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செயலாற்றுகை அறிக்கை

Performance Report

2012

භාණ්ඩාගාර මෙහෙයුම් දෙපාර්තමේන්තුව

திறைசேரி செயற்பாடுகள் திணைக்களம்

Department of Treasury Operations

මුදල් හා ක්‍රමසම්පාදන අමාත්‍යාංශය
කොළඹ 01

நிதி திட்டமிடல் அமைச்சு
கொழும்பு 01

Ministry of Finance & Planning
Colombo 01.

Contents

1. Vision

"To be the best Government fund manager in the South Asia Region."

2. Mission

"We are committed to ensure efficiency, economy and safety in handling funds belonging to the Consolidated Fund and other Treasury funds and to harmonize the Government expenditure programmes with the revenue plans and borrowing programme, while providing stewardship for fund accounting, including foreign borrowings."

3. Introduction

The Department of Treasury Operations (TOD) was established on 28th July 2004 with the objective of creating an efficient organization within the Treasury to handle matters relating to the management of the Consolidated Fund (Treasury cash flow) and Public Debt. In this endeavor, TOD translates estimated revenue and expenditure given in the National Budget into an operational cash inflow and outflow, management plan on; annual, monthly and daily basis and manage them effectively and efficiently in order to execute the National Budget in achieving budget targets of the Government.

4. Major Functions

- Management of Treasury Cash Flow
- Facilitating in arrangement of Domestic and Foreign Commercial Borrowings.
- Disbursement of Treasury Funds through the payment system.
- Assessment, prioritization and release of funds to spending agencies.
- Issuance of Treasury Guarantees
- Operation of fund flows relating to the on-lending programs of the Government.
- Estimation, Collection and Accounting of Non-Tax Revenue under 11 heads and Tax Revenue under 01 head.
- Facilitating for disbursement of funds under FA Loans and Grants.
- Accounting of Government borrowings and debt repayments.
- Authorization and Supervision of Government bank accounts and imprest accounts.
- Guidance, Supervision and facilitation and Accounting for Foreign financing Projects.

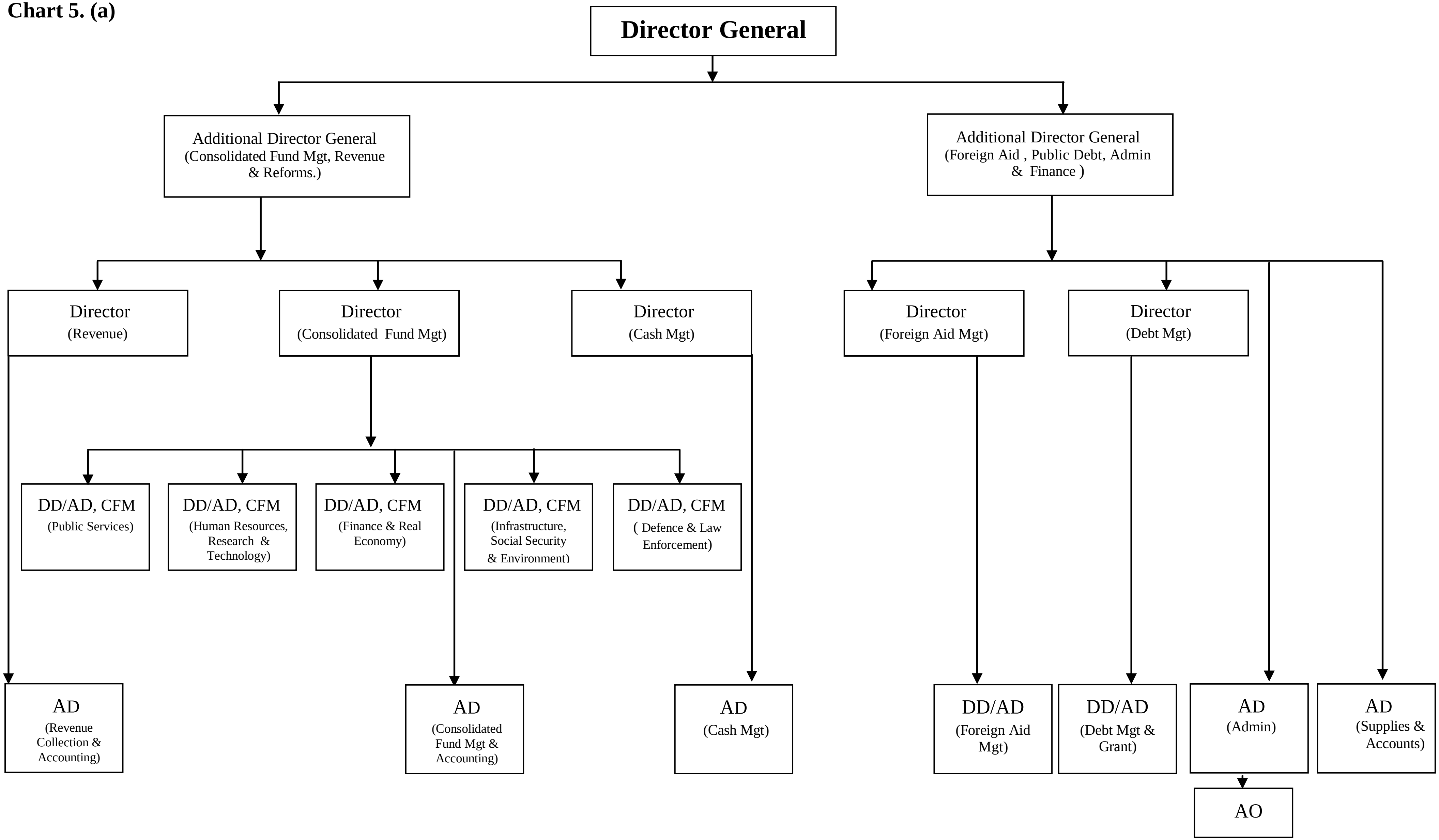
5 . Cadre Information

Table 5 (a) Cadre Information as at 31.12.2012

Designation	Approved Cadre	Existing Cadre (31.12.2012)
Director General	1	1
Additional Director General	2	1
S.L.A.S. - Class III	1	1
S.L.AcS - Class I	5	4
S.L.AcS - Class II/ III	11	9
Administrative Officer	1	1
Accounts Analyst	14	2
Development Assistant	1	0
Programme Assistant	1	0
Accounts Assistant	2	0
P.M.A. (Class I)	5	6
P.M.A. (Class II/III)	54	47
Information Communication Technology Assistant	7	5
Driver	6	6
K.K.S. I	1	3
K.K.S. II/III	11	9
Total	**123**	**95**

Organization Structure

Chart 5. (a)



6. *Human Resource Development*

In view of improve the knowledge on Management, Information Technology and languages of the employees of the department, 18 officers of the Management Assistant Service and Information Technology Service were participated the following training programs conducted by the MILODA, the Sri Lanka Foundation Institute and the Premises of this Department.

1. Office Management
2. Diploma in Communicational skills in English
3. Tamil language
4. Spread Sheet Manipulating using MS Excel

In addition to the above, a residential training programme on Capacity and Self Development was conducted on 06th and 07th September 2012 at the Training Centre of Agriculture Department, at Gannoruwa , for the entire staff of the department. 44 staff members were participated for the programme.

Also, 6 staff officers were given opportunities for the foreign training during the year.

7. Financial Performance in 2012

Table 7.(a) *Recurrent Financial Performance in 2012 is as follows*

Item	Category / Object / Item / Description	2011		2012		Increase / Decrease over 2011 Expenditure	Increase / Decrease % Based on Actual Expenditure 2011
		Estimate	Actual	Estimate	Actual		
RECURRENT EXPENDITURE		**845,833**	**845,556**	**998,010**	**725,380**	**(120,176)**	**(14.21)**
	Personal Emoluments	**37,050**	**36,791**	**37,639**	**37,583**	**792**	**2.15**
1001	Salaries and Wages	29,200	28,982	29,400	29,365	**383**	**1.32**
1002	Overtime and Holyday Payments	500	500	600	597	**97**	**19.40**
1003	Other Allowances	7,350	7,309	7,639	7,621	**312**	**4.27**
	Travelling Expenses	**1,439**	**1,434**	**2,013**	**2,012**	**578**	**40.31**
1101	Domestic	29	28	67	66	**38**	**135.71**
1102	Foreign	1,410	1,406	1,946	1,946	**540**	**38.41**
	Supplies	**3,130**	**3,128**	**3,720**	**3,679**	**551**	**17.62**
1201	Stationery and Office Requisites	1,440	1,439	1,860	1,852	**413**	**28.70**
1202	Fuel	1,645	1,644	1,800	1,767	**123**	**7.48**
1203	Diets and Uniforms	45	45	60	60	**15**	**33.33**
	Maintenance Expenditure	**952**	**944**	**1,368**	**1,363**	**419**	**44.39**
1301	Vehicles	630	625	725	722	**97**	**15.52**
1302	Plant, Machinery and Equipment	300	297	593	593	**296**	**99.66**
1303	Buildings & Structure	22	22	50	48	**26**	**118.18**
	Services	**2,225**	**2,222**	**2,421**	**2,328**	**106**	**4.77**
1401	Transport	769	768	860	860	**92**	**11.98**
1402	Postal and Communication	1,435	1,433	1,501	1,408	**(25)**	**(1.74)**
1405	Other	21	21	60	60	**39**	**185.71**
	Transfers	**801,037**	**801,037**	**950,849**	**678,415**	**(122,622)**	**(15.31)**
1503-01	Refund of Proceeds Lotteries Development Subsidies	306,145	306,145	450,000	402,567	**96,422**	**31.50**
1505-01	Gov. Contribution to Public servants' Insurance Scheme	494,229	494,229	500,000	275,000	**(219,229)**	**(44.36)**
1506	Property Loan Interest to Public Servants	663	663	849	848	**185**	**27.90**

Table 7.(b) Capital Financial Performance in 2012 is as follows

Rs. '000

Item	Category / Object / Item / Description	2012		2011		Increase / Decrease over 2011 Expenditure	Increase / Decrease % Based on Actual Expenditure 2011
		Estimate	Actual	Estimate	Actual		
Capital Expenditure		**1,004,950**	**1,004,400**	**755,300**	**754,032**	**(250,368)**	**(24.93)**
	Rehabilitation and Improvement of Capital Assets	**3,800**	**3,284**	**3,700**	**3,198**	**(86)**	**(2.62)**
2001	Buildings and structures	100	64	100	100	**36**	**56.25**
2002-01	Implementation of Treasury Single Accounts system	3,300	2,823	3,000	2,512	**(311)**	**(11.02)**
2003	Vehicles	400	397	600	586	**189**	**47.61**
	Acquisition of Capital Assets	**150**	**132**	**600**	**571**	**439**	**332.58**
2102	Furniture & Office Equipment	100	94	600	571	**477**	**507.45**
2103	Plant,Machinery & Equipment	50	38	0	0	**(38)**	**(100.00)**
	Acquisition of Financial Assets	**1,000,000**	**1,000,000**	**750,000**	**750,000**	**(250,000)**	**(25.00)**
2302-05	Revolving fund to be utilized in purchasing the Farmer Products	1,000,000	1,000,000	750,000	750,000	**(250,000)**	**(25.00)**
	Human Resource Development	**1,000**	**984**	**1,000**	**263**	**(721)**	**(73.27)**
2401	Knowledge Enhancement & Institutional Development	1,000	984	1,000	263	**(721)**	**(73.27)**

8. Physical Performance

8.1 Cash Management

8.1.1 Treasury Cash Flow Management

Treasury Operations Department (TOD) adopted an effective cash planning and management strategy in 2012 to manage the government finance effectively, minimizing borrowing costs towards achieving the policy targets expected in the budget. In achieving these objectives, the major responsibility of the TOD is to release cash to spending agencies (Government ministries, departments and other institutions) on timely manner and priority basis. It was the experience of TOD that the demand for cash was always higher than the available funds. Therefore, it is the responsibility of the TOD to assess the needs of cash demands of each and every spending agency objectively in order to release the funds necessary for smooth implementation of the budget.

The cash flow management strategy adopted by the TOD in 2012 contributed to ease the pressure on bunching dates of the debt obligations, hence lowering the refinancing risk of the public debt portfolio and the pressure on the domestic interest rates. Under this strategy, TOD prepared an operational monthly cash forecast, based on projected aggregate cash inflows, limits on cash outflows and likely timing of the borrowings. This monthly plan was based on the annual cash plan, prepared in line with the Appropriation Act approved by Parliament, setting out projected cash inflows, cash outflows and planned borrowings.

To prepare monthly and annual cash plans, TOD uses revenue forecasts submitted by Departments of Inland Revenue, Customs and Excise and past monthly patterns to establish likely monthly inflow of tax and non tax revenue receipts and expenditures. The continuous updating of the operational cash flow in 2012 helped TOD to manage/streamline expenditure and Government revenue.

In order to obtain necessary guidance on cash flow management and achieving budgetary targets of 2012 and reviewing revenue targets, 11 cash flow meetings were held during the year under the chairmanship of the Secretary to the Treasury. The heads of main revenue departments i.e. Inland Revenue, Sri Lanka Customs, Excise and relevant heads of the departments and officers of the General Treasury participated in these meetings.

Similar to the previous years, the filling of the gap between revenue and expenditure during the year 2012 was also made through borrowings. However, the year 2012 was a challenging year for the TOD in obtaining borrowings. Despite revenue targets were not achieved as planned and increased the expenditure on interest, the Department of Treasury Operations addressed almost all the challenges reasonably in 2012 with the assistance of the Public Debt Department of the Central Bank of Sri Lanka. Among those challenges, following were the most notable.

