

PERFORMANCE REPORT - 2011

DEPARTMENT OF NATIONAL BUDGET

MINISTRY OF FINANCE & PLANNING

Vision

Socio-economic Development through an Efficient
Appropriation of Public Resources

Mission

Facilitation of the performance of the responsibility conferred on the legislature for the management of public finance, by provision and distribution of resources for efficient delivery of public services and for the achievement of the development objectives of the Government.

Functions & Responsibilities

- a. Formulation of the National Budget
 - Preparation of annual budget estimates for Ministries, Government Departments and Statutory Boards in consultation with the Spending Agencies and the relevant Treasury Departments to achieve the fiscal targets stipulated in the Fiscal Management (Responsibility) Act; and
 - Preparation of Medium Term Expenditure Framework (MTEF) over a period of 03 years.
- b. Public Expenditure Management
 - Issuance of Budget Circulars
 - Enforcement of appropriate budgetary management to ensure that funds are used exclusively for the declared purposes within the approved limits.
 - Interacting with the Spending Agencies to ensure the effectiveness of spending.
 - Analysis of expenditure for monitoring of financial as well as physical progress.
 - Procurement of vehicles for all government agencies under the financial leasing method.
 - Granting approval for Vehicle Procurements
 - Co- ordination and facilitation of Opening of Letters of Credit (LCs) for procurement under the Ministry of Defence.
 - Representing the NBD at the Committee on Public Accounts (COPA).
 - Preparation of Observations on related Cabinet Memoranda
 - Financial Administration of the Department; and
 - Participation of Staff on Boards and Committees.
- c. Activities Related to Statutory Boards (Non - commercial Public Institutions)
 - Preparation of Budget Estimates for Statutory Boards in consultation with the Department of Public Enterprises.
 - Representing the NBD at the Committee on Public Enterprises (COPE).
- d. Advance Accounts Activities
 - Determination of limits for the Commercial, Stores and Public Officer's Advance Accounts in consultation with the spending agencies and consider the requests for revision of limits.
 - Representing the Treasury at the Committee on Public Accounts (COPA) meetings on matters related to Advance Accounts Limits.

Contents

Chapter No.	Subject	Page
01	Overview	
1.1	Operational Framework	01
02	Review of 2011 Performance	
2.1	Sectoral Perspectives in 2011 Budget in the Medium Term Expenditure Framework of 2011-2013	05
2.2	Analysis of Sectoral Expenditure - 2011	06
2.3	Analysis of Expenditure on Government Welfare Payments and Development Subsidies	17
03	Management of 2011 Budget	
3.1	Revenue and Expenditure as per Government Accounts	20
3.2	Issuance of Budget Circulars	20
3.3	Supplementary Estimates	20
04	Monitoring of Advance Accounts	21
05	Preparation of Annual Budget Estimates for the year 2012	
5.1	Statutory Provisions	21
5.2	Budget Estimates, 2012	22
5.3	Guidelines on Budget Formulation	22
5.4	Sectoral Approach for Budgetary Allocation	23
06	Management of Non Commercial Public Enterprises	24
07	Observations on Cabinet Memoranda	25
08	Coordinating "Deyata Kirula" Development Programme - 2012	25
09	Approval for the Purchase of Vehicles	
9.1	National Budget Approval for Vehicle Procurements	25
9.2	Procurement of vehicles for Government Agencies under the Financial Leasing Method	26
10	Participation of Staff on Boards and Committees	26
11	Co-ordination of Opening of Letters of Credit (LCs) and Telegraphic Transfers (TTs) under the Ministry of Defence	27
12	Organizational Structure of the Department of National Budget	
12.1	Staff of the Department	27
13	Human Resource Development	
13.1	Foreign Training	28
13.2	Local Training	29
14	Financial Administration of the Department of National Budget	
14.1	Summary of Expenditure of Head 240	31
14.2	Budgetary Provisions and Actual Expenditure of the Department by Projects for 2011	32
14.3	Auditor General's Queries for 2011	34

01. Overview

The Department of National Budget operates under the guidance of the Ministry of Finance and Planning. The Department functions as the focal point for the formulation of Budget Estimates based on a sectorwise Medium Term Expenditure Framework (MTEF) in consistence with the overall medium term macro economic framework. The MTEF presents its financial plans towards specific targets within the context of sectoral policy strategies while paying particular attention to the management of public expenditure. This process involves a continuous consultation with the line Ministries, Departments, Statutory Agencies of the Government and the relevant Treasury Departments.

1.1 Operational Framework

Performance of the operational activities of this department is based on the broader scope of public finance and planning of the Ministry of Finance and Planning and overall mandate of the Department of National Budget. In the year 2011, the department carried out a wide range of activities in relation to the preparation of Annual Budget of 2012 and the Medium Term Expenditure Framework 2012-2014 as given in Table 1.1 below.

Table 1.1
Summary of Performance -Year 2011

Function	Activity	Overall Target	Achievement
1. Preparation of National Budget Estimates for 2012	<ul style="list-style-type: none"> • Issuance of Budget guidelines on the preparation of the Budget Estimates • Preparation of draft annual budget estimates in consultation with spending agencies and relevant departments of the Treasury. • Conduct Budget discussions with relevant ministries 	<ul style="list-style-type: none"> • Issue letters with guidelines to prepare the Budget Estimates • Ensure meeting the goals set out in the Vision for the Future; Development Policy Framework of the Government. • Meet the actual requirements and prepare a realistic budget 	<ul style="list-style-type: none"> • Issued letters with guidelines to the Spending Agencies • Formulated the expenditure Budget for 2012 in line with the Government Development Policy Framework within MTEF 2012-2014 • Conducted pre budget meetings for selected ministries with the Chairmanship of HE the President • Conducted meetings under the Chairmanship of the Hon. Minister of the relevant Ministry.

Function	Activity	Overall Target	Achievement
	<ul style="list-style-type: none"> Make necessary arrangements to present the Appropriation Bill to Parliament, on time. 	<ul style="list-style-type: none"> The Appropriation Bill to be presented to Parliament in first week of Oct, 2011 Preparation of detailed printed Estimates. Obtain the approval for Appropriation Bill by the Parliament 	<ul style="list-style-type: none"> Gazetted the Appropriation Bill for 2012 under the Gazette dated 10.10.2011 Prepared printed detailed estimates with analytical details. Submitted the Appropriation Bill to Parliament on 18.10.2011 Presented the Budget to the Parliament (Second Reading) on 21.11.2011. Parliament passed the Appropriation Bill on 21. 12. 2011 Appropriation Act No 52 of 2011 was certified by the Hon. Speaker on 21.12.2011 Issue of Warrant by HE the President as Minister of Finance & Planning on
2. Expenditure Management of the year 2011	<ul style="list-style-type: none"> Issuance of Budget Circulars giving instructions on expenditure management 	<ul style="list-style-type: none"> Manage public expenditure efficiently. 	<ul style="list-style-type: none"> Issued National Budget Circular Nos. 152, 153 & 155 in this regard.
	<ul style="list-style-type: none"> Provision of additional funds for unforeseen expenditure and facilitate implementation of new policies 	<ul style="list-style-type: none"> Minimize unforeseen expenditure 	<ul style="list-style-type: none"> Around Rs. 4.0 bn from the Consolidated Funds was provided as an additional provision, especially for rehabilitation of islandwide flood damaged properties.
	<ul style="list-style-type: none"> Submission of Supplementary Estimates to Parliament 	<ul style="list-style-type: none"> Provide funds for unforeseen expenditure 	<ul style="list-style-type: none"> The additional fund requirements, especially for accommodating unforeseen incidents such as floods and other requirement were managed reallocating the funds within the approved expenditure ceiling, without submitting a Supplementary estimate to the Parliament.

Function	Activity	Overall Target	Achievement
	<ul style="list-style-type: none"> Authorization of transfer of funds under F.R. 66. 	<ul style="list-style-type: none"> Maintain the expenditure within the approved estimates. 	<ul style="list-style-type: none"> 1,687 FR 66 applications were authorized. Out of that, 72 applications were programme transfers and 1,615 were project transfers.
3. Facilitating the implementation of Budget Proposals	<ul style="list-style-type: none"> Provision of allocation to relevant spending agencies 	<ul style="list-style-type: none"> Ensure smooth implementation of expenditure proposals. 	<ul style="list-style-type: none"> Provisions for most of the Budget Proposals were included to the relevant spending heads at the stage of legend amendments to the annual budget 2011 in Parliament. The balance allocations were provided as additional allocations during the year. The progress is monitored accordingly.
4. Policy & Expenditure Review	<ul style="list-style-type: none"> Submission of observations on Cabinet Memoranda 	<ul style="list-style-type: none"> Submit observations and comments on Cabinet Memoranda on time with relevant analysis of government / sectoral policy and expenditure 	<ul style="list-style-type: none"> Submitted 96 observations on Cabinet Memoranda and 63 comments on Cabinet Memoranda to other departments in the Treasury.
5. Subsidies	<ul style="list-style-type: none"> Health Care and Nutrition Education 	<ul style="list-style-type: none"> Rs. 18,820 mn was allocated to increase nutrition level of pregnant mothers, children and infants and to provide medical supplies for government hospitals Provide free text books, uniforms, mid day meals, scholarships & season tickets for school children and provides books to Dhamma school children and uniforms to Dhamma school teachers. 	<ul style="list-style-type: none"> Out of the budgetary provision of Rs.18,820 mn Rs. 18,569mn (98.7%) has been utilized. Out of Rs. 8,936 mn, 94.14% was utilized.

