legislative, policy and strategy framework?
- Do organisational structures match planned objectives and are they separated appropriately?
- Are there medium-term (3-5 years) strategic plans, and annual operational plans that align with credible budgets?
- Are there M&E system for results and performance?
- Are there effective communications and relationships between Federal Government, Provinces, Districts or municipalities?
- Is there efficient management of resources?
- Is there effective management for continuous improvement and implementation of Public Sector Reforms?

In many cases, of course, and particularly where it was considered appropriate for functions to continue to be seen as core functions of the central Department (in effect with no recommended structure change), it was still possible to identify a range of ways in which their constituent processes and activities can be strengthened or improved through the auspices of the PGEIP over the next 18 months. It is envisaged that this will apply to the following:

- Relations between Federal Govt., Provinces and Districts *will be addressed in the Communications Strategy,*
- Vertical integration of key processes and opportunities for streamlining *will be addressed through the BPR/BPI component and the Change Management strategy,*
- Optimal staffing, recruitment, postings, retirement processes, performance management, and organisation (in terms of spans of control, delegation etc.) *will all be addressed through the*
- Knowledge management (and ways to build institutional memory) *will be addressed through the Change Management and Communications Strategies,*
- Financial management – budgeting, expenditure control, alignment of plans with budgets *will be addressed through the MTBF component of the programme,*
- Change management and its implications for implementation of all other proposed reforms and changes *will be addressed through the Change Management and Communications Strategies,*
- Dialogue with DPs (Donors & Programmes) *will be addressed through the Communications Strategy.*

**Appendix C: Functional Review Matrix For The Excise & Taxation Department**

No.	FUNCTION (Policy Outcome)	Activity	Type	Organizational Responsibility	Output(s)	Customer(s)
1	<b>ASSESSMENT &amp; COLLECTION OF TAXES</b> (Revenue Maximization through an Efficient and Responsive Tax Collection Regime)	<b>Determination of Rates, Rebates, Concessions, etc. for Different Taxation Measures</b> (Objective: To provide a rationale for tax collection)	Revenue Generation/Policy	<b>E&amp;TD</b> <b>DG E&amp;TD</b>	Tax Schedule/Notifications/Valuation Tables	Internal, Public at large; and Tax Payers
		<b>Tax Assessment &amp; Imposition</b> (Objective: To enforce tax on individual/corporate tax payers)		<b>DG E&amp;TD</b> Respective Directorates in Different Geographical Regions	Surveys, Tax Notices Various Other Forms for Assessment, etc.	Property Owners for UIPT  Motor Vehicle Owners for Motor Vehicle Tax, Token Tax, CVT, Advanced Income Tax  Various Enterprises for Excise Duty  Hotels for Hotel Tax  Cotton Ginning Mills for Cotton Fee

						Cinemas, etc. for Entertainment Duty Professionals for Professional Tax
		<b>Tax Collection</b> (Objective: Revenue generation and facilitation as per Tax Imposition Regime)		<b>DG E&amp;TD</b> Respective Directorates in Different Geographical Regions	Revenue	Government
		<b>Review of Appeals</b> (Objective: To provide a forum to citizens for review/correction of tax imposition, etc.)		<b>DG E&amp;TD</b> Respective Directorates in Different Geographical Regions	Refunds, Decisions on Appeals	Appellants
		<b>Management of Customer Service Centres</b> (Objective: To facilitate citizens and tax payees for tax imposition/collection and appeals)		<b>DG E&amp;TD</b> Respective Directorates in Different Geographical Regions	Service Delivered through Facilitation Centres	Tax Payees Public