1. Management of Treasury cash flow not contradicts to the quarterly economic targets of the Central Bank of Sri Lanka.
2. Implementation of Public Investment Programme as planned.
3. Utilization of domestic financial resources for public investments without affecting the credit needs of the private sector.
4. Make recommendations to obtain low cost borrowings from international capital markets.
5. Make recommendations on amount of borrowings at the monthly Domestic Debt Management Committee (DDMC) meetings enabling to achieve annual public investment targets.

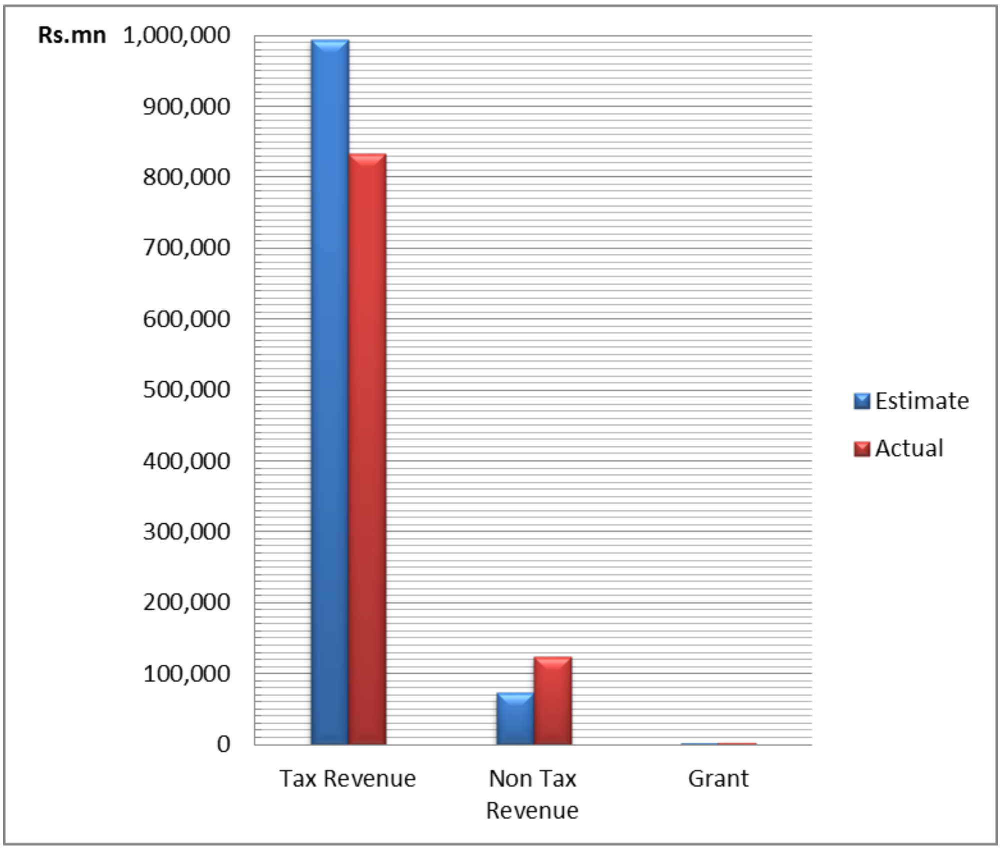
8.1.2 Treasury Cash inflow

Table 8.1 (a) Collection of Revenue - 2012

(Rs.Million)

	Estimate	**Actual**	**% change**
Tax Revenue	994,559	833,520	84
Non Tax Revenue	73,238	124,359	170
Grant	2,416	3,171	131
Total Revenue	1,070,213	961,050	90

Chart 8.1 (a) Estimated and Actual Revenue -2012



As shown in the Table 8.1(a) and the Chart 8.1(a) revenue collected in the year 2012 was 90% of the estimated revenue. This progress consists of 84% from the tax revenue,170% from the non tax revenue and 131% from the foreign grants.

The slowdown in economic activities and the decline in imports had a negative impact on government revenue collection. However, with the strengthening of monitoring on revenue collection the General Treasury was able to collect Rs. 961,050 million in 2012 which is an increase of 8.5 % with compared to the revenue collection of Rs. 885,549 million in 2011. This increase has been reported in both tax and non tax revenue categories. The increase of the revenue from income based taxes, excise duties and other taxes were the main contributory factors for the increase in the tax revenue. The receipt of higher profits and dividends from state owned enterprises has resulted in increasing the non tax revenue in 2012. Accordingly, 87% of the total revenue in 2012 was received from the tax revenue while the balance 13% consists of non tax revenue and grants.

Cash inflow from foreign grants was marginally decreased by 2.9 % to Rs. 3171 million as a result of lowering the share of grants received from multilateral sources and no grants received from European communities.

8.1.2 Treasury Cash Outflow

Department of Treasury Operations has fully contributed for government effort on controlling recurrent expenditure and maintaining capital expenditure at a required level when releasing cash in 2012 to facilitates the investment program of the government.

One of the challenging tasks of the Department was to match the revenue to meet the recurrent expenditure including interest payments. The Chart 8.1 (b) shows actual cumulative revenue, cumulative recurrent and capital expenditure and its impact on the bank overdraft.

Chart 8.1 (b) Matching of Treasury Cash **Inflow** *and Outflow*

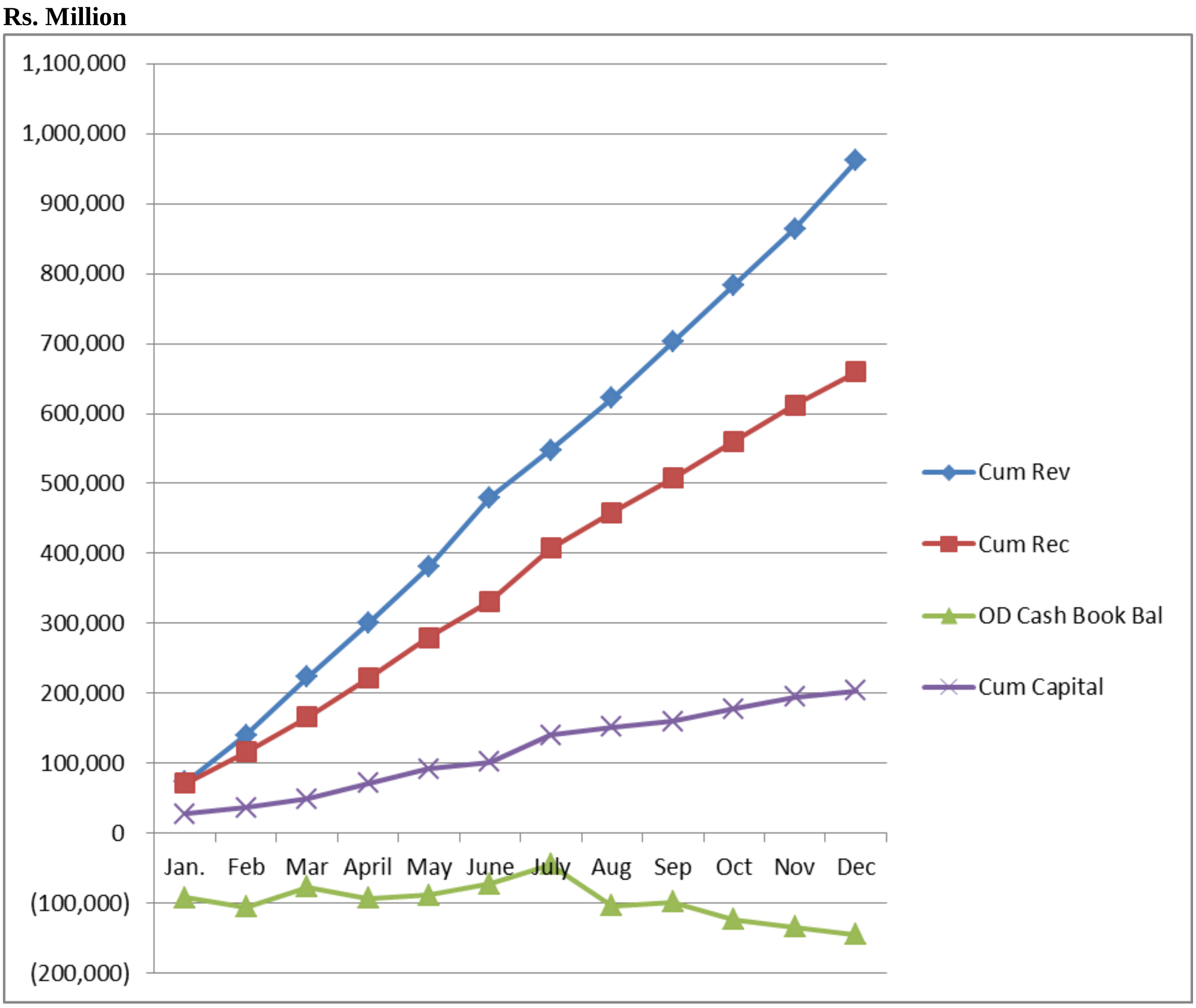


Table 8.1 (b)

	Cum Rev	Cum Rec	OD Cash Book Bal	Cum Capital
Jan.	73,083	71,254	92,016	27,994
Feb	140,460	116,686	105,357	36,844
Mar	223,964	166,590	76,939	48,968
April	300,681	221,656	92,534	71,647
May	380,724	279,429	88,291	91,823
June	480,181	331,366	68,174	101,984
July	547,459	407,950	44,251	140,288
Aug	621,826	458,890	103,435	152,334
Sep	702,717	507,823	98,107	159,902
Oct	783,650	560,476	122,914	177,625
Nov	864,321	611,742	133,673	195,313
Dec	961,050	659,221	144,480	203,500

As shown in the Chart 8.1 (b) government revenue collection was greater than the cash requirement for recurrent expenditure during the year 2012 and the excess revenue compared to recurrent expenditure has been released for capital expenditure and settlement of part of the loan repayments. Department of Treasury Operations released more funds on recurrent expenditure for personal emoluments, pensions and interest payments.

During 2012, Department of Treasury Operations made every effort to release cash without any delay for capital expenditure in order to expedite infrastructure development projects. Accordingly, Department of Treasury Operations released Rs.203,500 Million in 2012 for the implementation of the public investment programme in 2012. Under the government capital expenditure programme cash has been released for investments in road development, transportation, "Gama Neguma" programme, infrastructure development programme in lagging regions, ports, irrigation, agriculture, power and energy, education, health and water supply.

8.1.4 Composition of Cash Limits and Releases

Cash Management Division of the TOD consists of five sectors in line with the organizational design of the National Budget Department (NBD) as follows:

1. Infrastructure Development Sector (IDS)
2. Human Resources Development Sector (HRD)
3. Real Economy & Finance Sector (RES)
4. Defense Sector (DEF), and
5. Governance Sector (GOV)

Chart 8.1 (C) Annual Cash Limit and Cash Releases - 2012

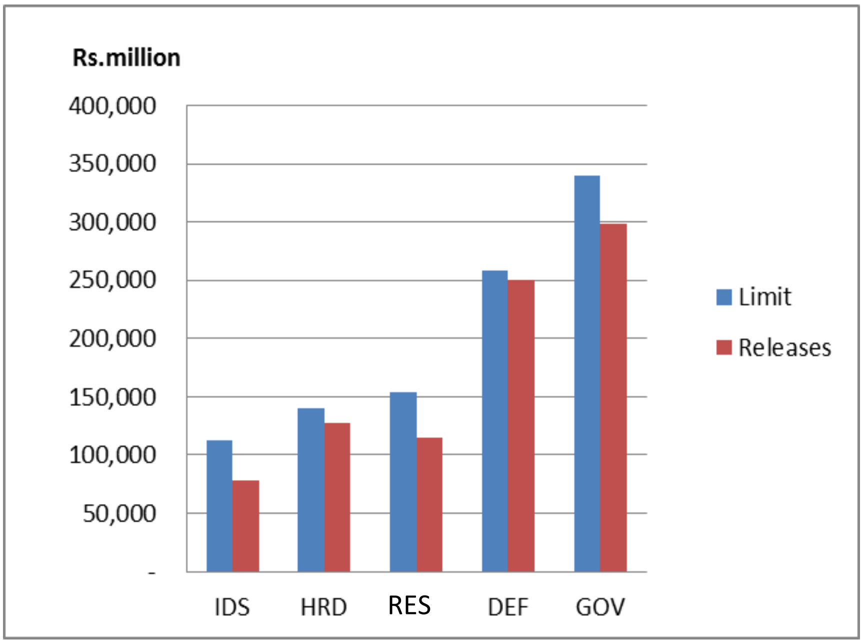


Table 8.1 (c)

	IDS	HRD	RES	DEF	GOV
Limit	112,473	140,540	153,268	258,622	340,131
Releases	78,409	127,312	114,460	249,725	298,302
Percentage of Releases	70%	91%	75%	97%	88%

As shown in the Chart 8.1 (c), in 2012 Department of Treasury Operations has released cash for each sector to meet its requirement. During this period, the Treasury had released funds amounting to more than 88% of the limits for Defense, Human Resources Development and Governance Sector. Real Economy & Finance Sector and Infrastructure Development Sector were also given 75% and 70% respectively.