Function	Activity	Overall Target	Achievement
	<ul style="list-style-type: none"> Agriculture 	<ul style="list-style-type: none"> Fertilizer subsidy and interest subsidy to facilitate reducing the production cost of the farmers and to increase productivity. 	<ul style="list-style-type: none"> Out of the budgetary provision of Rs. 31,300 mn, Rs. 29,802 mn was utilized (95.21%).
	<ul style="list-style-type: none"> Social Welfare Operational losses Subsidy to SLTB for uneconomical routes Water and electricity subsidy for schools and religious places. Street lighting 	<ul style="list-style-type: none"> Improve the quality of life of the vulnerable groups of the society through the provision of Samurdhi Relief assistance, Assistance to disabled soldiers, nutritional food package to expectant mothers & children. Urgent relief assistance to IDPs & victims of floods and droughts through the programmes such as immediate relief assistance for food, and dry rations as flood & drought relief. Cover up losses of the Sri Lanka Railways, Sri Lanka Transport Board, and Postal Department. Subsidize SLTB to maintain uneconomical routes Subsidize water and electricity for needy schools and religious places. Subsidize local authorities for provision of street lighting 	<ul style="list-style-type: none"> Utilized 97.34% of the allocation i. e. Rs. 129,603 mn. Budgetary provision given for this purpose was Rs. 14,059 mn and utilization ratio was 92.58%, i.e. Rs. 13,016 mn Rs. 2,120 mn was allocated under SLTB for this and it has been completely utilized. Rs. 16 mn was allocated for this purpose and total provision (100%) had been utilized. Rs. 275 mn was allocated under Ceylon Electricity Board and actual expenditure was Rs. 123 mn (44.73%).

Function	Activity	Overall Target	Achievement
6. Internal Management of the Department of National Budget.	<ul style="list-style-type: none"> General Administration 	<ul style="list-style-type: none"> Ensure efficient utilization of budgetary provisions allocated to the Department. 	<ul style="list-style-type: none"> Utilized Rs. 363.8 mn of allocation i.e. Rs. 86.7 mn of recurrent expenditure and Rs. 277.1 mn of Capital expenditure
	<ul style="list-style-type: none"> Control of Departmental Advance Account 	<ul style="list-style-type: none"> Grant Loans/advances to all the applicants of the staff of NBD complying with the limits of the Advance Accounts 	<ul style="list-style-type: none"> Adhere to the authorized limits, officers were given distress loans, bicycle loans, special advances and festival advances amounting to Rs. 4,208,874.
	<ul style="list-style-type: none"> Capacity Building Submission of Reports Replying to the Audit Queries 	<ul style="list-style-type: none"> Develop human resources through local and foreign training. Submit reports before the deadlines <ul style="list-style-type: none"> (a) Performance Report 2010 (b) Appropriation Account 2010 Minimize audit queries. 	<ul style="list-style-type: none"> 9 officers were trained overseas while 76 officers were trained locally on programmes related to activities of the NBD. Submitted the following Reports on time. <ul style="list-style-type: none"> (a) Performance Report 2010 (b) Appropriation Account 2010 Replied to 05 audit queries forwarded by the Department of Auditor General.

2. Review of 2011 Performance

2.1 Sectoral Perspectives in 2011 Budget in the Medium Term Expenditure Framework of 2011-2013

The Budget 2011 was mainly based on the Mahinda Chinthana, Vision for the Future, and the Development Policy Framework of the government and on the strategies identified therein. It was also formulated with a greater focus on the Government's responsibility to transform Sri Lanka into an Emerging Wonder of Asia. The following operational scenarios were also applied in the formulation and implementation of 2011 Budget.

- (a) Sectoral basis - The budgetary allocations for 2011 were made in accordance with the sectoral policy framework developed by relevant stakeholders for the development of respective sectors during the following 3 years.

- (b) Realistic assessment – The budget 2011 was based on an assessment of actual expenditure incurred under the limits provided in terms of Article 150 (2) and Article 150 (3) of the Constitution.
- (c) Non-performing projects – Reformulation or leaving out of all such projects that have been carried on in estimates for several years.
- (d) Avoid duplications and overlapping – Proper recognition given to interdependent and overlapping activities among individual ministries. Spending agencies and the provincial councils were guided to ensure sector allocations are properly distributed among similar activities implemented under projects and programmes.

In order to facilitate this sectoral process, all Ministries, Departments, and other Spending Agencies were classified under nine sectors in the Budget formulation, namely Social Security, Human Resource Development, Infrastructure Development, Real Economy, Environment, Research and Technology, Public Service Delivery, Defence and Law Enforcement. Accordingly, each spending agency was categorized into said sectors, depending on the activity undertaken.

2.2 Analysis on Sectoral Expenditure 2011

The Budgetary allocation for the medium term 2011-2013 was prepared under nine sectors with the application of above operational scenarios. As in 2010, specific directions were provided initially to review the actual performance of ongoing development plans implemented and continue commitments in much needed investments. In view of rationalizing recurrent expenditure, directions were also given to limit them to the most needed requirements.

A comparison in terms of priorities of allocations established on sectoral basis and the actual expenditure during 2011 is given in Table 2.1. This also includes the amounts provided as additional allocations to cover the unforeseen expenditure and the supplementary allocations provided for the implementation of budget proposals.

Table 2.1
Sectoral Resources Allocation vs. Actual Expenditure – 2011

Sector	2011 Budget (Rs.mn)	% of Total Allocation	2011 Actual (Rs.mn)	% of Total Expenditure	% of Utilization
Human Resources	238,016	20.9	221,271	20.8	93
Infrastructure	358,249	31.4	323,053	30.3	90
Defence	229,759	20.1	229,168	21.5	100
Law Enforcement	8,960	0.8	8,701	0.8	97
Social Security	133,310	11.7	132,346	12.4	99
Real Economy	83,762	7.3	71,799	6.7	86
Public Services	74,608	6.5	69,354	6.5	93
Research and Technology	10,963	1.0	7,526	0.7	69

Sector	2011 Budget (Rs.mn)	% of Total Allocation	2011 Actual (Rs.mn)	% of Total Expenditure	% of Utilization
Environment	3,261	0.3	2,541	0.2	78
Total *	1,140,888	100.0	1,065,759	100.0	93

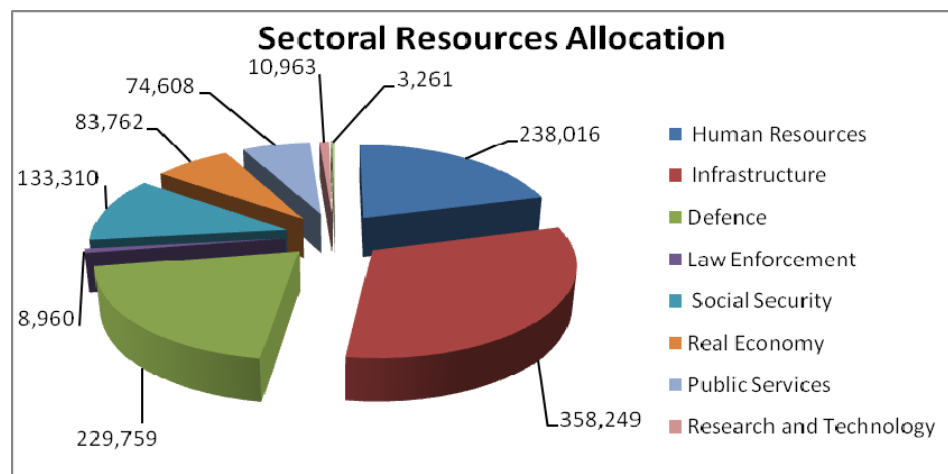
* Excluding debt amortization

Note: Sectors developed according to Treasury Format

Source: Department of National Budget

The percentage utilized out of the total budget in 2011 recorded 93 percent. All sectors utilized more than 85 percent of their total allocation except research and technology sector. The highest priority with a share of 31 percent out of the total allocation was given for the infrastructure sector, in respect of development of key national, and regional and rural infrastructure projects.

Graph 2.1
Sectoral Expenditure, 2011



The sector specific performances are stated below in respect of different development sectors.

2.2.1 Human Resource Development

Education

In line with the education policy of the government, Rs.111 bn has been invested for the development of education sector. These investments have particularly been made in the areas of improvement of the quality of education and equal access. The amount invested in education sector in 2011 was 10% over the previous year. Of the total investment in education, Rs.88 bn has been spent for school education. The remaining Rs.23 bn was used for the development of the higher education sector. The investment made in school education has mainly been utilized for the development of syllabuses, training of teachers, updating of the school books, distribution of school uniforms, construction and rehabilitation of buildings and the purchasing of equipment.

With regards to higher education, the funds have mainly been allocated under the theme of “Higher Education for 21st century” for upgrading of the selected universities, development of regional universities and the subjects & the syllabuses of the university education. Among the projects implemented in achieving the said objectives, Education for 21st Century, South - Eastern University Development Project, Construction of a Clinical Building of the Rajarata University, Construction of a hospital building for the Veterinary Faculty, Hostels for Ruhuna and Rajarata Universities were main priorities.

Skills Development

The tertiary & vocational training has been geared to meet the requirements of emerging needs of domestic and overseas labour market as well as the protection of dignity of the professionals in skill development field, such as masons, carpenters, beauticians etc, by giving them due recognition through technical training. For this, Rs.8.5 bn has invested in 2011. Of the total investment in tertiary and vocational education sector, Rs.1.7 bn has been used for the development of technical education. The balance Rs. 3.7 bn was utilized for vocational education. The government has invested Rs. 2.2 bn in 2011 for the development of youth. Among the development initiatives implemented in 2011, Technical Education Development Project, Youth Development Programme, Establishment of Technical and Vocational Institute were priorities.

