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நிதி மற்றும் வெகுசன ஊடக அமைச்சு

MINISTRY OF FINANCE AND MASS MEDIA

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Websites }
www.treasury.gov.lk
www.media.gov.lk

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Date }
25.07.2017

National Budget Circular No. 2 /2017

Department of National Budget
General Treasury
Colombo 01.

All Secretaries to the Ministries
Chief Secretaries of Provincial Councils
Heads of Departments
Chairmen of Corporations and Statutory Boards

Budget Call – 2018

Guidelines and Directions for the Preparation of Annual Budget Estimates

Preparation of the Annual Budget 2018 will be based on the macro-fiscal framework approved by the Cabinet of Ministers on 04.07.2017 to support and accelerate the ongoing capital projects and new investments while maintaining resource allocations on development priorities consistently.

Introduction of the medium-term perspective to the budgetary process makes it more strategic and responsive to the priorities of the government. Accordingly, budgetary process could link the availability of estimated resources with medium-term macro-fiscal framework along the path of fiscal policy priorities, thereby strengthening financial discipline in the execution of the budget as well as realigning budgetary allocations with the policies and priorities of the government.

Meanwhile, the broader perspective of the budget preparation involves the necessity to move towards achieving the sustainable development goals (SDGs) by 2030 (Please see **Annexure I** for the list of SDGs adopted by member states of United Nations in 2015).

2. Medium-Term Macro-Fiscal Framework

Distinguishing elements that characterize the medium-term macro-fiscal framework for 2018-2020 mainly include the rationalization of recurrent expenditure and prioritization of capital expenditure, while enhancing government revenue mobilization along the envisioned path of fiscal consolidation of the government by 2020 as shown below:

- (i) Government revenue at 16.5 percent of GDP
- (ii) Government Recurrent Expenditure at 14.8 percent of GDP
- (iii) Government Public Investment at 5.3 percent of GDP
- (iv) Budget Deficit at 3.5 percent of GDP
- (v) Outstanding government debt at around 70 percent of GDP

Such improvements in the performance of the public finance management would augur well for the realization of medium-term economic growth of around 6 to 7 percent, while inflation could stay at mid-single digit levels.

In 2018, major macroeconomic assumptions include, real GDP growth of 6 percent, inflation to stabilize at 5 percent level, a primary surplus of 1.2 percent of GDP and overall budget deficit to contain at 4.3 percent of GDP.

3. Performance Based Budgeting Approach

Given the challenging public finance management outlook in the years ahead and the importance of ensuring efficient and effective spending of every budgetary allocation in the efforts to foster socio-economic development in the country, 2018 Budget will be formulated based on the Performance-Based Budgeting (PBB) approach, which builds on the experience of implementing the zero-based budgeting approach in the preceding years. Fiscal years 2016 and 2017 adopted the zero-based budgeting approach to ensure the budgetary process gradually moving towards PBB over the medium-term in an orderly transition.

4. Key Performance Indicators (KPIs) matched to Final Outcomes

PBB allocates resources for achieving specifically defined measurable outcomes. Therefore, PBB requires the definition of Key Performance Indicators (KPIs) for the fiscal year, and linking such KPIs to resource allocations becomes a vital part of the entire budgetary process. Therefore, identifying the scope of the projects, defining the intended measurable outcomes, and assessing the socio-economic impact of the project comprise the major elements of PBB approach.

5. Capital Expenditure Utilization

It was observed during 2016 and so far in 2017 that capital expenditure utilization by spending agencies tends to remain substantially low, deterring the fulfillment of socio-economic development objectives envisioned in the public finance management. Low rate of capital expenditure utilization could be due to factors like capacity limitations, procurement delays, and lack of readiness to implement newly assigned projects etc., such unutilized public expenditure allocated for projects could hold-back the objectives of public expenditure management, hence, inhibiting the enhancement of socio-economic progress in the country. ✓

6. Policies of the Resource allocation

(i) Implementation of Poverty alleviation programme is one of the prime objectives of the government as declared by the H.E. the President, "2017 as the poverty alleviation year". Accordingly, in 2017 initial steps have been taken through the various line Ministries to implement the programmes while addressing the issues relating to poverty alleviation programme, specially targeted programmes already been implemented in lagging districts such as Monaragala, Mullaitivu etc. As such, all the Secretaries of the line Ministries are requested to implement poverty alleviation programme within the scope of their ongoing projects.

(ii) Government has identified education and health as thrust areas for socio-economic development over the medium-term. Investment on education in the country both by public and private sector is expected to reach 6 percent of GDP by 2020, which would require a significant broadening of the capacity for expenditure absorption in the sector. Education and health sectors have attracted a lot of interest from the private sector as well. Accordingly, government would increase its spending on these sectors, with public-private partnerships (PPP) mode.

Investment on education should be targeted to enhance quality of teaching and learning content. A total quality improvement in the education sector is long overdue; hence, measures would need to focus on teaching methods, tools and environment and all other related aspects. Education sector would need to make strategies for improved quality education linking the investment with the outcomes. Against this backdrop measures need to be initiated in 2018 aimed at reforms in the education sector for improved and result-oriented delivery.

In 2018 budget, more attention should be given to implement disease prevention programmes in the health sector throughout the country. Accordingly, funds should be directed to facilitate policy implementation to reduce the spreading of non-communicable diseases by empowering the community to afford healthy lifestyles and healthcare promotion based on control and prevention. Further, health sector should initiate reforms to enable it to be more cost-oriented in utilization of government funds.