Table 8.1 (d) ***Sector-wise Breakdown of Recurrent and Capital Expenditure and Imprest Limits***

(Rs. Million)

Sector	Recurrent			Capital		
	Limit	Releases	%	Limit	Releases	%
IDS	23,979	17,291	72	87,074	60,864	70
HRD	109,468	108,302	99	28,927	18,045	62
RES	73,119	67,824	93	78,770	46,199	59
DEF	223,658	224,558	100	29,324	21,775	74
GOV	250,714	241,246	96	87,710	56,616	65
Total	**680,939**	**659,221**	**97**	**311,805**	**203,500**	**65**

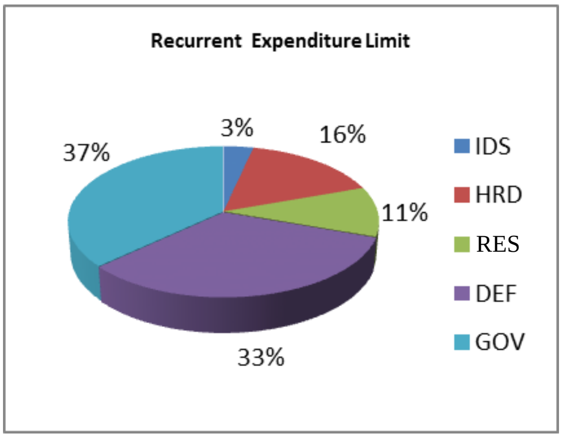
As shown in the Table 8.1(d) cash requirement of spending agencies for recurrent expenditure had almost been fulfilled. In other words that was about 97 % of the total cash limit determined for the year based on the annual budget. For Human Resources Development, Defense and Governance sectors, cash releases for recurrent expenditure had been not less than 96%.

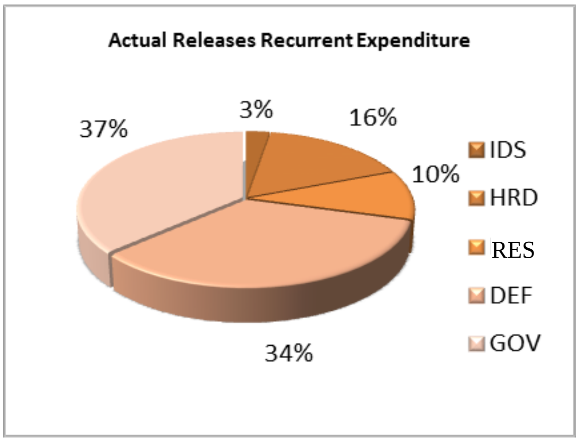
In case of capital expenditure, Treasury was able to release up to 65 % of the cash limit compared to the corresponding figure of 71% in last year. In line with the total releases pertaining to capital expenditure of 65%, TOD released 65% of limit for the Governance sector for capital expenditure programme in all districts. The highest release on capital expenditure, 74 % of its limit, was made for the Defense sector in 2012.

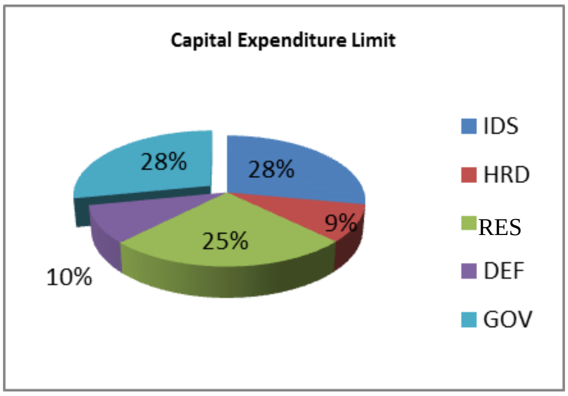
8.1.5 Sector wise Composition of Cash Limits and Actual releases

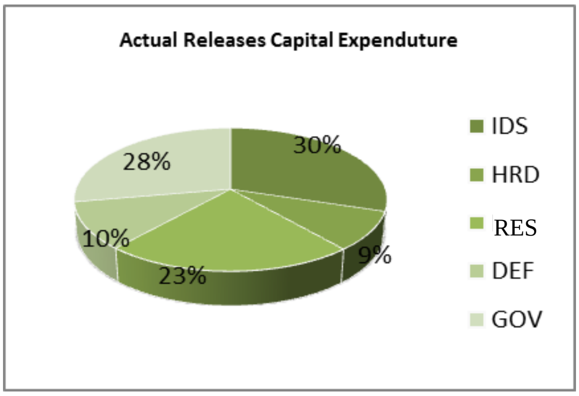
When budget is formulated, the priority is given to the important sectors of the economy in allocating resources. The Department of Treasury Operations being the budget execution arm of the General Treasury has to maintain the same importance and priorities in releasing cash. As per the compositions shown in the Chart 8.1(e) TOD released cash for Recurrent Expenditure, Capital Expenditure and Advances to Public Officers (POA), endorsing the said priorities.

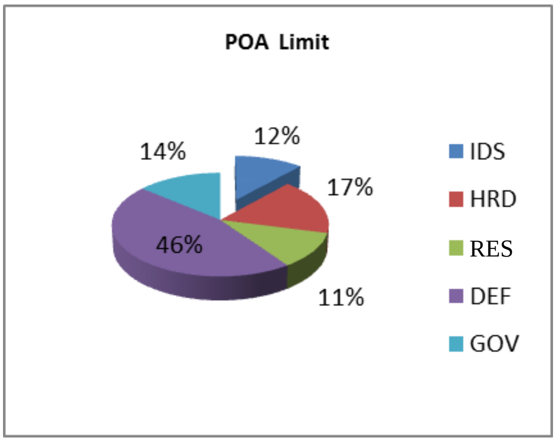
Chart 8.1 (e) Sector wise Composition of Cash Limits and Releases - 2012

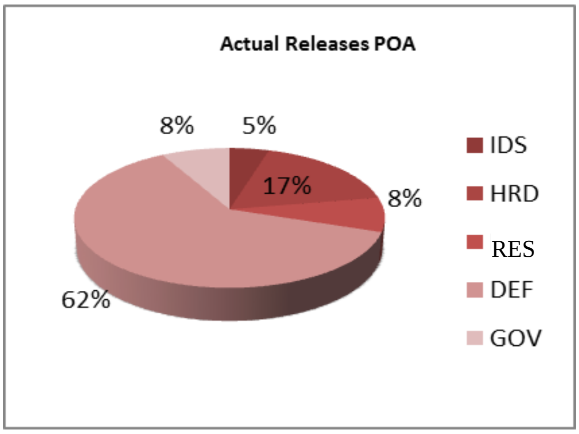












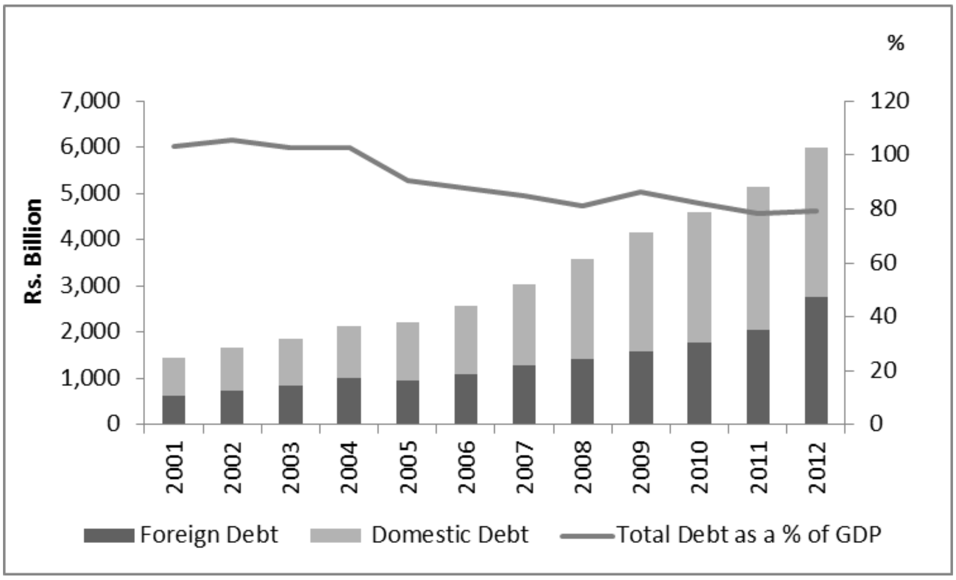
8.2 *Public Debt Management*

8.2.1 Government Debt Management Strategy

The Fiscal Management (Responsibility) Act No. 3 of 2003, which requires the government budget deficit to reduce to 5 per cent of GDP be maintained at a similar level thereafter, and the debt to GDP ratio to reduce to 80 percent in 2013 and 60 percent in 2020, basically provides the guidance for the countries Medium Term Debt Management Strategy.

Synchronizing with this framework, the government's debt management strategy is primarily concerns rationalization of recurrent expenditure while ensuring public investment at an acceptable level, borrowing at the lowest possible cost and ensuring adequate availability of funding to service the existing debt, as the basic principles that guide the borrowing strategy of the government.

Chart 8.2(a) Composition of Government Debt



The reliance on both domestic and foreign financing has increased over the years with borrowings being required to finance the resource gap of the government budget. Total Government outstanding debt as a percentage of GDP reflects slight change from declining trend over the recent past. This is mainly due to increase in the debt stock as a result of the depreciation of Sri Lanka rupee against the major foreign currencies.

The government debt management strategy focused on improving the government security market while reducing risk with the government debt port folio and thereby relied heavily on marketable debt instruments with longer term maturities to finance the resources gap in 2012.

As such, the structure of the borrowings has also changed with domestic borrowings moving towards more marketable debt instruments with non-residents being allowed to invest in rupee denominated Treasury bills and Treasury bonds with a cap.

8.2.2 Government Borrowing Programme – 2012

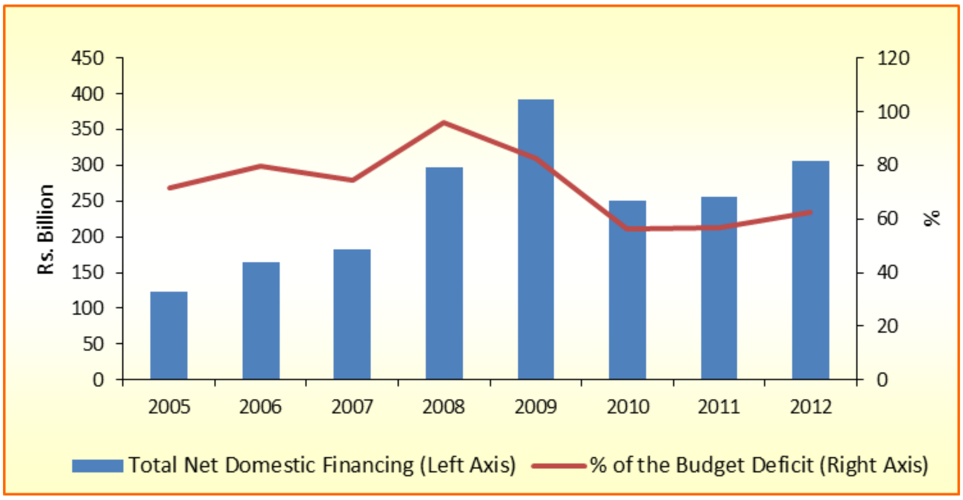
Borrowings to finance the government resource gap are made in accordance with the provisions of the annual Appropriation Act. Accordingly the gross borrowing limit to finance the resources gap approved by the Parliament for the year 2012 under the Appropriation Act No. 52 of 2011 amounted to Rs. 1,139 billion.

The budget deficit of Rs. 489 billion in 2012, financed from Total net borrowings from domestic sources of 308 billion. This accounted for 63 percent of the total budget deficit. The balance 37 percent was financed through the foreign sources including fifth international severing bond and the project loans.

8.2.3.1 Domestic Debt Financing

In line with the government strategy of focusing on marketable debt instruments and the improvement of government security market, the domestic debt financing was mainly focused on marketable debt instruments. The total marketable borrowings, Rs. 254.2 billion were borrowed through Treasury bonds in 2012, including the net investments by non-residents in Treasury bonds, which amounted to Rs. 99.6 billion in 2012. This accounted for 82.5 per cent of the total Net Domestic Finance (NDF).

Charts 8.2 (b) Trends in Net Domestic Financing



Net borrowings from Treasury bills was recorded as Rs. 22.8 billion, including Rs. 6 billion of non-resident investments, which accounted for 7.8 percent of the total marketable borrowings and accounted for 7.4 percent of the NDF in 2012. The net borrowings through SLDBs increased to Rs. 18.4 billion in 2012 from Rs. 5.3 billion in 2011, representing 6 percent of the total NDF.

The share of short term borrowings of the NDF decreased to 12.7 percent in 2012 from 37.4 percent in 2011, while the share of medium to long term borrowings of Rs.269 billion in the NDF reflected an increase to 87.3 percent in 2012 from 62.6 percent in 2011.

8.2.3.1 Outstanding Domestic Debt

Stock of total domestic debt excluding rupee denominated Treasury bills and bonds issued to the foreigners, at end of 2012 was recorded at Rs. 3,232.8 billion. This reflects an increase of Rs. 428.7 billion or 15.3 percent in comparison to Rs.2,804 billion at end 2011. The ratio of domestic debt to the total debt was marginally declined to 53.9 percent in 2012 from 54.6 percent in the previous year. As a percentage of GDP, total domestic debt also declined to 42.6 percent in 2012 from 42.9 percent in 2011.

Of the outstanding total domestic debt by end 2012, Treasury bonds and Treasury bills accounted for 64.8 percent and 19.4 percent of the total, respectively. The balance accounted for SLDBs (6.9 percent), provisional advances from the Central Bank (3.4 percent) and Rupee loans (1.9 percent) and other (3.6 percent).

By end 2012, medium and long term debt accounted to 74.8 percent of the total domestic debt. It reflects a slight decrease compared to 75.1 percent in 2011 mainly due to the general increase in short term debt. Treasury bonds of Rs. 2,095 billion accounted for 86.6 percent of the total medium to long term domestic debt.

8.2.3.2 Maturity Structure of Domestic Debt

Of the total domestic debt, maturities within 1 year (2013) amounted to Rs.1, 415 billion which is 43.8 percent of the total stock of domestic debt at the end of 2012. The average time to maturity (ATM) of domestic debt increased to 3.25 years from 2.35 years in the previous year due to rely on marketable debt instruments with longer term maturities.