Health

The allocation provided for the health sector consisting of western and indigenous sectors for the year 2011 was Rs 94 billion. Out of this, Rs. 87 billion was utilized in 2011, of which 86 percent from recurrent and 14 percent from capital expenditure. Personal emoluments recorded 64 percent of the total recurrent expenditure where Rs 3 billion was provided as additional allocation. Moreover, Rs. 16.6 billion was accounted on medical supplies covering 23 percent of recurrent expenditure while utilizing Rs. 1.3 billion on Thiposha.

The allocation of capital expenditure in 2011 has been increased by 20 percent over 2010. However, the sector was able to utilize only 77 percent of the total capital allocation. A major share was allocated for hospital maintenance and rehabilitation, hospital development projects, provision of equipment etc. Construction of Epilepsy Unit at National Hospital Colombo, Development of District Hospitals, Improving Efficiency of Operation Theatres and Provision of Oxygen Concentrators, Improvement of Central Functions at Teaching Hospital Jaffna were some of the major projects implemented in 2011.

The support given for traditional systems of Indigenous Medicine and Ayurveda also continued in 2011. Development of Borella Ayurveda Teaching Hospital, Rehabilitation of Borella, Kaithady, Yakkala and Ampara Hospitals and Development of Homeopathy System of Medicine were some of the key projects implemented in 2011.

Sports and Labour

A sum of Rs. 2.1 billion was invested in 2011 to improve the infrastructure on sports and promote programmes on sports all over the country towards the Sports Economy concept. The key projects accelerated during the year includes, construction of fully pledge Provincial and District Sports Complex, Reid Avenue Sports Complex-Colombo, Torrington Synthetic Tracks-Colombo, Tholangamuwa Playground-Kegalle, Jayathilaka Sports Complex-Nawalapitiya and Exposure of internationally accepted Sports facilities for rural men and women. In addition, a special programme for the development of Sports in schools was carried out in Piliyandala, Ruhunu, and Kaluthara in 2011.

The Government investment on Labour & Labour relations and Enhancement of productivity was Rs.1.8 Billion in 2011. These funds were mainly focused on safeguarding employment rights and labour relations. The Ministry of Productivity Promotion was established in 2010 for the enhancement of productivity and promotes manpower and also to promote and upgrade the skills of Sri Lankan workforce ensuring a better living standard.

Religion, Arts & Culture

In 2011, the total investment of the religion, culture & national heritage sector was mainly focused on development of sacred places, improvement of Dhaham education, establishment of cultural centers, conservation of archeological sites and promotion programs on protecting cultural diversity. The priority was given for the program based on the 2600th "Sambuddhatwa Jayanthiya" under the religious program and the construction of Dhahampaya building was completed at a cost of Rs 347 Mn and opened it in 2011. Under the construction and rehabilitation of all religious places, priority was given for the development of such places and Rs 320 Mn was allocated to improve dhaham education in all religions and provide dhaham school text books & uniforms considering mainly under this. The construction of Lumbhini Vihara Phase 1 at Nepal was completed in 2011 at a total cost of Rs. 17mn.

Among the programs implement in cultural sector, construction work of 03 new cultural centers were completed & construction work of 13 cultural centers were commenced. The construction of national performing art theater, (Nelum Pokuna) Theater at the cost of Rs 3080 Mn was completed and it was opened for the general public in 2011. The theater is equipped with modern international standards for the professional and nascent artist and spectators.

The tasks of maintenance and conservation of the places which have historical & archeological value has been completed in 2011 under the protection of national heritage.

2.2.2 Infrastructure Development

Roads

The investment on infrastructure in 2011 is Rs.323.05 billion. The road sector alone contributed to he one third of investment in infrastructure development. The major share of the investment in road sector has been utilized to rehabilitation and

reconstruction of roads and bridges. Expenditure on road development has increased from Rs. 84.64 bn in 2010 to Rs. 101.17 bn in 2011.

Government has invested funds borrow from foreign development partners to built expressways and rehabilitation and improvement of major national roads and bridges. Local funds are mainly used to rehabilitation, improvement and maintenance of roads. Under the widening and improvement programme 500km have been completed throughout the country. Rs. 7800 mn has been spent to maintain island wide national road network and bridges. Under the maintenance programme 1191km has been sand sealed and 620km have been rectified and resurfaced. 33 weak or damaged bridges were reconstructed and 43 are in progress at the end of 2011.

Maga Neguma rural development programme is aim to rehabilitate rural roads and structures in the rural roads. In 2011, 553 km of roads have been rehabilitated and 58 bridges, 1843 culverts, 31 causeways have been rehabilitated or built. Connecting Villages Programme under the Maga Neguma commenced in June 2011 and 12 projects (total length 88km) have been implemented and covered 8 districts. Further, 197 km of 35 projects have been implemented under Diyawara Gammana and Deyata Kirula programmes. The total investment under the Maga Neguma programme is 3.6 billion in 2011.

The major achievement of 2011 is the opening of Kottawa - Galle section of Southern Expressway of 79km, first expressway of Sri Lanka, to the public in November 2011.

One of the major policy decision taken by the government in 2011 is to give opportunity for local contractors for road rehabilitation work under the local bank funding. A Cabinet decision has been taken to use domestic funds through local banks to rehabilitate 692km of national roads at a cost of Rs. 56,497mn.

Transport

The total investment in the transport sector in 2011 was Rs. 48.5 billion of which the capital investment was Rs. 35 billion. These funds were utilized for augmentation of CTB bus and rail fleet, purchasing railway carriages/Diesel Multiple Units (DMUs)/spares & materials, rehabilitation of tracks, upgrading the railway lines which had been neglected for long time, institutional development and capacity building. This investment ensured a steady fleet in the rail and bus service resulting in an increased passenger and freight transportation. Increased transportation has resulted in an increased income from Rs. 4.02 billion in 2010 to Rs. 4.24 billion in 2011 by trains. However, the income from CTB buses has been decreased from Rs. 17.73 billion in 2010 to Rs. 17.08 billion in 2011.

Energy Resources

The Government invested Rs. 25,515mn in Power Sector to ensure provide uninterrupted, efficient and affordable supply of energy to meet the rapidly increasing demand. Out of the total investment, Rs. 11,752mn was invested for electricity generation, Rs. 2,447mn for transmission and Rs.8, 174mn for distribution. The target to provide electricity for all by 2012 was achieved to an extent of 92% by end of 2011. More attention has been made for improve clean energy supply within the year.

Common Amenities

Access to safe drinking water and sanitation is one of the significant indicators in the Mahinda Chinchanaaya. The objective of the Government of Sri Lanka is to supply safe drinking water to 100% of population by the year 2020. In order to facilitate achieving this target, the budgetary allocation of 29.663 million has been provided for the water supply and sanitation sector in 2011. The capital expenditure in this sector in 2011 was Rs. 27,223 million. Out of the total capital expenditure, 78.9% has been invested on mega water supply and sanitation projects.

The key major water supply and sanitation projects which were completed during the year 2011 are Towns South of Kandy Water Supply Project, Rehabilitation and Augmentation of Kirindioya Water Supply Project, Tsunami Affected Area Rebuilding Project, Tsunami Rehabilitation Project Assisted by the Red Cross, and Batticaloa and Hambantota Water Supply Schemes of ADB 4th Project. In addition, emerging township water supply and sanitation projects/schemes in Pattampitiya, Kiriella (Stage - I), and Wagantale in Sabaragamuwa Province, and Thihagoda, and Udugama Water Supply schemes in the Southern Province have also been completed. Three new water supply and sanitation projects amounting to Rs. 3,375 million were commenced there operations in 2011. Total number of new water supply connections provided in 2011 for the people were 95,728 of which 35% was in Western Province. Water Supply and Drainage Board has carried out a community water supply and sanitation programme by providing 332 domestic wells.

Housing

The actual expenditure on housing sector in 2011 was Rs. 2,347 million. The total capital investment was Rs. 1,593 million which was mainly focused on revamping of housing schemes in Colombo district, completion of already initiated urban housing schemes, supply of equipment to the National Equipment and Machinery Organization, and rural housing development program carried out throughout the country. By the end of 2011 total number of 26,277 houses has been constructed and another 14,278 houses were under construction. Out of these 26,277 constructed houses, 22,221 houses were constructed under the loan program for rural housing (8,153 houses), sevana upahara (5,781 houses), flood damage (6,466 houses) and viru gammana (1821 houses).

Posts and Telecommunication

An allocation amounting to Rs. 8.15 billion was dedicated to Posts and Telecommunication sector in 2011, an increase of 5.84 percent over 2010. These funds were mainly utilized by the Department of Posts. The Ministry of Postal Services continued the 'Postal Network Improvement Project' to improve the connectivity of all post offices in the island in order to offer quality service for the public and minimize the cost of the Department from 2012. Simultaneously the newly established Telecommunication and Information Technology Ministry is implementing IT project such as construction of school computer labs throughout the country in order to increase the IT literacy rate in Sri Lanka up to 75% by 2016.