2	<b>REGULATORY &amp; RECORD-KEEPING</b> (Compliance with Regulatory Regime and Maintaining/Developing Public Records)	<b>Management of License &amp; Permit Regime for Opium, Hemp, Narcotics, Liquor and intoxicating preparation licenses</b> (Objective: Manage use of restricted substances)	Regulatory/Service Delivery/Support	<b>DG E&amp;TD</b> Respective Directorates and District Offices	Licenses, Permits	Public, liquor and other substances manufacturers and traders
		<b>Crime Reporting &amp; Detection related to Intoxicant Substances, Narcotics to relevant agencies</b> (Objective: Containing violations of regulatory regime related to restricted substances)		<b>DG E&amp;TD</b> Respective Directorates in Different Geographical Regions	Reports to Law Enforcement Agencies (as and when required) and for Internal Regulation	Law Enforcement Agencies  Other Wings of E&TD
		<b>Regulation of Opium Production and Management of Opium Alkaloidal Factory</b> (Objective: Managing provision of opium for necessary usage)		<b>DG E&amp;TD</b> Manager Opium Alkadoil Factory	Opium powder, opium tablets	Authorized Users of Opium (through District Offices)
3	<b>Regulation and Licensing of Motor Vehicles</b> (Compliance with Regulatory Regime and Maintaining/Developing Records related to motor vehicles)	<b>Motor Vehicle Registration, Record Keeping &amp; Maintenance</b> (Objective: To register all motor vehicles in the province and maintenance of a data-base for multiple uses)	Regulatory/Service Delivery	<b>DG E&amp;TD</b> Respective Directorates in Different Geographical Regions	Registration Marks, Certificates, NOCs, Duplicate Records, etc.	Citizens, Vehicle Owners, Other Agencies

4	<b>POLICY, PLANNING &amp; MANAGEMENT</b> (Responsive formulation and implementation)	<b>Policy Formulation</b> (Objective: Providing strategic direction for responsive revenue imposition and collection regime; maintenance of public records; and regulation)	Policy/Coordination/Support	Deputy Secretary (Technical)	Unclear	Internal and external (Staff and Other Stakeholders), CM Secretariat, Finance, P&D
		<b>Preparation of ADP/MTDF and Development of PC-Is</b> (Objective: Annual planning exercise and project development)		Deputy Secretary (Technical) Deputy Secretary (Administration)	Input for ADP/MTDF Book	External (P&DD), FD
		<b>Budget Preparation (incl. Supplementary Grants &amp; Re-appropriations)</b> (Objective: Seeking funds for non-development expenditure and SNE)		Deputy Secretary (Administration)	Draft Annual Budget	External (FD)
		<b>Human Resource Management (Incl. postings, transfers, appraisals, promotions, disciplinary proceedings, etc.)</b> (Objective: Management of human resource for effective and efficient policy implementation)		Deputy Secretary (Administration) DG E&TD	Notifications, etc. Training courses	Internal (Staff)
		<b>Development Project Implementation &amp;</b>		Deputy Secretary (Administration)	Expenditure Reviews	Internal (Respective)

		<p><b>Monitoring</b> (Objective: Undertaking development projects to support various policy outcomes)</p>		DG E&TD		Directorates) P&D, FD, CM Secretariat
		<p><b>Providing Input for Necessary Legislation</b> (Objective: Developing an enabling legal regime, ensuring quality products provision to public)</p>		Deputy Secretary (Technical)	Draft Legislation	Law Department and ultimately Provincial legislature for statutory enactments  Chief Minister for Sub-statutory regulations
		<p><b>Information and Awareness Campaigns</b> (Objective: Informing the public at large regarding various tax imposition/collection and regulation issues)</p>		Deputy Secretary (Administration) DG E&TD	Advertisements Brochures, etc.	Public



## Appendix D: Completed Functional Review Questionnaires

<b>Activity/Function 1.1: Assessment and collection of taxes</b>		
<b><i>Determination of Rates, Rebates, Concessions, etc. for Different Taxation Measures</i></b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Revenue generation/policy	
1. Is the function required to protect public (safety, economic, social)	Yes	Internal and for core government activity
2. Is there a demand for the function?	Yes	
3. Does the function support the Department's strategic objectives?	Yes	
4. Is the function required by national, international law or constitution?	No but by Departmental Mandate	
5. Are the public willing to pay for the services?	No	Incentives for timely completion of assessments can be provided – e.g. eventually for electronic submission.
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Taxation measures are already decided in an adhoc manner, therefore more emphasis is required in term of analysis and research. There is currently no Tax Policy Unit.
11. Can the function be merged with another to provide economies of scale?	No	It is a technical function that may not be merged with another
12. Can the function be decentralised to improve effectiveness?	No	Tax policy unit for forecasting, research and analysis may provide critical input for all the revenue generation functions
13. Would it be cost effective to decentralise?	No	
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	