Table 8.2 (a) Maturity Structure of Domestic Debt - As at end 2012

(Rs.million)

Year of Maturity	Treasury Bills	Treasury Bonds	Rupee loans	SLDB	OBUS	Others(Net of Deposits)	Total	Maturity as a % of Total
2013	629,070	460,207	2,868	95,380	19,870	207,439	1,414,834	43.8
2014		323,405		40,818			364,223	11.3
2015		314,013	31,430	75,097			420,540	13.0
2016		204,069		11,699			215,768	6.7
2017		184,756					184,756	5.7
2018		203,834					203,834	6.3
2019		108,944					108,944	3.4
2020		80,899					80,899	2.5
2023		74,463	24,088				98,551	3.0
2026		60,365					60,365	1.9
2027		58,712					58,712	1.8
2028		21,387					21,387	0.7
Total	**629,070**	**2,095,054**	**58,386**	**222,994**	**19,870**	**207,439**	**3,232,813**	**100.00**

Complying with the government strategy of focusing on marketable debt instruments to raise finances, the stock of marketable debt increased by 13.6 percent in 2012 over 2011 to Rs.2,594 billion from Rs.2,947 billion. Treasury bills, Treasury bonds and SLDBs constitute the portfolio of marketable debt instruments with Rupee loans and other short term bank borrowings constituting the non-marketable instruments.

As such, at the end of 2012, of the total domestic debt, marketable instruments accounted for almost 91.2 percent while non-marketable instruments amounted to 8.8 percent (Rs. 285.7 billion).

8.2.3.2 Domestic Debt Service Payments

Table 8.2 (b) Domestic Debt Service Payments

(Rs.million)

Year	Principal Payments	Interest Payment	Total
2001	44,074	84,560	128,634
2002	130,786	105,897	236,683
2003	185,083	113,540	298,623
2004	147,740	105,878	253,618
2005	203,347	113,164	316,511
2006	247,536	133,787	381,323
2007	252,165	161,370	413,535
2008	258,720	182,198	440,918
2009	401,296	273,977	675,273
2010	389,672	297,127	686,799
2011	439,894	288,134	728,028
2012	415,441	317,659	733,100

Sources: Department of Treasury Operation, Department of state Accounts and Central Bank of Sri Lanka.

Total dometic debt service payments in 2012 reflect a slight increase of 0.7% over 2011. Out of total debt service payments, the domestic debt service payments amounted to Rs. 733.1 billion., Rs. 415.4 billion or 56.2 percent was for domestic debt repayments while the balance Rs. 317.7 billion (43.8 percent) was on interest payments.

Reflecting a decline in both debt repayments as well as interest payments as a percentage of GDP, total domestic debt service payments to GDP ratio decreased to 9.7 percent in 2012 from 11.1 percent in 2011. During the year, domestic debt repayments declined to 5.5 percent of GDP from 6.7 percent in the previous year while the interest payments marginaly increased to 4.4 percent of GDP from 4.2 percent in the previous year.

8.3 Foreign Aid Management

Releasing of imprest for projects implemented under Reimbursable Foreign Aid (RFA) method is carried out, either releasing funds directly to the Bank account of the project or to the project through the relevant Ministry. During the period of January – December 2012, Rs. 4,292 million has been released to the projects under RFA method. In 2012 foreign aid grants amounting to Rs. 13,011 million have been received in cash in addition to Rs. 3,059 million worth of materials and equipments received.

Central Bank maintains imprest fund accounts for the purpose of channeling funds which were received from the donor agencies to the various projects. From January to December 2012, TOD facilitated to open 16 new such accounts, making the total number of accounts in operation 121 by the end of December 2012. During the year funds amounting to Rs. 41,135 million has been received to these accounts from donor agencies.

8.4. Government Revenue

8.4.1 Collection of Revenue:

The Director General of Treasury Operations functions as Revenue Accounting Officer for 11 Non Tax - Revenue Heads and 01 Tax - Revenue Head.

Out of the total estimated Non-Tax Revenue of Rs. 158.7 Billion of the Government for the year under review, a sum of Rs 47.7 Billion or 30% was expected to be earned from the above Non Tax Revenue Heads and Rs 22.9 Billion was expected to be earned from a Tax - Revenue Head. During the year under review the department was able to earn a sum of Rs.41 Billion as Non Tax - Revenue and Rs.22.3 Billion as Tax Revenue. The details of the above 12 Revenue Heads in respect of year 2011-2012 are shown in table 1.

Table 8.4. (a) : Collection of Tax and Non Tax Revenue 2011 – 2012

	Revenue Collections Rs:000			
	2011		**2012**	
Revenue Description	**Estimate**	**Collection**	**Estimate**	**Collection**
Non Tax Revenue				
Rent on Govt. Building	690,000	663,387	650,000	582,264
Other Rental	60,000	662,160	62,000	50,139
On Lending Interest	6,775,000	7,293,475	7,704,000	8,100,516
Other Interest	1,300,000	2,553,028	1,325,000	1,387,711
Departmental Sales	100,000	137,491	130,000	143,436
Sundries	5,500,000	6,502,094	7,114,582	2,941,497
Fines & Forfeits	2,800,000	6,264,217	3,000,000	5,137,117
Other Receipts	8,500,000	12,711,008	9,042,000	3,238,911
Other Current Transfers	1,485,000	1,953,084	1,800,000	2,222,737
Sale of Capital Assets	500,000	514,298	500,000	831,152
Recovery of Sub Loans	14,772,000	14,877,713	16,470,000	16,409,105
Sub Total	**42,482,000**	**54,131,955**	**47,797,582**	**41,044,585**
Tax Revenue				
Telephone Subscribers' Levy	20,500,000	18,650,864	22,900,000	22,289,141
Sub Total	20,500,000	18,650,864	22,900,000	22,289,141
Total Revenue	**62,982,000**	**72,782,819**	**70,697,582**	**63,333,726**

Further, the Director General of Treasury Operations functions as the Revenue Accounting Officer for Foreign Aid Grants. Although the estimated revenue under Foreign Aid Grants was Rs.20 Billion, the total grant received during the year under review was Rs.16 Billion.

Table 8.4. (b) : Collection of Foreign Grants

Revenue Description	Revenue Collections	Rs:000		
	2011		2012	
	Estimate	Collection	Estimate	Collection
Foreign Grants	13,750,000	15,961,635	20,000,000	16,070,772
Total	**13,750,000**	**15,961,635**	**20,000,000**	**16,070,772**

An 86 % achievement is recorded against the estimated revenue under Non-Tax component in the year 2012. However, a considerable decline of 24% is shown against the 2011 Non- Tax revenue collection as a result of some revenue sources, such as; Other Receipts and Sundries which have inherent characteristics of receiving of higher income in some years while recording an average income in the other years.

Meanwhile a 98% performance has been achieved against the target of Rs. 22.9 Billion under the Telephone Subscriber's Levy in 2012 while registering of 19.52% increased against the 2011 collection of Rs.18.65 Billion. In addition, the performance of revenue collection under the Foreign Grants was 88% against the estimated amount of Rs.20 billion and the collection was stood at Rs.16 billion similar to the year 2011. It has been observed that no grants were received from European Countries as a result of that their economies were facing some difficulties.

8.4.2 Recovery of Sub Loan Capital and Interest:

The Department maintains information system on Sub Loans which is updated monthly. Out of the twelve Non Tax Revenue Heads, Director General of Treasury Operations is responsible for recovering both capital and interest of the sub loans. Assessment, Collection and Acceptance of revenue under the above two Revenue Heads are performed by this Department.

During the year 2012, an amount of Rs. 37.8 Billion has been released as sub loans and Rs. 16.4 Billion has been recovered as the loan capital. In addition to the above, Rs. 8.1 Billion has been collected as interest on sub loans granted.

As a result of strengthening the monitoring loan recovery process, the Treasury Operations Department has been able to achieve the target set for loan recoveries and the due interest for the year. The outstanding balance of the sub loans at the end of year 2012 was Rs. 323 Billion granted to 83 different institutions including Commercial Banks, Development Banks and the Regional Development Bank.

8.4.3 Contingent Liabilities on Guarantees and Letters of Comfort

8.4.3.1 Treasury Guarantees

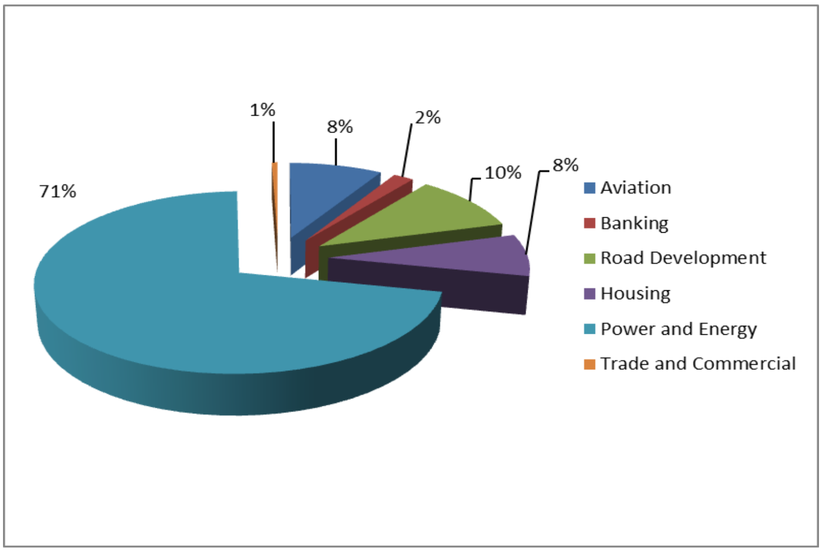
State enterprises when seeking financial assistance from domestic or external sources to meet their capital and commercial requirements, request Treasury indemnities and the Department of Treasury Operations in turn issues the required guarantees subject to the provision made in the Fiscal Management (Responsibility) Act No.3 of 2003.

The total value of the treasury guarantees issued at the end of the year 2012 was Rs.266,074 Million with an increase of 34.3% with compared to the previous year amount of Rs.198,136 Million. Out of the total guarantees issued so far about 71% of the guarantees have been issued for the Power and Energy sector. The sector composition of the Treasury Guarantees is shown in Table 8.4.(c) and Chart ***8.***4.(a).

Table 8.4.(c) : Sector Composition of Treasury Guarantees 2011 and 2012

Sector	**Value in Million**		**Percentage% 2011**	**Percentage % 2012**
	2011	**2012**		
Aviation	1,804	22,544	1	8
Banking	5,000	5,000	2	2
Road Development	18,880	27,442	9	10
Housing	2,855	20,405	2	8
Power and Energy	168,207	189,294	85	71
Trade and Commercial	1,389	1,389	1	1
Total	**198,136**	**266,074**	**100**	**100**

hart 8.4.(a) : Sector composition of Treasury Guarantees 2012



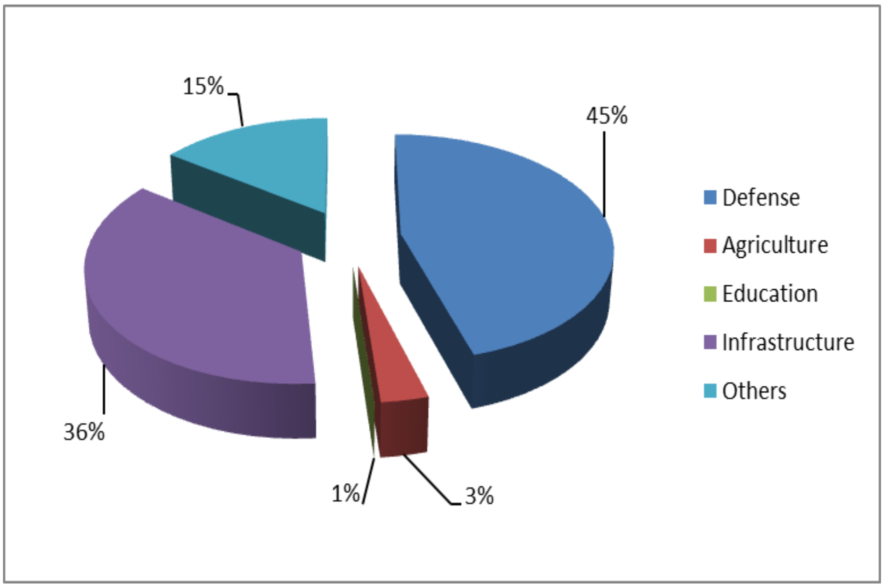
8.4.3.2 Letters of Comfort

Letters of comfort are issued by the department to facilitate the opening of the Letters of Credit in favor of Government Ministries and Departments. The total value of such letters of comfort issued at the end of the year 2012 was Rs.27,743 Million registering an increase of Rs.82 Million with compared to the previous year amount of Rs.27,661 Million. The sector wise composition of the Letters of Credit is shown in table 8.4.(d) and chart 8.4(b).

Table 8.4.(d) : Letters of Comfort

Sector	Value in Million		Percentage%
	2011	2012	2011
Defence	7,704	12,627	45
Agriculture	13,952	872	3
Education	1,006	3	1
Infrastructure	1,546	10,072	36
Others	216	4,169	15
Total	**27,661**	**27,743**	**100**

Chart 8.4.(b): Sector composition of letters of Comfort 2012



8.4.4 Property Loan Guarantee Fund:

The government, with the view of ensuring all the public officers to have the opportunity to acquire valuable assets, introduced a housing loan scheme through the banking sector as a budget proposal in 2005. The Guarantee Fund was established under the Department of Treasury Operations to ensure the prompt settlement of loans by the General Treasury in the event the officers who obtained loans through this scheme are died, totally disabled or retired on medical grounds (Qualifying category). For this purpose, the above Guarantee Fund was established on 5th August 2005 with the initial investment of Rs. 916 Mn in the Treasury Bonds.