Rural and Regional Infrastructure Development

Budgetary allocations have been made for the Rural and Regional Development activities under several Ministries. The total investment for rural development in 2011

was Rs 71 billion of which Rs 27 billion was for the regional infrastructure development. The government gives high priority to rural sector for reducing poverty through increasing the income of majority of people and maintains urban and rural equity. The investment provided for this sector has contributed to improve infrastructure facilities such as rural roads, water supply and sanitation and minor irrigation schemes, electrification, housing and other livelihood development programmes.

The government focused to improve the connectivity of regions through development of road network. The investment made for the rural region connectivity programme was amounting to Rs 12.25 billion. Further, foreign resources amounting to Rs 18 billion has been obtaining to develop infrastructure facilities in the emerging regions particularly in the North and East.

The Gamaneguma, the government's programme is targeted to promote efficient linkages between the mainstream development and rural centric development activities in the villages. In 2011, Rs. 8 billion has been invested for the gamaneguma programme to develop rural infrastructure facilities. Divineguama programme, which focuses on livelihood improvement including home gardening, has been contributed to establish 1.5 mn household economic units.

Moreover Rs.3.4 billion has been allocated to the deming activities in the conflict affected areas. This has contributed to undertake the resettlement activities and providing shelter for the affected families.

2.2.3 Defence

The actual expenditure on defense was Rs. 242 billion in 2010. Of which, three forces accounted for Rs. 183 billion and the balance Rs. 60 billion was for Sri Lanka Police, Department of Civil Security, Department of Coast Conservation, Department of Coast Guard, Department of Immigration and Emigration, Department of Registration of Persons and for the seven institutions coming under the Ministry of Defence and Urban Development.

The defence expenditure was required to maintain at these levels as it mainly for recurrent expenditure including salaries and diet & uniforms. It was also necessary to provide basic accommodations facilities for the staff of the forces which had been neglected during the period of conflict. Accumulated costs of good and services provided to the forces in the past are also being settle in stages now.

2.2.4 Law Enforcement

The total expenditure on justice to ensure an effective administration of justice and law enforcement was Rs. 8,860 mn. in 2011. Out of this total, Rs. 820 million has been utilized to complete the construction works of new courts complexes in Negambo, Kadawatha, Nawalapitiya, Katupola and Tangalla, new building with facilities for Department of Government Analyst and also to renovate several court buildings. A special project for expediting the court cases has also been implemented. It has provided the facilities to improve the physical conditions and facilities in courts, spending Rs. 150 mn. Further, a training programme for the 60 judges has been provided in India at a cost of Rs.24. million to improve and update their knowledge on emerging legal procedures.

In addition, Rs. 4.2 billion has been spent under the Ministry of Prison Reforms, especially for rehabilitation of excombatants and construction of a Prison complex at Pallekele.

2.2.5 Social Protection

Low income families, the aged, the disabled, the displaced, the handicapped, deprived or destitute women and children and the offenders are considered as the target group of this sector. Provision also of social security, livelihood assistance, income supplements, food, lodging and other in-kind support and resettlement and rehabilitation were the main strategies focused in 2011 for the protection and welfare of this vulnerable group. An investment of approximately, Rs. 126 billion was spent in 2011 in this sector through a number of line ministries and provincial councils and it is a 5 percent increase compared to that of 2010. 93 percent of the expenditure made under this sector is considered as the government welfare payments.

2.2.6 Real Economy

Agriculture

The public investment in 2011 mainly focused on the development programmes stipulated in the Government Policy Document and priority has been given on promotion of local food production, development of government seed farms, production of certified seed, agriculture research activities and development of plantation industries. The Bim Saviya Programme has also been continued to ensure formalising the ownership of land of the landowners.

The expenditure in agriculture sector consists of expenditure on development of food and plantation crops, agrarian services and land development. The total expenditure on agriculture sector increased from Rs. 37 billion in 2010 to Rs. 47 billion in 2011 recording a 27 percent increase.

Out of the total expenditure in agriculture sector, 65 percent has been spent for fertilizer subsidy programme (Rs. 29,802 Mn) and development subsidies for the plantation and other export crops (Rs. 852 mn). In addition, Rs. 12,254 billion has also been spent in 2011 to settle the differed payment of fertilizer subsidy programme implemented. Fertilizer subsidy programme has been extended for all other crops at a rate of Rs. 1200.00 per 50 Kgs. from June 2011.

Further, Rs 240 Mn. was spent for providing seed paddy and seeds for other field crops for farmers who were affected by the floods in 2011.

Irrigation

Investment for the development of irrigation sector was Rs 19 billion in year 2011. The investment on irrigation management and related activities contributed to increase the paddy production and resulting in increase income of the beneficiaries from crops, livestock and aquaculture. The budgetary allocation in year 2011 enabled to complete 66 % of work in Deduru Oya project and 80 % work on Rambakan-oya project. Rehabilitation work on other major and medium scale irrigation schemes carried out during the year directly benefited the rural communities.

Further, the investment on this sector was utilized for the design work on construction of new reservoirs such as Uma -oya, Moragahakanda including the work on access tunnel, access roads and resettlement sites.

Livestock

The actual expenditure for Livestock sector was Rs.1841mn in year 2011. This investment has been directed to implement projects on Promotion of liquid milk consumption, medium term livestock development, importation of dairy animals, and establishment of 'Kirigammana', animal breeding, improvement of animal health and livelihood and basic facility improvement of rural communities in lagging areas. Annual milk production has increased to 253 mn liters by end of 2011. It has recorded an increase of 5 percent of annual milk production.

Fisheries

The total Government expenditure on Fisheries and Aquatic Resources Development sector was Rs.2653mn in year 2011. This amount includes mainly for projects of coastal rehabilitation and resources management, develop inland fishery, restoration and improvement of fish landing centers, livelihood development and community strengthening and introduces new technology in fishery. The annual fish production was recorded at 444,830mt by end of 2011. It is an increase of annual fish production by 60,160 mt compare to 2010 which is an increase of 13.5 percent.

Industries

The government has invested a total sum of Rs.2.91 bn in 2011 for this sector, which contributes 29.3% to the total GDP of the country. New Industrial estates have been proposed in Vauniya, Batticaloa, Kurunegala and Madampe for initiation of industries at regional level to provide more employment opportunities and to minimize the regional disparity. The government showed its continuous commitment towards the development of SME sector, Cottage industry, Textile, Handloom and Apparel sector by way of providing necessary funds. Higher value added thrust areas such as, Pharmaceuticals, Leather products, Cement based products and Electronics were financed to improve the manufacturing sub-sector.

Services

Rs. 2.97 billion has been invested in 2011 to develop internal trade, Cooperatives and tourism sub sector. Lanka Sathosa Limited had established 210 sales outlets island wide by 2010 and further 50 outlets were added for the network in 2011, covering some parts of Northern and Eastern province as well. 375 Coop Cities, 1019 mini Coop Cities and 27 Mega Coop Cities were established by the end of the year 2011 to provide essential goods at a fair price. 200,000 metric tons of paddy were purchased by the government during the year 2011 in order to provide a guaranteed price for paddy, to encourage the farmers. Rs.200mn was allocated to renovate 142 paddy stores of the Paddy Marketing Board on priority basis. Export Development Board was provided with Rs.780 million to facilitate and improve the quality and quantity of the industrial exports of the country.

Investments were made on tourism to attract high spending tourists to popular resorts and to community tourism villages.

2.2.7 Research and Technology

Science, Technology, Research and Development

An investment of Rs. 9.5 billion was made in this sector covering the fields of industry, agriculture, irrigation, health, information technology, aquatic resources etc. And under the Ministry of Technology and Research, projects commenced in previous years specially National Nanotechnology Initiative, Multipurpose Gamma Irradiator programme and Agro Food Project were continued in 2011. Further, funds were utilized in 2011 to new research; develop Vidatha centers, finding new technologies and scientific methodologies by the Institutions coming under the Ministry of Technology and Research. The primary focus on these programmes was to promote efficient and effective utilization of new technology to enhance the economic growth.

2.2.8 Public Services

Administration and Regulation

Public Service delivery is vested with the power and responsibility of providing financial provision and monitoring activities in relevance to the maintenance and development activities of district and divisional administration as well as the same purpose for local governments and provincial councils. In 2001, this sector accounted Rs. 69.3 Bn of total expenditure for achieving aforesaid objectives. Rs. 52.0 Bn was reported as recurrent expenditure whereas incurred expenditure for capital works counts Rs. 17.2 Bn. Out of the total recurrent expenditure, Rs. 8.7 Bn was spent for salaries and allowances for the employees of local authorities and provincial councils excluding education and health sector employees in local and provincial councils. A fraction of said recurrent expenditure, Rs. 11.0 Bn was spent on salaries, allowance and other administrative expenditure for the employees who are in districts and divisional secretaries. The total sum of capital expenditure incurred in 2011 has been spent on improving office quarters, providing logistics requirements of offices aiming at achieving better services to the public.

2.2.9 Environment

Environment

The total investment in the environment sector in 2011 was Rs. 2,540.9 million. Environment sector institutes are involved in implementing policies aiming at conserving and preserving the environment locally and globally for the present and future generations. In this context, several development programmes were carried out during the period and some of them were able to reforest in 872.73 ha of harvested plantations to meet the timber requirement of the country, carry out Silvicultural operations in 2,407.74 ha in selected forest plantations, establish 761 ha of woodlots, and 205 ha of farmer's woodlots, develop 4,684 nos. of Home Gardens by providing seedlings and technical assistance, and produce 973,102 Nos of seedlings in nurseries of the Forest Department. During the period under review, about 900 tons of Electronic Waste have been collected and exported. Ministry of Environment has formulated a

National Climate Change Adaptation Strategy to address climate change adaptation to ensuring the country's economic development process to continue without disruption or setbacks.