The health sector investment absorption capacity also needs to be improved to ensure better outcomes. At present, non-communicable diseases outweigh the communicable diseases, implying a major health sector issue began to surface. Hence, more emphasis should be placed to overcome the increasing trend of non-communicable diseases, while also addressing issues such as spread of dengue etc.

(iii) Sri Lanka would require a rapid development of infrastructure to facilitate the envisaged growth momentum. Therefore, government has placed a special emphasis on improving investment on infrastructure, where most of the projects will be carried out in the mode of public-private partnerships. Particularly, demand for electricity, among other utility services, may grow rapidly with the increasing pace of urbanization, real estate property development and establishment of industrial zones. Therefore, more funds need to be mobilized to cater the growing demand for infrastructure in the urban sector, preferably, with a major participation of the private sector on PPP basis.

(iv) SME sector will be strengthened by providing soft loan facilities targeting innovations, job creation and value added products. Further, facilities will be provided to expand the products targeting export markets. ✓

7. Budgetary Allocations for 2018

Against the backdrop of seemingly inadequate capital expenditure utilization in the preceding years, budgetary provisions for 2018 would be made in a more realistic manner. Therefore, all spending agencies are requested to adhere to the following steps before making expenditure estimates.

(i) Priority would be given for ongoing and foreign funded projects, where KPI based measurable outcomes need to be identified for each project.

(ii) New Capital expenditure projects which have already been evaluated by the Department of National Planning and that are in the project pipeline could be incorporated in to the draft expenditure estimates subject to priority being given for ongoing and foreign funded projects.

(iii) In addition, if there are any projects which are nationally important and requiring urgent attentions could also be incorporated in to the draft expenditure estimates. However, allocation of provision will be made considering the available resource envelop for 2018. The potential areas of such new capital expenditure projects would include, among others, the following;

- (a) Increase of value added export products
- (b) Waste management
- (c) Job creation for Youth
- (d) Infrastructure development in urban and rural areas
- (e) Promotion of the tourism related industries

Such prioritization would be made by considering the imminent socio-economic needs as well as the medium- to long-term economic development objectives. Further, emphasis would also be made on the time taken for yielding benefits from the capital investment (gestation period). Well-balanced mixes of projects which derive returns in the short-term and medium-to long term would strengthen the government's cash-flow management and enhance sustainability of public finance management.

8. Submission of Expenditure Estimates

As such, you are kindly requested to submit the hard copies of duly prepared estimates with all the annexures to the National Budget Department **on or before 04th August 2017**. In addition, a soft copy of the documents should be emailed to the relevant staff officer of the Department of National Budget. Consultation process with the spending agencies will commence **from the Second week of August 2017** onwards.

9. Public Officers' Advance Accounts

The estimates of public officers' advance accounts should be submitted as per the format given in **Annexure II.** ✓

10. Clarifications

Should you need any further clarification, please contact the relevant officer of the Department of National Budget assigned to your Ministry/Department /Institution.



R.H.S.Samaratunga
Secretary to the Treasury

Copies to:

- i. Secretary to the President
- ii. Secretary to the Prime Minister
- iii. Secretary to the Cabinet of Ministers
- iv. Auditor General

Sustainable Development Goals

On September 25th 2015, countries adopted a set of goals to end poverty, protect the planet, and ensure prosperity for all as part of a new sustainable development agenda. Each goal has specific targets to be achieved over the next 15 years. For the goals to be reached, everyone is expected to do their part: governments, the private sector, civil society and all citizens.

- Goal 1:** No Poverty
- Goal 2:** Zero Hunger
- Goal 3:** Good Health and Well-being
- Goal 4:** Quality Education
- Goal 5:** Gender Equality
- Goal 6:** Clean Water and Sanitation
- Goal 7:** Affordable and Clean Energy
- Goal 8:** Decent Work and Economic Growth
- Goal 9:** Industry, Innovation and Infrastructure
- Goal 10:** Reduced Inequalities
- Goal 11:** Sustainable Cities and Communities
- Goal 12:** Responsible Consumption and Production
- Goal 13:** Climate Action
- Goal 14:** Life Below Water
- Goal 15:** Life on Land
- Goal 16:** Peace, Justice and Strong Institutions
- Goal 17:** Partnerships for the Goals

Source: <http://www.un.org/sustainabledevelopment/sustainable-development-goals/>

BUDGET ESTIMATE FOR PUBLIC OFFICERS ADVANCE ACCOUNT -2018

1. Name of the Ministry /Department:-.....
2. Head No: -
3. According to the salary particulars of June 2017:-
 - (i) Number of Officers entitle to obtain Festival Advance:-.....
 - (ii) Number of Officers entitle to obtain Special Advance:-.....
 - (iii) Number of Officers entitle to obtain Distress loan:-.....
 - (iv) The amount of installment recovered from June 2017 salary:-.....
 - (v) Expenditure of salaries for June 2017:-.....
(As per expenditure object code No 1001)
4. Estimated Salary for January 2018 - According to Public Administration Circular No 3/2016 (As per expenditure object code No 1001):
5. According to the Reconciliation of public officers Advance Account of the year - 2016

(i) Total Expenditure (under 011)	:-
(ii) Total Receipt (under 011)	:-
(iii) Debit Balance as at 31 st December	:-
6. The limits proposed for the year -2018

(i) Maximum limit of Expenditure (under 011)	:-
(ii) Minimum limit of Receipt (under 011)	:-
(iii) Maximum limit of Debit Balance	:-

Date.....

.....

Signature of Head of Institution