18. Is it profit oriented?	No	But revenue generating by definition.
19. Can the function be delegated from the central Department?	No	Policies maybe uniformly designed across the province though input from field and lower formations maybe required.
<b>Activity/Function 1.2: Assessment and collection of taxes</b> <b><i>Tax Assessment &amp; Imposition</i></b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Regulation/policy	
1. Is the function required to protect the public (safety, economic, social)	Yes	Revenue assessment and collection is core government activity
2. Is there a demand for the function?	Yes	
3. Does the function support the Department's strategic objectives?	Yes	
4. Is the function required by national, international law or constitution?	Yes	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	Consideration of the creation of a unified Revenue Authority has been proposed in the HLGR and many other countries have adopted this approach.
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Core government activity and with NFC and 18 <sup>th</sup> Amendment, there is probably going to be more stress on provincial own source revenues
11. Can the function be merged with another to provide economies of scale?	No	The function represents one of the most important activities of the department and merging it with others carries higher risk
12. Can the function be decentralised to improve effectiveness?	Possibly	Some of the taxation measures have already been decentralised (UIPT); experience of these and others may be reviewed further for cost-benefit

		analysis of options.
13. Would it be cost effective to decentralise?	Possibly	
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	But revenue generating by definition
19. Can the function be delegated from the central Department?	Yes	Most of the activities under this function are being performed by D.G. Excise and its field offices so already delegated in this sense.

<b>Activity/Function 1.3: Assessment and collection of taxes</b>		
<b>Tax Collection</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Revenue generation	
1. Is the function required to protect the public (safety, economic, social)	Yes	Revenue collection is core government activity
2. Is there a demand for the function?	Yes	
3. Does the function support the Department's strategic objectives?	Yes	This is the one of the primary reasons for existence of the department
4. Is the function required by national, international law or constitution?	Yes	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Core government activity and with NFC and 18 <sup>th</sup> Amendment, there is probably going to be more stress on provincial own source revenues
11. Can the function be merged with another to provide economies of scale?	No	Though, different types of tax

		collection can be dealt different,; merger and distribution of which can be discussed; however, merger of this function with another may not be viable
12. Can the function be decentralised to improve effectiveness?	Possibly	Some of the taxation measures have already been decentralised (UIPT); experience of these and others may be reviewed further for cost-benefit analysis
13. Would it be cost effective to decentralise?	Possibly	Further investigation required particularly into legal and regulatory affairs
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	Yes	Most of the activities under these function are being performed by D.G. Excise and its field offices

<b>Activity/Function 1.4: Assessment and collection of taxes</b>		
<b>Review of appeals</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Support Function for Executive/dispute resolution	
1. Is the function required to protect the public (safety, economic, social)	Yes	This represents a forum and mechanism for the citizens to raise their observations
2. Is there a demand for the function?	Yes	
3. Does the function support the Department's strategic objectives?	Yes	Building public trust and improving departmental image are the strategic objectives of the department
4. Is the function required by national, international law or constitution?	Yes	
5. Are the public willing to pay for the services?	No	

6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Already, customer facilitation and feedback is low as described in previous reports
11. Can the function be merged with another to provide economies of scale?	No	This represents an important element supporting core service provision and, therefore, may not be merged with another
12. Can the function be decentralised to improve effectiveness?	Yes	Most of the review takes place at district offices, and is decentralised in this sense
13. Would it be cost effective to decentralise?	Yes	
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	Yes	Excise & Taxation Officers are the appellant authority in small Districts; Directors are the appellant authority in larger Districts

<b>Activity/Function 1.5: Assessment and collection of taxes Management of Customer Service Centres</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Support	
1. Is the function required to protect the public (safety, economic, social)	Yes	Access to citizens is mostly through district offices and facilities are of low standard
2. Is there a demand for the function?	Yes	
3. Does the function support the Department's strategic objectives?	Yes	Customer service orientation is one of the basic aims of the department
4. Is the function required by national, international law or constitution?	No	

5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	It appears that customer services are already not of a high standard and, therefore, require more focus.
11. Can the function be merged with another to provide economies of scale?	Possibly	Further investigation justified for consideration of possible benefits of rationalisation of this function could answer this question
12. Can the function be decentralised to improve effectiveness?	Probably	Closer and efficient customer service access is required, though this must be compatible with legal, regulatory and administrative arrangements
13. Would it be cost effective to decentralise?	Possibly	Further investigation in this area is required for determining cost benefit analysis
14. Can the function be charged for without inequality of service?	Perhaps	Certain services could be charged, though this requires further study
15. Are the public willing to pay?	Perhaps	
16. Can charges cover costs?	Probably not	
17. Can subsidy be granted?	Yes	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	Yes	Already customer service centres are being operated in district offices