Table 2.2
Capital and Recurrent Expenditure by Sector 2011

Rs.Mn.

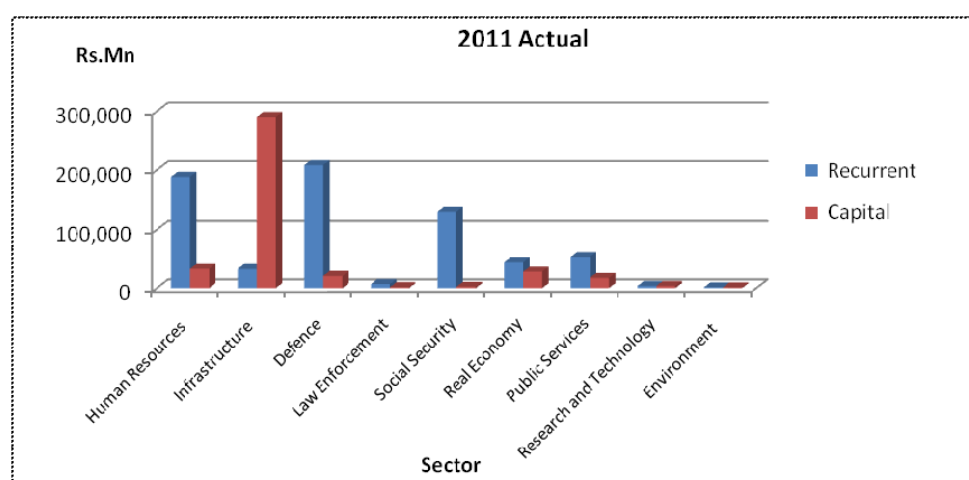
Sector	2011 Budget			2011 Actual					
	Recurrent	Capital	Total	Recurrent	%	Capital	%	Total	%
Human Resource Development	189,266	48,750	238,016	188,353	100	32,918	68	221,271	93
Infrastructure	33,931	324,318	358,249	32,655	96	290,398	90	323,053	90
Defence	208,276	21,483	229,759	208,355	100	20,813	97	229,168	100
Law Enforcement	7,141	1,819	8,960	7,040	99	1,661	91	8,701	97
Social Security	130,361	2,949	133,310	130,062	100	2,284	77	132,346	99
Real Economy	44,363	39,399	83,762	43,692	98	28,106	71	71,798	86
Public Services	53,637	20,971	74,608	52,097	97	17,257	82	69,354	93
Research and Technology	3,978	6,985	10,963	3,665	92	3,861	55	7,526	69
Environment	1,357	1,904	3,261	1,300	96	1,241	65	2,541	78
Total *	672,310	468,578	1,140,888	667,219	99	398,539	85	1,065,758	93

* Excluding Debt Amortization

Note: Sectors developed according to Treasury Format

Source: Department of National Budget

Graph 2.2
Recurrent and Capital Expenditure by Sector, 2011



A 100 percent utilization of recurrent expenditure has been recorded in the sectors of Human Resource Development, Social Security and Defence in 2011. In addition, more than 90 percent of capital expenditure has also been utilized under Infrastructure, Social

Security, Defence and Law Enforcement sectors while recording the highest amount of under expenditure in capital spending in the Environment sector.

2.3 Analysis of Expenditure on Government Welfare Payments and Development Subsidies

The government emphasized the need for continuation of welfare payments and development subsidies with an objective of enhancing living standards of vulnerable segments of the society inline with the country's distinctive commitment to promote balanced economic growth. Accordingly, in 2011, approximately Rs. 199 billion was spent on the overall subsidy programme of the government which comprised of Welfare Payments and Development Subsidies. It was almost one fifth of the total government expenditure made in 2011. Table 2.3 shows the distribution of welfare payments and development subsidies in 2011.

2.3.1 Welfare Payments

In 2011, approximately, Rs. 160 billion was spent on Government Welfare Payment under three major areas i.e. social protection, health & nutrition, and education. This amount was about 78 percent of the total subsidies paid in 2011. Compared to 2010, it was a 2 percent decrease that of 2010. This decline can be attributed to the declining cost of "Assistance to IDPs" as a result of decreasing number of IDPs in welfare camps in 2011. Welfare subsidies provided under the each area are described as follows:

Social Protection

Social Protection Sector contributed for 81 percent of the total welfare payment made in 2011. Approximately, Rs. 126 billion was spent in the areas of social insurance, social assistance, social safety nets and social services and it was about Rs. 6 billion increase compared to that of year 2010. The major share, which is about Rs. 112 billion, has been spent for social security programme which covers the pensions for public servants' and disabled security personals. The second largest share amounted Rs. 9 billion was spent on Samurdhi safety net programme providing cash grants for about 1.6 million beneficiaries. In addition, approximately Rs. 990 million was spent on public assistance programme which implemented under the Provincial Social Services Departments benefitting around 4,48,000 vulnerable persons island wide. The allocation for the social relief programmes in 2011 was Rs.10 billion and which Rs. 7.6 billion was used for providing cooked meals and dry rations for victims of the internal civil conflict and flood disasters. Further, approximately Rs. 650 million worth of financial assistance were given for 11,215 low income disabled families, around 13,122 destitute children and around 7800 elders who resided in homes and around 100 million worth assistive devices were distributed among elders and disable persons island wide.

Health and Nutrition

In 2011, the investment on health and nutrition sub sector accounted 12 percent from the total welfare sector in comparison to 28 percent in 2010. Out of the total expenditure on health and nutrition sectors, 1.25 percent covered the programmes on provision of fresh milk for children, poshana malla for pregnant/lactating mothers, Thripasha for pregnant/lactating mothers & children under 5 years while covering 11 percent on medical supplies.

Education

The welfare payment provided by the Education Sector constitutes free text books, uniforms, scholarships and mid-day meals and it was nearly 20 percent of the total investment made in school education. In order to continue the provision of free text books and uniforms among the 3.9 mn of students, the government has invested Rs.3.9bn in 2011. The mid day meal programme was also continued in 2011 investing an amount of Rs. 2800mn. The students who passed the grade 5 scholarship exam also were supported by the government with an infusion of funds of Rs.296mn.

2.3.2 Development Subsidies

Development subsidies, which mainly consist of fertilizer subsidy and financial assistance to certain institutions to cover operational losses, accounted for 22 percent of the total government welfare payments and subsidies in 2011. Fertilizer subsidy which was granted with a view to reducing the cost of production and increasing the yield in paddy and smallholder plantations secured the largest share, about 70 percent of the development subsidies and represented 15 percent, of the total expenditure for welfare payments and development subsidies. Financial assistance of Rs. 13 billion was provided to cover operational losses of Sri Lanka Railway, Sri Lanka Transport Board and Postal Department, under development subsidies granted in 2011.

Table 2.3
Expenditure on Welfare Payments and Development Subsidies, 2011

Area	2011		Utilization Ratio %	As a % of Total* (Actual)	As a % of Sectors (Actual)
	Provision Rs.mn.	Actual Rs.mn.			
Welfare Payments					
Health & Nutrition	18,820	18,569	98.67	9.33	11.95
Fresh Milk for Children	250	248	99.20	0.12	0.16
Medical Supplies for Govt. Hospitals	16,500	16,617	100.71	8.35	10.69
Thriposha Programme	1,520	1,344	88.42	0.68	0.86
Poshana Malla	550	360	65.45	0.18	0.23
Education	8,936	8,412	94.14	4.23	5.41
Free Text Books	2,400	2,293	95.54	1.15	1.48
School Uniforms	1,595	1,364	85.52	0.69	0.88
School Season Tickets	1,400	1,400	100.00	0.70	0.90
Handicapped Students	81	78	96.30	0.04	0.05
Scholarships	295	283	95.93	0.14	0.18
School Nutritional Food Programme	2,800	2,630	93.93	1.32	1.69
Uniforms and Text Books to Dhamma School Teachers	129	129	100.00	0.06	0.08
Library Allowance for Dhamma School Teachers	211	210	99.53	0.11	0.14
Vocational/Technical Training - Stipend, Bursaries & Season Tickets	25	25	100.00	0.01	0.02

Area	2011		Utilization Ratio %	As a % of Total* (Actual)	As a % of Sectors (Actual)
	Provision Rs.mn.	Actual Rs.mn.			
Social Welfare	129,603	126,160	97.34	63.40	81.17
Samurdhi Relief & Kerosene oil	9,300	9,044	97.25	4.54	5.82
Assistance to Disabled Soldiers	13,316	13,316	100.00	6.69	8.57
Assistance to Internally Displaced Persons	200	198	99.00	0.10	0.13
WFP Food Assistance	6,300	3,398	53.94	1.71	2.19
Flood & Drought Relief	850	628	73.88	0.32	0.40
Rehabilitation of Persons	150	141	94.00	0.07	0.09
National Council Secretariat for Persons with Disabilities	404	393	97.28	0.20	0.25
Senehasa Programme(Poshana Manpetha)	20	18	90.50	0.01	0.01
National Secretariat for Elders	66	62	93.94	0.03	0.04
Pension	98,997	98,962	99.96	49.73	63.67
Other	2,441	2,289	93.77	1.15	1.47
Water Subsidy for Religious Places & Schools	46	46	100.00	0.02	0.03
Street Lighting	275	123	44.73	0.06	0.08
Subsidy to SLTB for uneconomical routes	2,120	2,120	100.00	1.07	1.36
Total - Welfare Subsidies	159,800	155,430	97.27	78.11	100.00
Development Subsidies					
Subsidies for Agriculture	32,064	30,552	95.28	15.35	70.12
Fertilizer Subsidy	31,300	29,802	95.21	14.98	68.40
Interest Subsidy for Agricultural Loans etc	764	750	98.17	0.38	1.72
Operational Losses	14,059	13,016	92.58	6.54	29.88
Sri Lanka Railways	5,071	4,060	80.06	2.04	9.32
Sri Lanka Transport Board	6,647	5,615	84.47	2.82	12.89
Postal Department	2,341	3,341	142.72	1.68	7.67
Total - Development Subsidies	46,123	43,568	94.46	21.89	100.00
Total - Welfare Payments and Development Subsidies	205,923	198,998	96.64	100.00	

Source: Department of National Budget

3. Management of 2011 Budget

3.1 Revenue and Expenditure as per Government Accounts

The revenue recorded for the year was Rs. 942.9 billion as against the target of Rs. 971.4 billion. This was an increase of Rs. 117.2 billion compared to Rs. 825.7 billion recorded in 2010.