In terms of Budget Circular No.122 of 26.04.2005, the execution of the fund, investment from the fund, recovery of earnings on investment and settlement of loans on behalf of public officers referred to above was entrusted to the Department of Treasury Operations.

Settlement of loan balances for Qualified officers under this fund, during the year 2010- 2012 is shown in Table 8.4.(e)

Table 8.4.(e): Settlement of loan balances

Year	2010	2011	2012
No. of Officers	39	46	63
Value of the loan settled (Rs.)	29,098,098	31,605,785	47,144,445

The total loan settlements made under this scheme from the inception of the fund was Rs.165,564,967 for 238 public officers who qualified under the above category and the balance of the loan Guarantee Fund lying at the end of the year 2012 was Rs.1, 326,328,081.

The operation of the fund during the year 2012 in summarized form is shown under Table *8.4.(f)*

Table 8.4.(f) : Operation of Property Loan Guarantee Fund - 2012

			Rs.
Balance as at 01.01.2012			
	Treasury Bonds	916,231,000	
	General Deposit	374,991,276	**1,291,222,276**
Add: Income			
Interest income			82,250,250
			1,373,472,526
Less : Payments			
Settlement of loan balances			(47,144,445)
Balance as at 31.12.2012			
	Treasury Bonds	916,231,000	
	General Deposit	410,097,081	**1,326,328,081**

The above table further indicates that settlements of loan balances so far were able to be met from the interest income without disturbing the initial investment of Rs.916 Million.

8.5 Progress on Treasury Single Accounts System (TSAS) and Electronic Payment System

The Department of Treasury Operations being become a pioneer in the financial management in South Asia region has achieved the following targets during the year 2012.

01. TOD was able to record total receipts of Rs. 4,365.1 Billion and total payment of Rs. 4548.8 Billion, excluding inter-bank transactions in 2012. All these receipts and payments have been made under 8816 pay- in – vouchers and 15,926 payment vouchers respectively. To ensure the efficiency, convenience and safety in financial transaction process in Sri Lanka, all these 15926 payment vouchers had been made through 15556 transactions. Out of these, 14109 transactions have been made though electronic fund transfer system via Central Bank of Sri Lanka, Bank of Ceylon and People's Bank. It represents 88.5% of the transactions. In addition, 370 inter-bank transactions have been made through the Real Time Gross Settlement (RTGS). And also, out of 8798 receipt entries recorded in 2012, 35% was made through fund transfers without using Cheques.

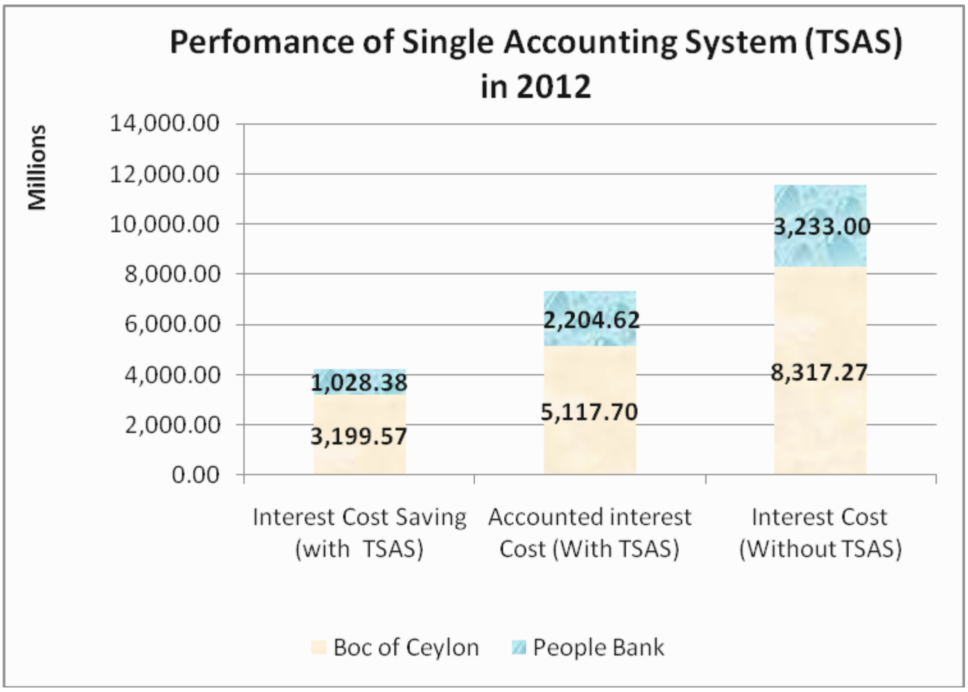
    Being an influential partner in the financial market of Sri Lanka, TOD could able to reduce the circulation of high value Cheques in 2012. Thereby, efficiency, safety and effectiveness of the financial transactions in Sri Lanka were enhanced.
    At the same time, to facilitate the e-government policy of the government, TOD could able to inform the details of total no of 14,109 transactions to the spending agencies through electronic media. These paperless transactions were significantly contributed to reduce the postal expenditure while avoiding the postal delays.

02. Implementing of the TSAS contributed to enhance the operations of the Deputy Secretary's bank accounts (DST's Accounts). Efficiently and effectively and as a result overdrawn interest cost of the government were reduced.

    Accordingly, end of the day idle cash balances of the bank accounts of every Ministries, Departments, District and Divisional Secretaries are effectively used to reduce the overdrawn of DST's accounts.

At any time average idle cash balances of government at ministries, departments, District and Divisional Secretaries are approximately Rs. 40 Billion in 2012. Thus, it was saved about Rs. 4,227 Mn of interest expenditure since these idle cash balances could be getting back to DST's Accounts through the TSAS. The total interest cost on overdrawn fund would have been increased by 36.6%, unless the TSAS was in place. The following graph shows this situation.

Chart 8.5 (a)



Contents

1. Vision

"To be the best Government fund manager in the South Asia Region."

2. Mission

"We are committed to ensure efficiency, economy and safety in handling funds belonging to the Consolidated Fund and other Treasury funds and to harmonize the Government expenditure programmes with the revenue plans and borrowing programme, while providing stewardship for fund accounting, including foreign borrowings."

3. Introduction

The Department of Treasury Operations (TOD) was established on 28th July 2004 with the objective of creating an efficient organization within the Treasury to handle matters relating to the management of the Consolidated Fund (Treasury cash flow) and Public Debt. In this endeavor, TOD translates estimated revenue and expenditure given in the National Budget into an operational cash inflow and outflow, management plan on; annual, monthly and daily basis and manage them effectively and efficiently in order to execute the National Budget in achieving budget targets of the Government.

4. Major Functions

- Management of Treasury Cash Flow
- Facilitating in arrangement of Domestic and Foreign Commercial Borrowings.
- Disbursement of Treasury Funds through the payment system.
- Assessment, prioritization and release of funds to spending agencies.
- Issuance of Treasury Guarantees
- Operation of fund flows relating to the on-lending programs of the Government.
- Estimation, Collection and Accounting of Non-Tax Revenue under 11 heads and Tax Revenue under 01 head.
- Facilitating for disbursement of funds under FA Loans and Grants.
- Accounting of Government borrowings and debt repayments.
- Authorization and Supervision of Government bank accounts and imprest accounts.
- Guidance, Supervision and facilitation and Accounting for Foreign financing Projects.

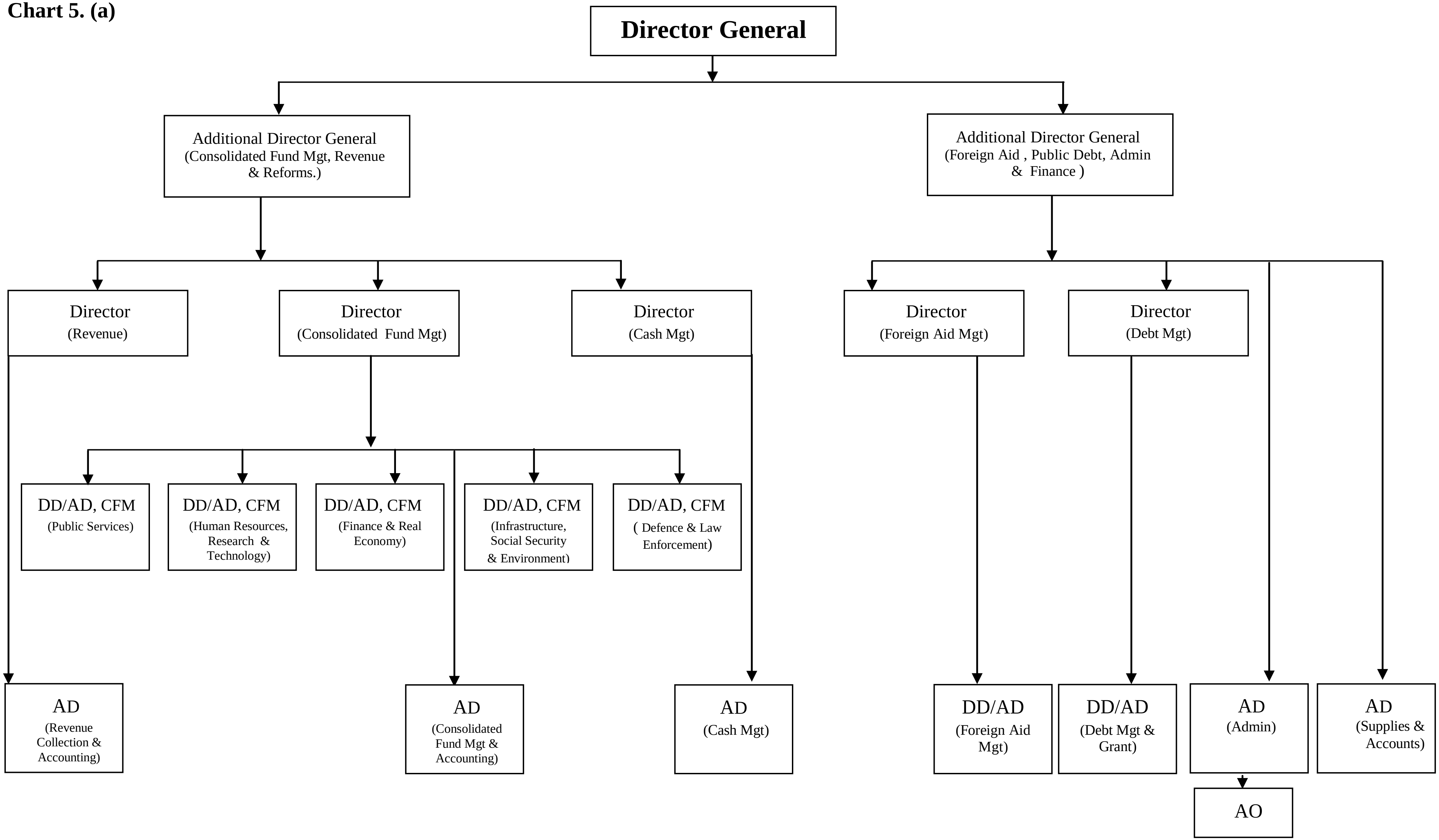
5 . Cadre Information

Table 5 (a) Cadre Information as at 31.12.2012

Designation	Approved Cadre	Existing Cadre (31.12.2012)
Director General	1	1
Additional Director General	2	1
S.L.A.S. - Class III	1	1
S.L.AcS - Class I	5	4
S.L.AcS - Class II/ III	11	9
Administrative Officer	1	1
Accounts Analyst	14	2
Development Assistant	1	0
Programme Assistant	1	0
Accounts Assistant	2	0
P.M.A. (Class I)	5	6
P.M.A. (Class II/III)	54	47
Information Communication Technology Assistant	7	5
Driver	6	6
K.K.S. I	1	3
K.K.S. II/III	11	9
Total	**123**	**95**

Organization Structure

Chart 5. (a)



6. Human Resource Development

In view of improve the knowledge on Management, Information Technology and languages of the employees of the department, 18 officers of the Management Assistant Service and Information Technology Service were participated the following training programs conducted by the MILODA, the Sri Lanka Foundation Institute and the Premises of this Department.

1. Office Management
2. Diploma in Communicational skills in English
3. Tamil language
4. Spread Sheet Manipulating using MS Excel

In addition to the above, a residential training programme on Capacity and Self Development was conducted on 06^{th} and 07^{th} September 2012 at the Training Centre of Agriculture Department, at Gannoruwa , for the entire staff of the department. 44 staff members were participated for the programme.

Also, 6 staff officers were given opportunities for the foreign training during the year.