<b>Activity/Function 2.1: REGULATORY &amp; RECORD-KEEPING</b>		
<b>Management of License &amp; Permit Regime for Opium, Hemp, Narcotics, Liquor and intoxicating preparation licenses</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Regulatory	
1. Is the function required to protect the public (safety, economic, social)	Yes	Legal and regulatory

2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	The Department does not have clearly articulated Strategic Objectives	This requires further work and discussion with the department. If this function is to remain a core function, the medium term Strategic Plan must reflect this with appropriate objectives, targets, indicators etc.
4. Is the function required by national, international law or constitution?	Yes	
5. Are the public willing to pay for the services?	Yes	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	The function probably belongs to E&TD
10. Can the function be reduced in terms of quality or volume with acceptable risk?	Possibly	Processes in licence and permit regimes maybe investigated further through BPR/BPI component of the PGEIP
11. Can the function be merged with another to provide economies of scale?	No	There probably are operational risks involved in merging or privatising the function owing to the legislative environment. Agency status could be considered as an option.
12. Can the function be decentralised to improve effectiveness?	Possibly	Decentralisation may be considered further in discussion with E&TD
13. Would it be cost effective to decentralise?	Possibly	
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	Yes	
16. Can charges cover costs?	Possibly	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	Possibility of Agency status.	This aspect requires further discussion with E&TD



<b>Activity/Function 2.2: REGULATORY &amp; RECORD-KEEPING Crime Reporting &amp; Detection related to Intoxicant Substances, Narcotics to relevant agencies</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Support	
1. Is the function required to protect the public (safety, economic, social)	Yes	Internal and other agencies
2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	Strategic Objectives not clearly articulated to identify such a requirement.	Though crime detection and reporting are not core activities of department, this maybe required for other departmental functions. Therefore, this aspect needs further investigation in the context of the mandates and functions of other Departments and Agencies with complementary or even overlapping responsibilities (e.g. Customs, Police, Anti-Narcotics Agency etc.)
4. Is the function required by national, international law or constitution?	Yes	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	Possibly	Investigate possibility of rationalisation with other similar bodies.
10. Can the function be reduced in terms of quality or volume with acceptable risk?	Unclear – possibly if rationalised with other Agency	
11. Can the function be merged with another to provide economies of scale?	Possibly – see above	Requires further investigation of other Departments and Agencies' responsibilities.
12. Can the function be decentralised to improve effectiveness?	Possibly	
13. Would it be cost effective to decentralise?	Possibly	
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	

17. Can subsidy be granted?	Not appropriate	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	Possibly	See above notes re potential for rationalisation with other similar bodies.

<b>Activity/Function 2.3: REGULATORY &amp; RECORD-KEEPING</b>		
<b>Regulation of Opium Production and Management of Opium Alkaloidal Factory</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
1. What type of function is it?	Regulatory and Service Delivery	
2. Is the function required to protect the public (safety, economic, social)	Yes	Regulated supply chain related to these products needs to be discussed with E&TD
3. Is there a demand for the function?	Yes	This function has to be analysed with regard to legal producers
4. Does the function support the strategic objectives?	No strategic objective articulated	This function appears to be a likely candidate for privatisation
5. Is the function required by national, international law or constitution?	Not required per se but serves a limited legal purpose	Further investigation of options with E&TD is required
6. Are the public willing to pay for the services?	Not directly	
7. Are there possible suppliers or could they be created?	Yes	There maybe private suppliers in the pharmaceutical industry
8. Would an unacceptable monopoly situation exist?	The danger would need to be considered	Market research is required for answering this question – how many possible candidates would there be for privatisation of this function?
9. Would the price or quality of the function need to be regulated?	Possibly	
10. Can the function be transferred to another body?	Possibly	Though this function appears to be likely candidate for transferring to another body, the consequences maybe discussed with E&TD and analysed with regards to market realities
11. Can the function be reduced in terms of quality or volume with acceptable risk?	Probably not but might cease to become a core	

	Government function	
12. Can the function be merged with another to provide economies of scale?	No	
13. Can the function be decentralised to improve effectiveness?	Unlikely	
14. Would it be cost effective to decentralise?	Unlikely	
15. Can the function be charged for without inequality of service?	No	
16. Are the public willing to pay?	No	
17. Can charges cover costs?	No	
18. Can subsidy be granted?	No	
19. Is it profit oriented?	No	
20. Can the function be delegated from the central Department?	Possibly. See above.	