The total expenditure in 2011 was Rs. 1,418.7 billion of which recurrent expenditure was Rs. 1,020.2 billion whereas the capital expenditure was Rs. 398.5 billion. This was an increase of 9.3 percent compared to 2010. The actual recurrent expenditure in 2011 has increased by Rs. 27.3 billion over the estimated recurrent expenditure of Rs. 992.9 billion. This increase was mainly due to the increased cost of living allowance and special allowance equivalent to 5 percent of basic salary to public sector employees, increased pension payments, welfare payments and subsidies, increased costs in interest payment etc. The total budget deficit in 2011 was Rs. 475.8 billion or 7.3 percent of GDP which was a decrease of 0.9 percent compared 8.4 percent in 2010.

3.2 Issuance of Budget Circulars

The Department has issued following circulars during the year 2011, providing guidelines required for expenditure and cadre management of the spending agencies.

Date	Circular No.	Title
14.06.2011	Budget Circular No - 152	Guidelines for Provisions of Relief to the Public in an Emergency Disaster Situation and Restoration of Damaged Areas.
29.07.2011	Budget Circular No - 153	"Deyata Kirula" National Development Programme and Exhibition Oyamaduwa - Anuradhapura - 2012.
31.10.2011	Budget Circular No - 154	Streamlining the Construction and Related Process in respect of Contracts Awarded by the Government Ministries and Department to Public Institutions Involved in the Construction Industry.
30.12.2011	Budget Circular No - 155	Authorization of Incurring Expenditure for 2012 and Public Expenditure Management.

3.3 Supplementary Estimates

The year 2011 was a special year which compelled the Treasury to manage the additional fund requirements of various spending agencies to continue the major development activities while accommodating funds for unforeseen incidents such as floods, without submitting a Supplementary estimate to Parliament and reallocating funds within the approved budget. This re-allocation process was made within the approved expenditure ceilings as explained in para 100 of the Budget Speech 2012, operating through the estimate under the Budgetary Support Services and Contingent Liabilities / Treasury Miscellaneous Vote - (TMV).

The total estimate of Budgetary Support Services and Contingent Liabilities for 2011 was Rs. 55.44 billion including the budget proposals, of which Rs 41.66 billion was for Recurrent Expenditure and Rs.13.82 billion was for Capital Expenditure. The required additional provisions of Rs. 7.9 billion of recurrent expenditure and Rs.64 billion of capital expenditure were channeled through TMV using the unutilized funds of the approved estimates that have been identified under the selected spending agencies. By providing these additional funds by way of these reallocations, the actual expenditure of the total estimate as approved by Parliament have been maintained within the approved limits given in the total estimate and also the borrowing limits of the budget 2011.

4. Monitoring of Advance Accounts

Monitoring of Advance Accounts operations continued under the purview of the Department during the year 2011. 201 Advance Accounts comprising of 190 Public Officers' Advance Accounts, 4 Commercial Advance Accounts, 3 Stores Advance Accounts and 4 Special Advance Accounts were operated for which Rs 17,078 million was allocated. Financing of Advance Accounts Limits, monitoring of revisions of these limits, follow-up action on Auditor General's reports were some of the duties undertaken by this Department with regards to Advance Accounts. Limits of 39 Public Officers' Advance Accounts and 07 other Advance Accounts were revised during the year. Officers of this Department attended meetings of the Committee on Public Accounts (COPA) held to examine the Auditor General's reports on Advance Accounts in 2011.

5. Preparation of Annual Budget Estimates

5.1 Statutory Provisions

5.1.1 Appropriation Act

An Appropriation Act is passed by Parliament authorizing the Government to utilize funds for the specific financial year from the Consolidated Fund. This Act appropriates funds to government ministries, departments and institutions coming under their purview and it is also applicable for expenditure of that given fiscal year. In addition to expenditure, it includes maximum borrowing limit of the government, fund transfer authority and limits of Advance Accounts.

5.1.2 Article 150 (2) and 150 (3) of the Constitution

Article 150 (2) of the Constitution - If the Parliament is not able to vote the entire budget before the commencement of the new financial year (due to situations such as dissolution of the Parliament) it is necessary to get the approval of the Parliament to withdraw funds from the Consolidated Fund to maintain the public administration in the country. Therefore, provisions have been made in the Constitution to pass a motion (a Vote on Account) to withdraw funds from the Consolidated Fund for this purpose. Fiscal operations have been conducted in the years of 1931, 1960, 1970, 1971, 1982, 1988, 1995, 2000, 2002, & 2010 under a Vote on Account.

Authority of the HE the President under Article 150 (3) of the Constitution –This applies to a situation where Parliament has been dissolved before it has allocated funds through the budget. In such a situation, the President is empowered to authorize expenditure for the maintenance of public services for a period of 3 months from the date on which the new Parliament is scheduled to meet. In 2002 & 2010 fiscal operations have been conducted under such a Presidential decree.

5.2 Budget Estimates, 2012

Budget estimates for 2012 were formulated with a greater focus on the Government's responsibility to transform Sri Lanka into an *Emerging Wonder of Asia*. 2012 Budget was considered as the seventh year of Medium Term Expenditure Framework (MTEF) initiated in 2006. It was mainly focused on accelerating strategic infrastructure projects while developing rural infrastructure to ensure a regionally balanced development, and improving living conditions and restoration of economic activities island wide through accelerated resettlement and rehabilitation programmes.

5.3 Budget Formulation Guidelines

A standard Budget Circular was not issued for the preparation of Budget Estimates for the year 2011. All the Secretaries of Ministries were addressed personally giving guidelines to prepare their Estimates for 2011 by way of a personalized letter issued by the Secretary to the treasury, which included all the specific instructions. Draft Estimate for the year 2011 was approved by the Parliament on 21. 12. 2011.

The following specific guidelines were considered for expenditure categories in formulating 2012 Budget;

Recurrent Expenditure – To calculate salaries, wages & other allowances on the basis of the actual number of employees as at 30th June 2011 and separately identify expenditure for approved new recruitments for 2012.

Capital expenditure

- Give priority to complete the capital projects which have been already commenced.
- Include new projects only if such projects have been given the approval of the Department of National Planning and the Cabinet by 01.08.2011.
- Avoid duplication and overlapping of activities with regards to projects and programmes undertaken by spending agencies and the provincial councils to ensure sector allocations are properly distributed.
- Make realistic provisions required for the outstanding liabilities and the future requirements of import duties and taxes.

The Department did a review on 2011 Budget and based on critical assessment, workout a Ministry-wise potential budget. By mid August 2011 the Department sent the indicative estimates for 2012 for each ministry with the detailed letter indicating the assumptions used to derive those estimates. Based on these, the Ministries were requested to submit their draft estimates by September 2011.

5.4 Sectoral Approach for Budgetary Allocations – 2012

The budgetary allocation was made in accordance with the sectoral policy framework developed by all stakeholders for the development of respective sectors during the following 3 years. Budgetary requests were reviewed in a sectoral context. Sector classification has been changed in 2011 and will be effective from 2012 Budget. Therefore, in order to facilitate this process all Ministries, Departments and other Spending Agencies were classified under thirteen sectors. Budgetary allocations were guided mainly by the same sectoral policies and priorities that were identified for the 3 years of 2011-2013.

Table 5.1
Sector Wise Budgetary Allocations for the Year 2012

Sector	Rs.Mn.			
	Recurrent	Capital	Total	%
Transport	14,306	200,571	214,877	16.79
Power & Energy	1,184	32,507	33,691	2.63
Irrigation	6,501	34,800	41,301	3.23
Water Supply & Sanitation	156	33,068	33,224	2.60
Housing & Urban Development	712	7,767	8,479	0.66
Human Resource Development	194,983	52,015	246,998	19.30
Technology Development	11,595	4,252	15,847	1.24
Real Economy	43,951	15,604	59,555	4.65
Environment	1,983	2,999	4,982	0.39
Regional Development	8,647	106,456	115,103	8.99
National Security & Law Enforcement	216,917	10,230	227,147	17.75
Social Protection	141,230	1,976	143,206	11.19
Service Economy	96,834	38,755	135,589	10.59
Total	739,000	541,000	1,280,000	100.00

* Excluding debt amortization

Note: Sectors developed according to Treasury Format

Source: Department of National Budget

The table 5.1 shows the sectoral budgetary allocation made for year 2012. The highest allocation was made for Human Resources Development which covers education, Health skill development etc. Transport sector (roads, aviation transport etc), National Security and Social protection sectors also had given significant importance and made allocations accordingly.