7. Financial Performance in 2012

Table 7.(a) *Recurrent Financial Performance in 2012 is as follows*

Item	Category / Object / Item / Description	2011		2012		Increase / Decrease over 2011 Expenditure	Increase / Decrease % Based on Actual Expenditure 2011
		Estimate	Actual	Estimate	Actual		
RECURRENT EXPENDITURE		**845,833**	**845,556**	**998,010**	**725,380**	**(120,176)**	**(14.21)**
	Personal Emoluments	**37,050**	**36,791**	**37,639**	**37,583**	**792**	**2.15**
1001	Salaries and Wages	29,200	28,982	29,400	29,365	**383**	**1.32**
1002	Overtime and Holyday Payments	500	500	600	597	**97**	**19.40**
1003	Other Allowances	7,350	7,309	7,639	7,621	**312**	**4.27**
	Travelling Expenses	**1,439**	**1,434**	**2,013**	**2,012**	**578**	**40.31**
1101	Domestic	29	28	67	66	**38**	**135.71**
1102	Foreign	1,410	1,406	1,946	1,946	**540**	**38.41**
	Supplies	**3,130**	**3,128**	**3,720**	**3,679**	**551**	**17.62**
1201	Stationery and Office Requisites	1,440	1,439	1,860	1,852	**413**	**28.70**
1202	Fuel	1,645	1,644	1,800	1,767	**123**	**7.48**
1203	Diets and Uniforms	45	45	60	60	**15**	**33.33**
	Maintenance Expenditure	**952**	**944**	**1,368**	**1,363**	**419**	**44.39**
1301	Vehicles	630	625	725	722	**97**	**15.52**
1302	Plant, Machinery and Equipment	300	297	593	593	**296**	**99.66**
1303	Buildings & Structure	22	22	50	48	**26**	**118.18**
	Services	**2,225**	**2,222**	**2,421**	**2,328**	**106**	**4.77**
1401	Transport	769	768	860	860	**92**	**11.98**
1402	Postal and Communication	1,435	1,433	1,501	1,408	**(25)**	**(1.74)**
1405	Other	21	21	60	60	**39**	**185.71**
	Transfers	**801,037**	**801,037**	**950,849**	**678,415**	**(122,622)**	**(15.31)**
1503-01	Refund of Proceeds Lotteries Development Subsidies	306,145	306,145	450,000	402,567	**96,422**	**31.50**
1505-01	Gov. Contribution to Public servants' Insurance Scheme	494,229	494,229	500,000	275,000	**(219,229)**	**(44.36)**
1506	Property Loan Interest to Public Servants	663	663	849	848	**185**	**27.90**

Table 7.(b) Capital Financial Performance in 2012 is as follows

Rs. '000

Item	**Category / Object / Item / Description**	**2012**		**2011**		**Increase / Decrease over 2011 Expenditure**	**Increase / Decrease % Based on Actual Expenditure 2011**
		Estimate	**Actual**	**Estimate**	**Actual**		
Capital Expenditure		**1,004,950**	**1,004,400**	**755,300**	**754,032**	**(250,368)**	**(24.93)**
	Rehabilitation and Improvement of Capital Assets	**3,800**	**3,284**	**3,700**	**3,198**	**(86)**	**(2.62)**
2001	Buildings and structures	100	64	100	100	**36**	**56.25**
2002-01	Implementation of Treasury Single Accounts system	3,300	2,823	3,000	2,512	**(311)**	**(11.02)**
2003	Vehicles	400	397	600	586	**189**	**47.61**
	Acquisition of Capital Assets	**150**	**132**	**600**	**571**	**439**	**332.58**
2102	Furniture & Office Equipment	100	94	600	571	**477**	**507.45**
2103	Plant,Machinery & Equipment	50	38	0	0	**(38)**	**(100.00)**
	Acquisition of Financial Assets	**1,000,000**	**1,000,000**	**750,000**	**750,000**	**(250,000)**	**(25.00)**
2302-05	Revolving fund to be utilized in purchasing the Farmer Products	1,000,000	1,000,000	750,000	750,000	**(250,000)**	**(25.00)**
	Human Resource Development	**1,000**	**984**	**1,000**	**263**	**(721)**	**(73.27)**
2401	Knowledge Enhancement & Institutional Development	1,000	984	1,000	263	**(721)**	**(73.27)**

8. *Physical Performance*

8.1 *Cash Management*

8.1.1 Treasury Cash Flow Management

Treasury Operations Department (TOD) adopted an effective cash planning and management strategy in 2012 to manage the government finance effectively, minimizing borrowing costs towards achieving the policy targets expected in the budget. In achieving these objectives, the major responsibility of the TOD is to release cash to spending agencies (Government ministries, departments and other institutions) on timely manner and priority basis. It was the experience of TOD that the demand for cash was always higher than the available funds. Therefore, it is the responsibility of the TOD to assess the needs of cash demands of each and every spending agency objectively in order to release the funds necessary for smooth implementation of the budget.

The cash flow management strategy adopted by the TOD in 2012 contributed to ease the pressure on bunching dates of the debt obligations, hence lowering the refinancing risk of the public debt portfolio and the pressure on the domestic interest rates. Under this strategy, TOD prepared an operational monthly cash forecast, based on projected aggregate cash inflows, limits on cash outflows and likely timing of the borrowings. This monthly plan was based on the annual cash plan, prepared in line with the Appropriation Act approved by Parliament, setting out projected cash inflows, cash outflows and planned borrowings.

To prepare monthly and annual cash plans, TOD uses revenue forecasts submitted by Departments of Inland Revenue, Customs and Excise and past monthly patterns to establish likely monthly inflow of tax and non tax revenue receipts and expenditures. The continuous updating of the operational cash flow in 2012 helped TOD to manage/streamline expenditure and Government revenue.

In order to obtain necessary guidance on cash flow management and achieving budgetary targets of 2012 and reviewing revenue targets, 11 cash flow meetings were held during the year under the chairmanship of the Secretary to the Treasury. The heads of main revenue departments i.e. Inland Revenue, Sri Lanka Customs, Excise and relevant heads of the departments and officers of the General Treasury participated in these meetings.

Similar to the previous years, the filling of the gap between revenue and expenditure during the year 2012 was also made through borrowings. However, the year 2012 was a challenging year for the TOD in obtaining borrowings. Despite revenue targets were not achieved as planned and increased the expenditure on interest, the Department of Treasury Operations addressed almost all the challenges reasonably in 2012 with the assistance of the Public Debt Department of the Central Bank of Sri Lanka. Among those challenges, following were the most notable.

1. Management of Treasury cash flow not contradicts to the quarterly economic targets of the Central Bank of Sri Lanka.
2. Implementation of Public Investment Programme as planned.
3. Utilization of domestic financial resources for public investments without affecting the credit needs of the private sector.
4. Make recommendations to obtain low cost borrowings from international capital markets.
5. Make recommendations on amount of borrowings at the monthly Domestic Debt Management Committee (DDMC) meetings enabling to achieve annual public investment targets.

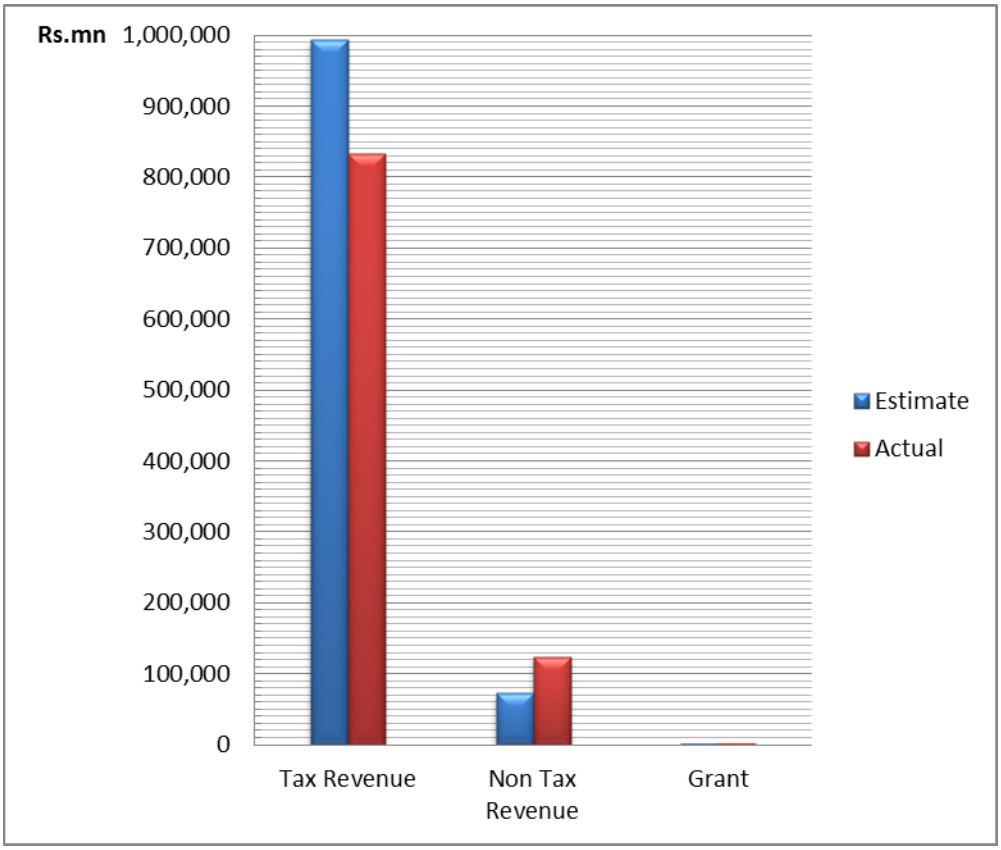
8.1.2 Treasury Cash inflow

Table 8.1 (a) Collection of Revenue - 2012

(Rs.Million)

	Estimate	**Actual**	**% change**
Tax Revenue	994,559	833,520	84
Non Tax Revenue	73,238	124,359	170
Grant	2,416	3,171	131
Total Revenue	1,070,213	961,050	90

Chart 8.1 (a) Estimated and Actual Revenue -2012



As shown in the Table 8.1(a) and the Chart 8.1(a) revenue collected in the year 2012 was 90% of the estimated revenue. This progress consists of 84% from the tax revenue,170% from the non tax revenue and 131% from the foreign grants.

The slowdown in economic activities and the decline in imports had a negative impact on government revenue collection. However, with the strengthening of monitoring on revenue collection the General Treasury was able to collect Rs. 961,050 million in 2012 which is an increase of 8.5 % with compared to the revenue collection of Rs. 885,549 million in 2011. This increase has been reported in both tax and non tax revenue categories. The increase of the revenue from income based taxes, excise duties and other taxes were the main contributory factors for the increase in the tax revenue. The receipt of higher profits and dividends from state owned enterprises has resulted in increasing the non tax revenue in 2012. Accordingly, 87% of the total revenue in 2012 was received from the tax revenue while the balance 13% consists of non tax revenue and grants.

Cash inflow from foreign grants was marginally decreased by 2.9 % to Rs. 3171 million as a result of lowering the share of grants received from multilateral sources and no grants received from European communities.

8.1.2 Treasury Cash Outflow

Department of Treasury Operations has fully contributed for government effort on controlling recurrent expenditure and maintaining capital expenditure at a required level when releasing cash in 2012 to facilitates the investment program of the government.

One of the challenging tasks of the Department was to match the revenue to meet the recurrent expenditure including interest payments. The Chart 8.1 (b) shows actual cumulative revenue, cumulative recurrent and capital expenditure and its impact on the bank overdraft.

Chart 8.1 (b) Matching of Treasury Cash **Inflow** *and Outflow*

Rs. Million

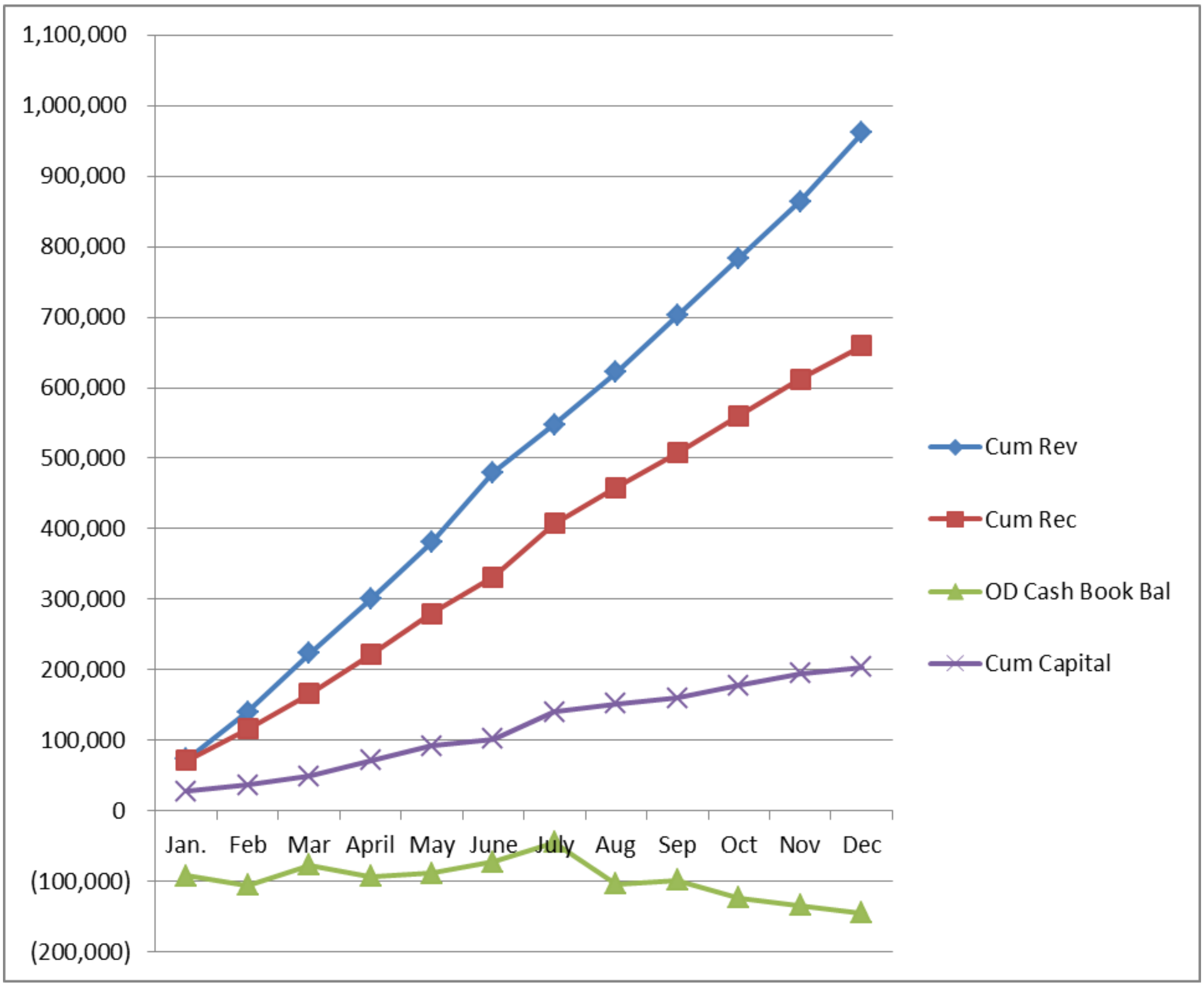


Table 8.1 (b)

	Cum Rev	Cum Rec	OD Cash Book Bal	Cum Capital
Jan.	73,083	71,254	92,016	27,994
Feb	140,460	116,686	105,357	36,844
Mar	223,964	166,590	76,939	48,968
April	300,681	221,656	92,534	71,647
May	380,724	279,429	88,291	91,823
June	480,181	331,366	68,174	101,984
July	547,459	407,950	44,251	140,288
Aug	621,826	458,890	103,435	152,334
Sep	702,717	507,823	98,107	159,902
Oct	783,650	560,476	122,914	177,625
Nov	864,321	611,742	133,673	195,313
Dec	961,050	659,221	144,480	203,500

As shown in the Chart 8.1 (b) government revenue collection was greater than the cash requirement for recurrent expenditure during the year 2012 and the excess revenue compared to recurrent expenditure has been released for capital expenditure and settlement of part of the loan repayments. Department of Treasury Operations released more funds on recurrent expenditure for personal emoluments, pensions and interest payments.