<b>Activity/Function 3.1: Motor Vehicle Registration and Record Keeping &amp; Maintenance</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Regulatory/Service delivery	
1. Is the function required to protect the public (safety, economic, social)?	Yes	Legal, regulatory and record maintenance
2. Is there a demand for the function?	Yes	
3. Does the function support the Department's strategic objectives?	Yes	Motor Vehicle Tax is the most prominent revenue generation source for E&TD
4. Is the function required by national, international law or constitution?	Yes	
5. Are the public willing to pay for the services?	Yes	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	Yes	In many other countries a Revenue Authority or Motor Vehicle Licensing Agency has been created for this function arm's length from the parent Ministry
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Because of the significant nature of the function, a separate project (MTMIS) has been created for handling the workflow

11. Can the function be merged with another to provide economies of scale?	No	The function is specialized and may, therefore, not be merged with another
12. Can the function be decentralised to improve effectiveness?	Yes	Already, field and district offices are performing the function
13. Would it be cost effective to decentralise?	Possibly	
14. Can the function be charged for without inequality of service?	Yes	
15. Are the public willing to pay?	Yes	
16. Can charges cover costs?	Yes	
17. Can subsidy be granted?	Should not be necessary	
18. Is it profit oriented?	Not at present	A Motor Vehicle Licensing Agency could generate surpluses
19. Can the function be delegated from the central Department?	Yes	Option of creating an Executive Agency should be considered.

<b>Activity/Function 4.1: Policy Formulation Preparation of ADP/MTDF and Development of PC-I</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Policy/coordination	
1. Is the function required to protect the public (safety, economic, social)?	Yes	Internal, Finance Department, Planning and Development Department and other government agencies
2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	It should, but strategic objectives not clearly articulated	
4. Is the function required by national, international law or constitution?	No but part of mandate	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	It is a policy function with

		strategic importance that if reduced poses potential risk
11. Can the function be merged with another to provide economies of scale?	No	It is an independent and significant activity
12. Can the function be decentralised to improve effectiveness?	No	Though input from field formations will be required, this may be coordinated and consolidated at headquarters
13. Would it be cost effective to decentralise?	No	
14. Can the function be charged for without inequality of service?	No	Most of the beneficiaries of the activity are internal or within government
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	No	Prime responsibility of strategic planning and policy formulation should remain at provincial level with multi-year perspective. The Department needs a new Medium Term Results-Oriented Strategic Plan.

<b>Activity/Function 4.2: Policy Formulation Budget Preparation (incl. Supplementary Grants &amp; Re-appropriations)</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Policy/coordination	
1. Is the function required to protect the public (safety, economic, social)?	Yes	Budget should reflect contribution of Dept. to public safety, economic growth etc.
2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	It should, but strategic objectives not clearly articulated	
4. Is the function required by national, international law or constitution?	No but part of mandate	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function	No	

need to be regulated?		
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	It is a policy function with strategic importance that if reduced poses potential risk
11. Can the function be merged with another to provide economies of scale?	No	It is an independent and significant activity
12. Can the function be decentralised to improve effectiveness?	No	Though input from field formations will be required, this may be coordinated and consolidated at headquarters
13. Would it be cost effective to decentralise?	No	
14. Can the function be charged for without inequality of service?	No	Most of the beneficiaries of the activity are internal or within government
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	No	Prime responsibility for budget creation and expenditure planning should remain at provincial level with multi-year perspective. The Department needs a new Medium Term Results-Oriented Strategic Plan to align with its MTBF..

<b>Activity/Function 4.3: Policy Formulation Human Resource Management (Incl. postings, transfers, appraisals, promotions, disciplinary proceedings, etc.)</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Support	
1. Is the function required to protect the public (safety, economic, social)	Yes	HR policy, strategy and plans should reflect the mandated responsibilities of the Dept.
2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	It should, but strategic objectives not clearly articulated	No Department currently has a professional HR function or HRMIS at Departmental level. PGEIP will help to strengthen this function.