6. Budgetary Management of Non Commercial Public Enterprises

All matters relating to Public Finance and Budgetary Management of 122 Non Commercial Enterprises (Statutory boards) were carried out by the Department of National Budget during the year of 2011. The following functions with regard to these institutions were carried out by the Department of National Budget in 2011 to improve their financial and management efficiency.

- Review the performance and the progress of these Statutory Boards, by analyzing and examining the Annual Budget, Annual Action Plan, Annual Accounts, Corporate Plan and Annual Report etc.
- Recommendation of the requests for release of monthly cash imprest on the recurrent and the capital grants to the Department of Treasury Operation.
- Grant necessary approvals for capital expenditure exceeding Rs.500,000/- in terms of the Finance Act No. 38 of 1971.
- Assist, prepare and submit reports of the financial performance and management of Statutory Boards to the Committee on Public Enterprises (COPE), when the COPE meetings are convened by Parliament.
- Grant approval for the purchase of new vehicles required by the Non Commercial Enterprises.
- Purchasing and handing over new vehicles under the Financial Leasing Method as per requirements of the Non Commercial Enterprises.
- Review the Audit Examine Reports of the Auditor General and the Special Audit Quarries submitted to this Department. Coordinate with the relevant Statutory Boards on resolving these quarries and ensure that the remedial actions are taken to avoid such audit quarries in the future.
- Submit recommendations to the Department of Management Services on the recruitment of new staff to Statutory Boards based on availability of Budgetary Provisions and actual needs of such institutions.
- Grant approval of the Department of the National Budget to travel abroad for various purposes (trainings, meetings, seminars, conference etc.)
- Advice and co-ordinate with the Statutory Boards on the other financial and management issues such as implementation of Mega Capital Projects etc.

**Table 6.1
Performance of 2011**

Activity	No.
1. Issuance of monthly cash release recommendations	1380
2. Approval of Foreign Travel	51
3. Preparation of COPE Reports	81
4. Approvals for vehicle procurements	76
5. Approval for incurring Capital Expenditure as per Finance Act	112
6. Review of Audit Reports	81
7. Issuance of vehicles under the Financial Leasing Method	123

Source: Department of National Budget

7. Observations on Cabinet Memoranda

During the year 2011, the department prepared observations to 96 Cabinet Memoranda for the Hon. Minister of Finance and Planning. The department submitted comments for 63 cabinet Memoranda for other Treasury departments

8. Coordinating “Deyata Kirula” Development Program-2012

The Department of National Budget has been involved in coordination of Deyata Kirula National Development program such as, organizing pre-discussions, Identification of areas to implement the program, identification of ongoing and new development projects in respective areas and expedite and prioritize, prepare and submitting Cabinet Memorandum, participate in National Operational Committee and Procurement Committee and overall fund management.

9. Approval for the Purchase of Vehicles

9.1 National Budget Approval for Vehicle Procurements

In terms of the Cabinet decision of 31.01.1990, the National Budget Department grant approval for purchase of vehicles by Government Institutions. Accordingly, all ministries, departments, provincial councils, local authorities and all statutory boards, corporations and government owned companies (GOCs) whether under self-financing or otherwise, had to obtain the prior approval of the Committee for any such purchase. The National Budget Department continued reviewing the requests for procurement of vehicles by various government agencies and given approvals.

During the year 2011, the Department has given approval for purchase of 1388 vehicles.

Table 9.1
Vehicles approved by the NBD by vehicle type

Type of Vehicle	No. of Vehicles Approved
Motor Cars	167
Vans	19
Buses	20
Single / Double/Crew cabs	107
Three wheelers	35
Lorries / Trucks	91
Motor cycles	724
Ambulances	27
SUVs	72
Others (Tractors/Trailers/Water Bowsers, etc.)	126
Total	1388

Source: Department of National Budget

9.2 Procurement of vehicles for Government Agencies under the Financial Leasing Method

In terms of the Cabinet Paper No.10/2238/404/122 dated 30.08.2010, approval has been granted by the Cabinet to provide vehicles for government agencies under the Financial Leasing Method. Accordingly Budget Circular No. 150 dated 07.12.2010 has been issued. In 2011 following vehicles have been distributed among the government agencies.

Table 9.2

Type of vehicle	No. of vehicles
Double Cabs	528
Motor Cars	487
Hiace Vans	149
SUVs for Distric Secretaries	20
Total	1184

Source: Department of National Budget

10. Participation of Staff on Boards and Committees

Most of the staff officers of this Department have served as Directors (Treasury Representatives) on the Boards of Directors of Statutory Boards, Public Corporations and Government owned Companies (GOCs), while some Officers have served as Members of Cabinet Appointed Tender Boards (CATBs), and Technical Evaluation Committees (TECs) representing the Secretary to the Treasury in these committees. In addition, Staff Officers of this Department attended meetings of the Committee on Public Accounts (COPA) and the Committee on Public Enterprises (COPE) in Parliament, representing the Department.

11. Co-ordination of Opening of Letters of Credit (LCs) and Telegraphic Transfers (TTs) under the Ministry of Defence

The Department of National Budget provided facilities for opening of letters of credit, Telegraphic transfers and Bank drafts for the Armed Forces, Sri Lanka Police and Department of Civil Security mainly for their overseas procurement by ensuring and confirming budgetary provisions to the Department of Treasury Operations.

12. The Organizational Structure and role of the Department of National Budget.

The Organizational Structure and role of the National Budget Department have been constructed with a categorization under the following comprehensive sectors which represent the provisions of Line Ministries expenditure estimates.

1. Public Service
2. Security
3. Law Enforcement
4. Human Resources
5. Infrastructure
6. Research & Technology
7. Social Security
8. Environment
9. Real Economy

12.1 Staff

Numbers of Officers under the following service levels have been Served within the Organizational structure of NBD in year 2011 as per the Pub. Admn. Circular No. 06/2006.

Service Level	No. of Officers
Senior Level	23
Territory Level	02
Secondary Level	68
Primary Level	30

As at the end of the year 2011, the approved cadre & the actual cadre of the Department were as follows.

Table 12:1
Cadre of the Year - 2011

Designation	Approved Cadre	Actual Cadre
Director General	01	01
Additional Director General	03	01
Director	15	11
Deputy Director	16	10
Assistant Director }		

Accountant	01	00
Administrative Officer	01	01
Translator	01	01
Project Officer	04	03
Budget Assistant	38	31
Research Assistant	01	04
Development Assistant	**00	03
Management Assistant	40	27
Driver	15	14
KKS	22	16
	-----	-----
Total	158	123
	=====	=====

** Under the re-structuring of the Ministry of Plan Implementing in 2010, these 3 Development Assistants of the Ministry have been attached to the staff of this department by the Ministry of Finance & Planning.

- 10 Executive Officers of the NBD have been transferred internally to the other Departments in the Treasury & to the Customs with effect from the 3rd January 2011, and with that substitutly 10 officers were transferred to this department from the other departments.
- 02 Posts of Directors of SLPS, Class 01 and 02 Posts of Drivers of Combined Drivers Service have been approved by the letter no. of DMS/C/07/02/05 & the General of Department of Management Services under FR-71.
- Ms. D.S.A.M. Costa, served as Accountant of SL.Ac. Service Class II has been promoted to Class 01 with effect from 01.01.2006 and then she has been appointed to the Post of Director (SL.Ac. Service) of Department of National Budget from 26th September 2011.
- Deputy Director Mr. C. Wickramasooriya, Asst. Director Mr. M.P. Hewavitharana, W.S.K. Liyanagama & K.P.T.N. Devapriya have taken full pay leave for study abroad in 2011.
- Mr. P. Algama of SL. Ac. Service, Class 01 has taken extended no pay leave for employment abroad.

13. Human Resource Development

The Department was able to send its staff for the following local and foreign training programmes in 2011, in order to enhance their professional skills and working efficiency, in addition to attending various meetings in their official capacities.

13.1 Foreign Training/Seminars/Mettings

	Name of Officer & Designation	Programme Name	Country	Duration
01.	Ms. G.D.C. Ekanayake Director General	Mgt. Board of the Asian Re- Insurance Corporation	Bangkok	21.04.2011 – 23.04.2011

		5 th meeting of Shareholders Assembly of Asian Region Re-Insurance Corporation	Bangkok	21.06.2011 – 24.06.2011
		Sri Lankan delegation to Washington U.S.A.	U.S.A.	06.07.2011 – 08.07.2011
02.	Mr. A.K. Seneviratne Addl. Director General	“Strategic Mgt”. at the Lee Kuan Yew School of Public Policy	Singapore	11.07.2011 – 15.07.2011
03.	Ms. G.K. Wimalaweera Director	“Public Finance” at the Lee Kuan Yew School (FMEP)	Singapore	31.07.2011 – 06.08.2011
04.	Mrs. P.K.A.D. de Silva Director	67 th Session of the ESCAP Commission Conference on “New Thinking on Social Security In Asian and Economic Opportunities”	Thailand Japan	19.05.2011 – 25.05.2011 16.11.2011 – 19.11.2011
05.	Mr. P.H.A.S. Wijayarathne Director	China Capacity Building Workshop	China	09.05.2011 – 16.05.2011
06.	Mr. K.R. Uduwawala Director	“Strategic Mgt”. at the Lee Kuan Yew School of Public Policy	Singapore	11.07.2011 – 15.07.2011
07.	Mr. S.M. Piyatissa Director	NIPFP/FAD Conference Promoting Sustainability through Strengthening Budget Framework	India	21.04.2011 – 22.04.2011
08.	Mr. S.P. Kiriwaththuduwege Asst. Director	Singapore – Korea Comprehensive Joint Deve. Cooperation Partnership	Singapore & Korea	04.07.2011 – 15.07.2011
09.	Mr. H.S. Hettiarachchi Project Officer	Seminar on Health Manage. for Health Administrators in Developing Countries	Japan	22.08.2011 – 28.09.2011

13.2 Local Training

The following staff members were given local training in different fields in the year 2011.