During 2012, Department of Treasury Operations made every effort to release cash without any delay for capital expenditure in order to expedite infrastructure development projects. Accordingly, Department of Treasury Operations released Rs.203,500 Million in 2012 for the implementation of the public investment programme in 2012. Under the government capital expenditure programme cash has been released for investments in road development, transportation, “Gama Neguma” programme, infrastructure development programme in lagging regions, ports, irrigation, agriculture, power and energy, education, health and water supply.

8.1.4 Composition of Cash Limits and Releases

Cash Management Division of the TOD consists of five sectors in line with the organizational design of the National Budget Department (NBD) as follows:

1. Infrastructure Development Sector (IDS)
2. Human Resources Development Sector (HRD)
3. Real Economy & Finance Sector (RES)
4. Defense Sector (DEF), and
5. Governance Sector (GOV)

Chart 8.1 (C) Annual Cash Limit and Cash Releases - 2012

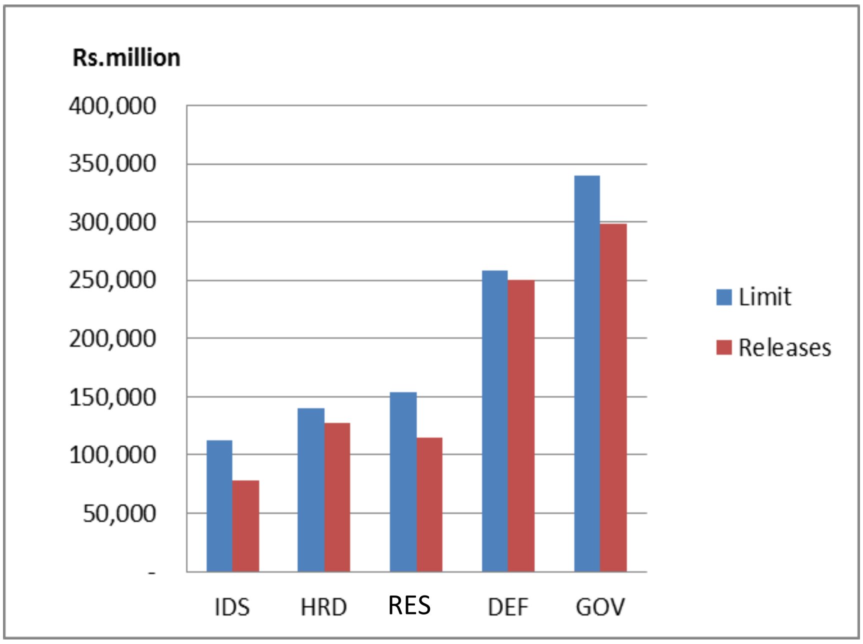


Table 8.1 (c)

	IDS	HRD	RES	DEF	GOV
Limit	112,473	140,540	153,268	258,622	340,131
Releases	78,409	127,312	114,460	249,725	298,302
Percentage of Releases	70%	91%	75%	97%	88%

As shown in the Chart 8.1 (c), in 2012 Department of Treasury Operations has released cash for each sector to meet its requirement. During this period, the Treasury had released funds amounting to more than 88% of the limits for Defense, Human Resources Development and Governance Sector. Real Economy & Finance Sector and Infrastructure Development Sector were also given 75% and 70% respectively.

Table 8.1 (d) ***Sector-wise Breakdown of Recurrent and Capital Expenditure and Imprest Limits***

(Rs. Million)

Sector	Recurrent			Capital		
	Limit	Releases	%	Limit	Releases	%
IDS	23,979	17,291	72	87,074	60,864	70
HRD	109,468	108,302	99	28,927	18,045	62
RES	73,119	67,824	93	78,770	46,199	59
DEF	223,658	224,558	100	29,324	21,775	74
GOV	250,714	241,246	96	87,710	56,616	65
Total	**680,939**	**659,221**	**97**	**311,805**	**203,500**	**65**

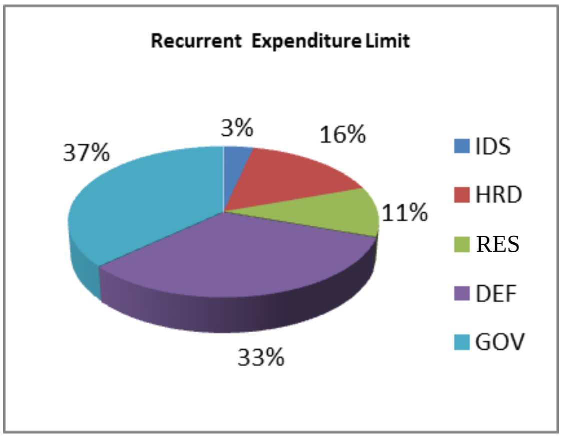
As shown in the Table 8.1(d) cash requirement of spending agencies for recurrent expenditure had almost been fulfilled. In other words that was about 97 % of the total cash limit determined for the year based on the annual budget. For Human Resources Development, Defense and Governance sectors, cash releases for recurrent expenditure had been not less than 96%.

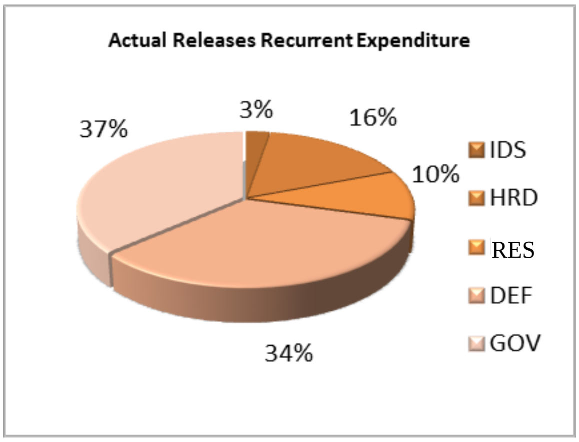
In case of capital expenditure, Treasury was able to release up to 65 % of the cash limit compared to the corresponding figure of 71% in last year. In line with the total releases pertaining to capital expenditure of 65%, TOD released 65% of limit for the Governance sector for capital expenditure programme in all districts. The highest release on capital expenditure, 74 % of its limit, was made for the Defense sector in 2012.

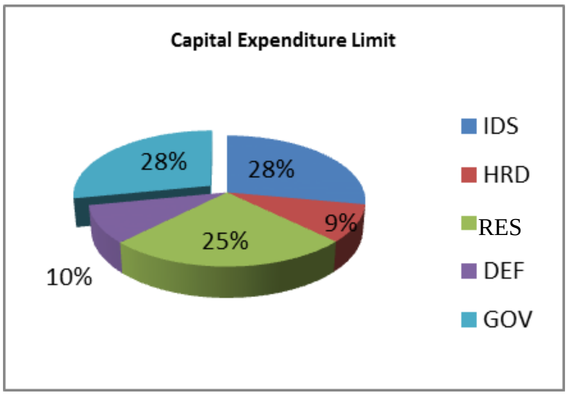
8.1.5 Sector wise Composition of Cash Limits and Actual releases

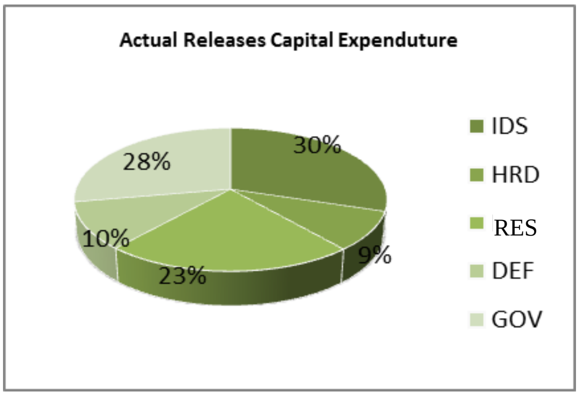
When budget is formulated, the priority is given to the important sectors of the economy in allocating resources. The Department of Treasury Operations being the budget execution arm of the General Treasury has to maintain the same importance and priorities in releasing cash. As per the compositions shown in the Chart 8.1(e) TOD released cash for Recurrent Expenditure, Capital Expenditure and Advances to Public Officers (POA), endorsing the said priorities.

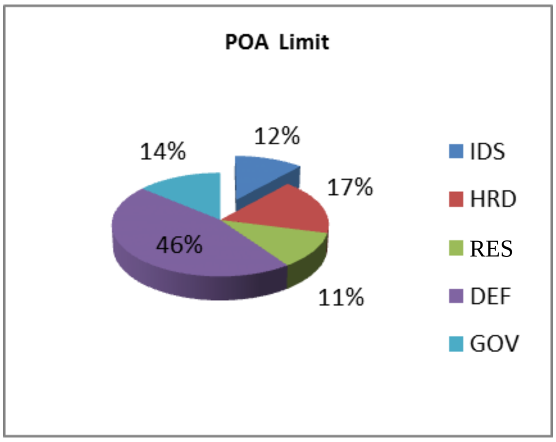
Chart 8.1 (e) Sector wise Composition of Cash Limits and Releases - 2012

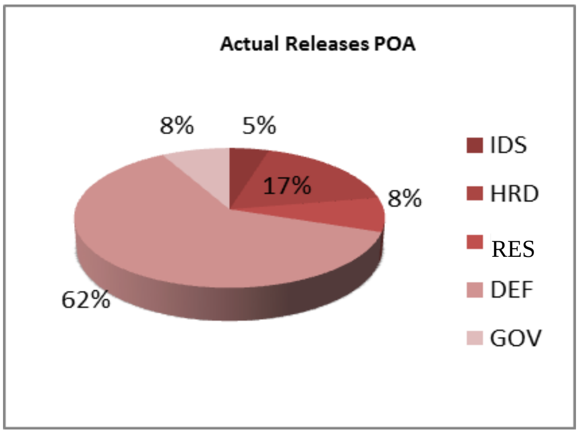












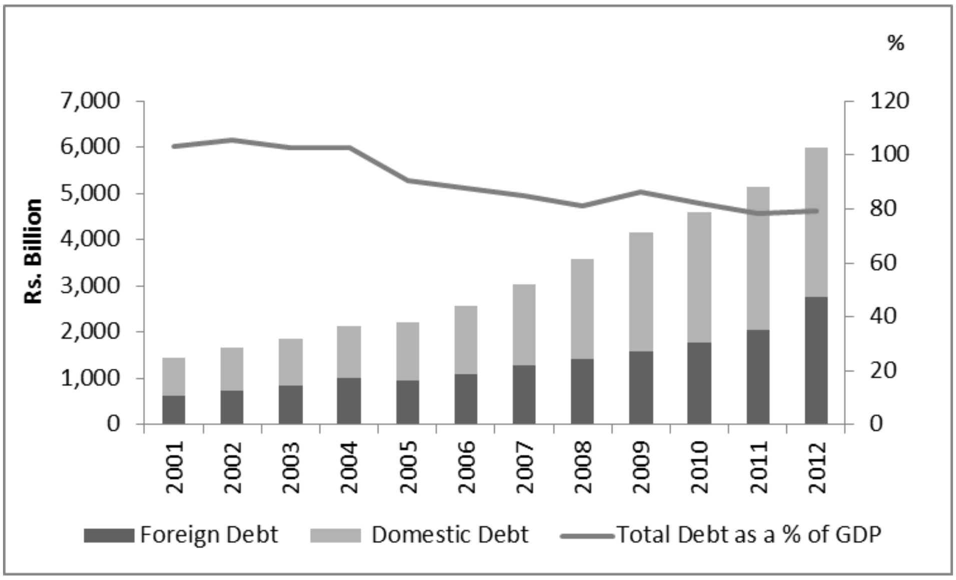
8.2 *Public Debt Management*

8.2.1 Government Debt Management Strategy

The Fiscal Management (Responsibility) Act No. 3 of 2003, which requires the government budget deficit to reduce to 5 per cent of GDP be maintained at a similar level thereafter, and the debt to GDP ratio to reduce to 80 percent in 2013 and 60 percent in 2020, basically provides the guidance for the countries Medium Term Debt Management Strategy.