4. Is the function required by national, international law or constitution?	No but part of mandate	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	It is a core support function with strategic importance that if reduced poses potential risk
11. Can the function be merged with another to provide economies of scale?	No	It is an independent and significant activity
12. Can the function be decentralised to improve effectiveness?	No	Though input from field formations will be required, this may be coordinated and consolidated at headquarters
13. Would it be cost effective to decentralise?	No	
14. Can the function be charged for without inequality of service?	No	Most of the beneficiaries of the activity are internal or within government
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	No	Prime responsibility for HR planning and policy formulation should remain at provincial level with multi-year perspective. The Department needs a new Medium Term Results-Oriented Strategic Plan and a new HR (planning, management and development) Strategy to support this..

<b>Activity/Function 4.4: Policy Formulation Development Project Implementation &amp; Monitoring</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Executive	

1. Is the function required to protect the public (safety, economic, social)	Yes	Internal and other government entities though outcomes effect citizens
2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	Yes	Project monitoring and implementation is essential to retain strategic focus
4. Is the function required by national, international law or constitution?	No but for Dept.	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Operational risk would increase if this function is reduced
11. Can the function be merged with another to provide economies of scale?	No	
12. Can the function be decentralised to improve effectiveness?	Possibly but with central coordination	Some of the monitoring and feedback is being performed at lower tier
13. Would it be cost effective to decentralise?	Possibly where appropriate	
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	Partially	Different performance measures are monitored at various levels

<b>Activity/Function 4.5: Policy Formulation Providing Input for Necessary Legislation</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Support/coordination	
1. Is the function required to protect the	Yes	Assembly oversight is



public (safety, economic, social)		essential for government activity and for protecting citizens' rights
2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	Yes	Requisite input to legislatures could set the direction for the department
4. Is the function required by national, international law or constitution?	No	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	No	
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	No	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Already policy making is carried out in an adhoc manner that needs process improvement
11. Can the function be merged with another to provide economies of scale?	No	It should remain a stand-alone activity because of its significance
12. Can the function be decentralised to improve effectiveness?	Possibly with central coordination	Depends on the structure of taxation measures; some of the taxation measures may relate to district or provincial assemblies; further legal and regulatory aspects need to be explored
13. Would it be cost effective to decentralise?	Not to decentralise responsibility.	
14. Can the function be charged for without inequality of service?	No	Policy input should not be charged
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	
19. Can the function be delegated from the central Department?	No	Again would depend on the structure of department and taxation regimes

**Activity/Function 4.6: Policy Formulation**

<b>Information and Awareness Campaigns</b>		
<b>Key Question</b>	<b>Response</b>	<b>Comments/Details</b>
What type of function is it?	Support/coordination	
1. Is the function required to protect the public (safety, economic, social)	Yes	Information campaigns are for informing public of various taxation measures
2. Is there a demand for the function?	Yes	
3. Does the function support the strategic objectives?	Yes	Citizens' trust and image building of department are given in the mission and vision statements of E&TD. PGEIP will support this function through facilitation of a new Communications Strategy
4. Is the function required by national, international law or constitution?	No	
5. Are the public willing to pay for the services?	No	
6. Are there possible suppliers or could they be created?	Possibly; there is already a Government PR Dept. DGPR under Information Dept.	Strategic Communications / PR agencies are used by some Governments for public awareness campaigns and professional production of publications etc.
7. Would an unacceptable monopoly situation exist?	No	
8. Would the price or quality of the function need to be regulated?	No	
9. Can the function be transferred to another body?	Possibly – see above.	
10. Can the function be reduced in terms of quality or volume with acceptable risk?	No	Customer and public awareness is an area critical for service oriented departments
11. Can the function be merged with another to provide economies of scale?	No	
12. Can the function be decentralised to improve effectiveness?	Possibly	Depends on the target audience for information campaigns and taxation measures
13. Would it be cost effective to decentralise?	Probably not	
14. Can the function be charged for without inequality of service?	No	
15. Are the public willing to pay?	No	
16. Can charges cover costs?	No	
17. Can subsidy be granted?	No	
18. Is it profit oriented?	No	

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19. Can the function be delegated from the central Department?	Possibly – or outsourced	Some of the information campaigns maybe at the district and others at the provincial level but would need to be centrally coordinated to ensure coherent messaging..
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