Designation	No. of Employees	Programme Names
Staff officers	22	Business English Language training
	01	MBA Semester II (University of Colombo)
	02	Workshop Colombo
	01	Asian Deve. Bank Loan Disbursements

	26	
Project Officers &)		

Budget Assistants)	40	Business English Language training
Management Asst.	02	Pension Process
	01	CIGAS Training
	02	Basic Tamil Course
	03	Advance Accounts
	01	Excel Training
	01	Procurement Training

	50	
	==	

14. Financial Administration of the Department of National Budget

Budgetary provision required for the normal operations of the Department of National Budget was shown under Head 240 in the Budget Estimates for 2011. Budgetary allocations were provided under 2 Programmes and 3 Projects as given below:

- | | |
|-----------------------------|--|
| (a) Programme | 01 - Operational Activities |
| Project 01 of the Programme | 01 - Budget Formulation and Policy |
| (b) Programme | 02 - Development Activities |
| Project 02 of the Programme | 02 - Budgetary Support Services and Contingent Liabilities |
| (c) Project | 03 - Budgetary Support for Development Projects |

The provision related to departmental administrative expenditure on budget formulations and policies was provided by the Project No. 01 while Project 02, provided allocation for facilitating unexpected and unforeseen expenditure required by various spending agencies, expenditure related to implementation of the budget proposals announced in the 2011 Budget Speech and for policy priorities announced in the financial year. Provisions for budgetary support for development projects were provided under the Project 03.

A sum of Rs. 128,180,348,000 had been provided for the Department of National Budget after incorporating the budget proposals and savings from identified expenditure heads to the original estimates of 2011.

The above total provision was utilized as follows:

(1) Expenditure of Project 01 of Programme 1	Rs.	363,856,315
(2) Provisions transferred to other Heads under Programme 2 Project 02	Rs.	127,219,460,969
(3) Expenditure of Programme 2 Project 03		-
Total	Rs	127,583,317,284
Balance Provision	Rs.	<u>597,030,716</u>

Accordingly, the balance provision was only 0.46 percent of the total provision allocated.

14.1 Summary of Expenditure of Head 240

Summary of budgetary provision and actual expenditure, and variance and variance as a percentage of the net provision are given in the following Table 14.1.

Table 14.1
Summary of Expenditure under Head 240 for the Year 2011

(1) Description	(2) Net Provision (Rs.)	(3) Actual Expenditure/ Transfers to other Heads (Rs.)	(4) Variance (Savings) (2)-(3) (Rs.)	(5) Variance as a percentage of Net Provision
<i>Recurrent Expenditure</i>				
Project				
1 Budget Formulation and Policy	90,270,000	86,720,617	3,549,383	3.9
2 Budgetary Support Services and Contingent Liabilities	49,730,698,000	49,245,254,549	485,443,451	1.0
Total Recurrent Expenditure	49,820,968,000	49,331,975,166	488,992,834	1.0
<i>Capital Expenditure</i>				
Project				
1 Budget Formulation and Policy	285,870,000	277,135,698	8,734,302	3.05
2 Budgetary Support Services and Contingent Liabilities	78,072,510,000	77,974,206,420	98,303,580	0.12
3 Education Sector Development Project.	1,000,000	-	1,000,000	100
Total Capital Expenditure	78,359,380,000	78,251,342,118	108,037,882	0.14
Grand Total	128,180,348,000	127,583,317,284	597,030,716	0.46

14.2 Budgetary Provisions and Actual Expenditure of the Department by Projects for 2011

The following Table shows budgetary provisions and the Actual Expenditure of the Department for each Project under each Programme for 2011. Column 3 shows the revised provision after consideration of FR 66 transfers, and provision made under the legend amendments. The difference between revised estimates and actual expenditure i.e. the savings are shown under Column (5) of Table 14.2

Table 14.2
Expenditure under Programme 1 - Operational Activities
Project 01 - Budget Formulation & Policy

(1) Description	(2) Estimate (Rs)	(3) Net Provision (Rs)	(4) Actual (Rs)	(5) Savings (3)-(4) (Rs)	(6) Variance as a %
Recurrent Expenditure					
Personal Emoluments	47,350,000	50,045,000	47,689,998	2,355,002	4.7
Other Recurrent Expenditure	16,720,000	40,225,000	39,030,619	1,194,381	2.97
Total Recurrent Expenditure	64,070,000	90,270,000	86,720,617	3,549,383	3.93
Capital Expenditure					
Rehabilitation and Improvement of Capital Assets					
Buildings					
Machinery	500,000	500,000	-	500,000	100
Vehicles	650,000	650,000	645,207	4,793	0.74
Acquisition of Fixed Assets					
Vehicles		282,720,000	275,866,391	6,853,609	2.42
Furniture and Office Equipment	550,000	550,000	397,088	152,912	27.8
Machinery	850,000	850,000	-	850,000	100
Capacity Building					
Training and Capacity Building	600,000	600,000	227,012	372,988	62.16
Total Capital Expenditure	3,150,000	285,870,000	277,135,698	8,734,302	3.05
Total Expenditure	67,220,000	376,140,000	363,856,315	12,283,685	3.26

Source: Department of National Budget

As shown in the above Table, 96.74% of the net provision provided for Project 1 of the Programme 01 had been utilized.

Table 14.3
Expenditure under Programme 02 – Development Activities
Project 02 - Budgetary Support Services & Contingent Liabilities

(1) Description	(2) Net provision (Rs)	(3) Transferred to other Heads (Rs)	(4) Savings (As per the Appropriation Accounts) (Rs)	(5) Variance as a %
Recurrent Expenditure				
♦ Other Recurrent Expenditure	49,730,698,000	49,245,254,549	485,443,451	0.97
Total Recurrent Expenditure	49,730,698,000	49,245,254,549	485,443,451	0.97
Capital Expenditure				
♦ Other Capital Expenditure (Budget Proposals)				
National Research council				
Contingency Services				
Acquisition of Vehicles	6,525,510,000	6,515,501,703	10,008,297	0.15
Restructuring				
Liabilities for Failed Enterprises	166,700,000	166,700,000	-	-
Foreign Aid Related Expenditure				
- Foreign Aid Loans (12)	17,202,000,000	17,201,016,717	983,283	0.01
- Foreign Aid Grants (13)	2,373,000,000	2,371,127,966	1,872,034	0.08
- Reimbursable Foreign Aid Loans (14)	1,422,000,000	1,422,000,000	-	-
- Reimbursable Foreign Aid Grants (15)	11,000,000	11,000,000	-	-
- Counterpart Funds (16)	130,000,000	130,000,000	-	-
- Foreign Aid Related Domestic Funds (17)	12,700,000,000	12,660,902,618	39,097,382	0.31
Other Contingency Payments (11)	37,542,300,000	37,495,957,416	46,342,584	0.12
Total Capital Expenditure	78,072,510,000	77,974,206,420	98,303,580	0.12
Grand Total	127,803,208,000	127,219,460,969	583,747,031	0.46

Source: Department of National Budget

A sum of Rs. 127,803,208,000 was made available under this project for granting supplementary allocations to meet unforeseen and unexpected expenditure of the various spending agencies/institutions and implementation of the budget proposals declared at the Budget Speech 2011. Out of this amount, Rs. 127,219,460,969 was released to various spending agencies. It was 99.54 percent of the total allocation.

Table 14.4
Expenditure under Programme 02 -Development Activities
Project 03 - Budgetary Support for Development Activities

(1) Project Description	(2) Net provision (Rs)	(3) Actual 2010 (Rs)	(4) Variance (2)-(3) (Rs)	(5) Variance as a %
Education Sector				
Development Grant (ESDP)	1,000,000	-	1,000,000	100
Total Expenditure	1,000,000	-	1,000,000	100

Table 14.5
Public Officers' Advance Account for 2011

Category	Authorized Limit 2011 Rs.	Actual 2011 Rs.
Maximum Limit of Expenditure	9,420,000	4,381,892
Minimum Limit of Receipts	3,500,000	4,530,000
Maximum Limit of Debit Balances	41,000,000	23,140,179

In terms of the Budget Circular No. 114 of 31.12.2003, figures of the above Table comprised only the transactions occurred under the Advance Account item No. 240-under 011, within the department. According to Circular No. 114, loan balances of officers who had been transferred out or in, were settled with Accounting Heads, under the Advance Account item No. 240-012. With regard to settlement of these loan balances, expenditure incurred was Rs. 7,971,716/- and Receipts were Rs. 8,032,859/- during the year 2011. Accordingly, the Department had complied within the authorized limits of Public Officers' Advance Account.

Table 14.6
Loans Given in Year 2011

Loan/Advance	No of Loans Given	Amount (Rs.)
Festival Advance	91	455,000
Special Advance	50	125,000
Distress and Bicycle Loans	135	3,628,374
Total	276	4,208,374

Source: Department of National Budget

14.3 Auditor General's Queries for 2011

During the year 2011, 05 queries were referred to this Department by the Auditor General and all the queries were duly answered.