Synchronizing with this framework, the government's debt management strategy is primarily concerns rationalization of recurrent expenditure while ensuring public investment at an acceptable level, borrowing at the lowest possible cost and ensuring adequate availability of funding to service the existing debt, as the basic principles that guide the borrowing strategy of the government.

Chart 8.2(a) Composition of Government Debt



The reliance on both domestic and foreign financing has increased over the years with borrowings being required to finance the resource gap of the government budget. Total Government outstanding debt as a percentage of GDP reflects slight change from declining trend over the recent past. This is mainly due to increase in the debt stock as a result of the depreciation of Sri Lanka rupee against the major foreign currencies.

The government debt management strategy focused on improving the government security market while reducing risk with the government debt port folio and thereby relied heavily on marketable debt instruments with longer term maturities to finance the resources gap in 2012.

As such, the structure of the borrowings has also changed with domestic borrowings moving towards more marketable debt instruments with non-residents being allowed to invest in rupee denominated Treasury bills and Treasury bonds with a cap.

8.2.2 Government Borrowing Programme – 2012

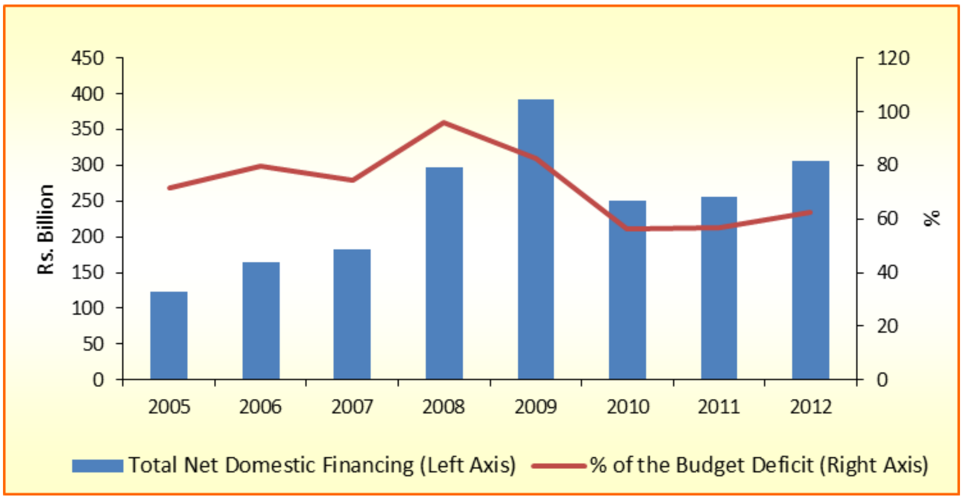
Borrowings to finance the government resource gap are made in accordance with the provisions of the annual Appropriation Act. Accordingly the gross borrowing limit to finance the resources gap approved by the Parliament for the year 2012 under the Appropriation Act No. 52 of 2011 amounted to Rs. 1,139 billion.

The budget deficit of Rs. 489 billion in 2012, financed from Total net borrowings from domestic sources of 308 billion. This accounted for 63 percent of the total budget deficit. The balance 37 percent was financed through the foreign sources including fifth international severing bond and the project loans.

8.2.3.1 Domestic Debt Financing

In line with the government strategy of focusing on marketable debt instruments and the improvement of government security market, the domestic debt financing was mainly focused on marketable debt instruments. The total marketable borrowings, Rs. 254.2 billion were borrowed through Treasury bonds in 2012, including the net investments by non-residents in Treasury bonds, which amounted to Rs. 99.6 billion in 2012. This accounted for 82.5 per cent of the total Net Domestic Finance (NDF).

Charts 8.2 (b) Trends in Net Domestic Financing



Net borrowings from Treasury bills was recorded as Rs. 22.8 billion, including Rs. 6 billion of non-resident investments, which accounted for 7.8 percent of the total marketable borrowings and accounted for 7.4 percent of the NDF in 2012. The net borrowings through SLDBs increased to Rs. 18.4 billion in 2012 from Rs. 5.3 billion in 2011, representing 6 percent of the total NDF.

The share of short term borrowings of the NDF decreased to 12.7 percent in 2012 from 37.4 percent in 2011, while the share of medium to long term borrowings of Rs.269 billion in the NDF reflected an increase to 87.3 percent in 2012 from 62.6 percent in 2011.

8.2.3.1 Outstanding Domestic Debt

Stock of total domestic debt excluding rupee denominated Treasury bills and bonds issued to the foreigners, at end of 2012 was recorded at Rs. 3,232.8 billion. This reflects an increase of Rs. 428.7 billion or 15.3 percent in comparison to Rs.2,804 billion at end 2011. The ratio of domestic debt to the total debt was marginally declined to 53.9 percent in 2012 from 54.6 percent in the previous year. As a percentage of GDP, total domestic debt also declined to 42.6 percent in 2012 from 42.9 percent in 2011.

Of the outstanding total domestic debt by end 2012, Treasury bonds and Treasury bills accounted for 64.8 percent and 19.4 percent of the total, respectively. The balance accounted for SLDBs (6.9 percent), provisional advances from the Central Bank (3.4 percent) and Rupee loans (1.9 percent) and other (3.6 percent).

By end 2012, medium and long term debt accounted to 74.8 percent of the total domestic debt. It reflects a slight decrease compared to 75.1 percent in 2011 mainly due to the general increase in short term debt. Treasury bonds of Rs. 2,095 billion accounted for 86.6 percent of the total medium to long term domestic debt.

8.2.3.2 Maturity Structure of Domestic Debt

Of the total domestic debt, maturities within 1 year (2013) amounted to Rs.1, 415 billion which is 43.8 percent of the total stock of domestic debt at the end of 2012. The average time to maturity (ATM) of domestic debt increased to 3.25 years from 2.35 years in the previous year due to rely on marketable debt instruments with longer term maturities.

Table 8.2 (a) Maturity Structure of Domestic Debt - As at end 2012

(Rs.million)

Year of Maturity	Treasury Bills	Treasury Bonds	Rupee loans	SLDB	OBUS	Others(Net of Deposits)	Total	Maturity as a % of Total
2013	629,070	460,207	2,868	95,380	19,870	207,439	1,414,834	43.8
2014		323,405		40,818			364,223	11.3
2015		314,013	31,430	75,097			420,540	13.0
2016		204,069		11,699			215,768	6.7
2017		184,756					184,756	5.7
2018		203,834					203,834	6.3
2019		108,944					108,944	3.4
2020		80,899					80,899	2.5
2023		74,463	24,088				98,551	3.0
2026		60,365					60,365	1.9
2027		58,712					58,712	1.8
2028		21,387					21,387	0.7
Total	**629,070**	**2,095,054**	**58,386**	**222,994**	**19,870**	**207,439**	**3,232,813**	**100.00**

Complying with the government strategy of focusing on marketable debt instruments to raise finances, the stock of marketable debt increased by 13.6 percent in 2012 over 2011 to Rs.2,594 billion from Rs.2,947 billion. Treasury bills, Treasury bonds and SLDBs constitute the portfolio of marketable debt instruments with Rupee loans and other short term bank borrowings constituting the non-marketable instruments.

As such, at the end of 2012, of the total domestic debt, marketable instruments accounted for almost 91.2 percent while non-marketable instruments amounted to 8.8 percent (Rs. 285.7 billion).

8.2.3.2 Domestic Debt Service Payments

Table 8.2 (b) Domestic Debt Service Payments

(Rs.million)

Year	Principal Payments	Interest Payment	Total
2001	44,074	84,560	128,634
2002	130,786	105,897	236,683
2003	185,083	113,540	298,623
2004	147,740	105,878	253,618
2005	203,347	113,164	316,511
2006	247,536	133,787	381,323
2007	252,165	161,370	413,535
2008	258,720	182,198	440,918
2009	401,296	273,977	675,273
2010	389,672	297,127	686,799
2011	439,894	288,134	728,028
2012	415,441	317,659	733,100

Sources: Department of Treasury Operation, Department of state Accounts and Central Bank of Sri Lanka.

Total dometic debt service payments in 2012 reflect a slight increase of 0.7% over 2011. Out of total debt service payments, the domestic debt service payments amounted to Rs. 733.1 billion., Rs. 415.4 billion or 56.2 percent was for domestic debt repayments while the balance Rs. 317.7 billion (43.8 percent) was on interest payments.

Reflecting a decline in both debt repayments as well as interest payments as a percentage of GDP, total domestic debt service payments to GDP ratio decreased to 9.7 percent in 2012 from 11.1 percent in 2011. During the year, domestic debt repayments declined to 5.5 percent of GDP from 6.7 percent in the previous year while the interest payments marginaly increased to 4.4 percent of GDP from 4.2 percent in the previous year.

8.3 Foreign Aid Management

Releasing of imprest for projects implemented under Reimbursable Foreign Aid (RFA) method is carried out, either releasing funds directly to the Bank account of the project or to the project through the relevant Ministry. During the period of January – December 2012, Rs. 4,292 million has been released to the projects under RFA method. In 2012 foreign aid grants amounting to Rs. 13,011 million have been received in cash in addition to Rs. 3,059 million worth of materials and equipments received.

Central Bank maintains imprest fund accounts for the purpose of channeling funds which were received from the donor agencies to the various projects. From January to December 2012, TOD facilitated to open 16 new such accounts, making the total number of accounts in operation 121 by the end of December 2012. During the year funds amounting to Rs. 41,135 million has been received to these accounts from donor agencies.

8.4. Government Revenue

8.4.1 Collection of Revenue:

The Director General of Treasury Operations functions as Revenue Accounting Officer for 11 Non Tax - Revenue Heads and 01 Tax - Revenue Head.

Out of the total estimated Non-Tax Revenue of Rs. 158.7 Billion of the Government for the year under review, a sum of Rs 47.7 Billion or 30% was expected to be earned from the above Non Tax Revenue Heads and Rs 22.9 Billion was expected to be earned from a Tax - Revenue Head. During the year under review the department was able to earn a sum of Rs.41 Billion as Non Tax - Revenue and Rs.22.3 Billion as Tax Revenue. The details of the above 12 Revenue Heads in respect of year 2011-2012 are shown in table 1.

Table 8.4. (a) : Collection of Tax and Non Tax Revenue 2011 – 2012

Revenue Description	Revenue Collections Rs:000			
	2011		2012	
	Estimate	Collection	Estimate	Collection
Non Tax Revenue				
Rent on Govt. Building	690,000	663,387	650,000	582,264
Other Rental	60,000	662,160	62,000	50,139
On Lending Interest	6,775,000	7,293,475	7,704,000	8,100,516
Other Interest	1,300,000	2,553,028	1,325,000	1,387,711
Departmental Sales	100,000	137,491	130,000	143,436
Sundries	5,500,000	6,502,094	7,114,582	2,941,497
Fines & Forfeits	2,800,000	6,264,217	3,000,000	5,137,117
Other Receipts	8,500,000	12,711,008	9,042,000	3,238,911
Other Current Transfers	1,485,000	1,953,084	1,800,000	2,222,737
Sale of Capital Assets	500,000	514,298	500,000	831,152
Recovery of Sub Loans	14,772,000	14,877,713	16,470,000	16,409,105
Sub Total	**42,482,000**	**54,131,955**	**47,797,582**	**41,044,585**
Tax Revenue				
Telephone Subscribers' Levy	20,500,000	18,650,864	22,900,000	22,289,141
Sub Total	20,500,000	18,650,864	22,900,000	22,289,141
Total Revenue	**62,982,000**	**72,782,819**	**70,697,582**	**63,333,726**

Further, the Director General of Treasury Operations functions as the Revenue Accounting Officer for Foreign Aid Grants. Although the estimated revenue under Foreign Aid Grants was Rs.20 Billion, the total grant received during the year under review was Rs.16 Billion.

Table 8.4. (b) : Collection of Foreign Grants

Revenue Description	Revenue Collections	Rs:000		
	2011		2012	
	Estimate	Collection	Estimate	Collection
Foreign Grants	13,750,000	15,961,635	20,000,000	16,070,772
Total	**13,750,000**	**15,961,635**	**20,000,000**	**16,070,772**

An 86 % achievement is recorded against the estimated revenue under Non-Tax component in the year 2012. However, a considerable decline of 24% is shown against the 2011 Non- Tax revenue collection as a result of some revenue sources, such as; Other Receipts and Sundries which have inherent characteristics of receiving of higher income in some years while recording an average income in the other years.

Meanwhile a 98% performance has been achieved against the target of Rs. 22.9 Billion under the Telephone Subscriber's Levy in 2012 while registering of 19.52% increased against the 2011 collection of Rs.18.65 Billion. In addition, the performance of revenue collection under the Foreign Grants was 88% against the estimated amount of Rs.20 billion and the collection was stood at Rs.16 billion similar to the year 2011. It has been observed that no grants were received from European Countries as a result of that their economies were facing some difficulties.

8.4.2 Recovery of Sub Loan Capital and Interest:

The Department maintains information system on Sub Loans which is updated monthly. Out of the twelve Non Tax Revenue Heads, Director General of Treasury Operations is responsible for recovering both capital and interest of the sub loans. Assessment, Collection and Acceptance of revenue under the above two Revenue Heads are performed by this Department.

During the year 2012, an amount of Rs. 37.8 Billion has been released as sub loans and Rs. 16.4 Billion has been recovered as the loan capital. In addition to the above, Rs. 8.1 Billion has been collected as interest on sub loans granted.

As a result of strengthening the monitoring loan recovery process, the Treasury Operations Department has been able to achieve the target set for loan recoveries and the due interest for the year. The outstanding balance of the sub loans at the end of year 2012 was Rs. 323 Billion granted to 83 different institutions including Commercial Banks, Development Banks and the Regional Development Bank.

8.4.3 Contingent Liabilities on Guarantees and Letters of Comfort

8.4.3.1 Treasury Guarantees

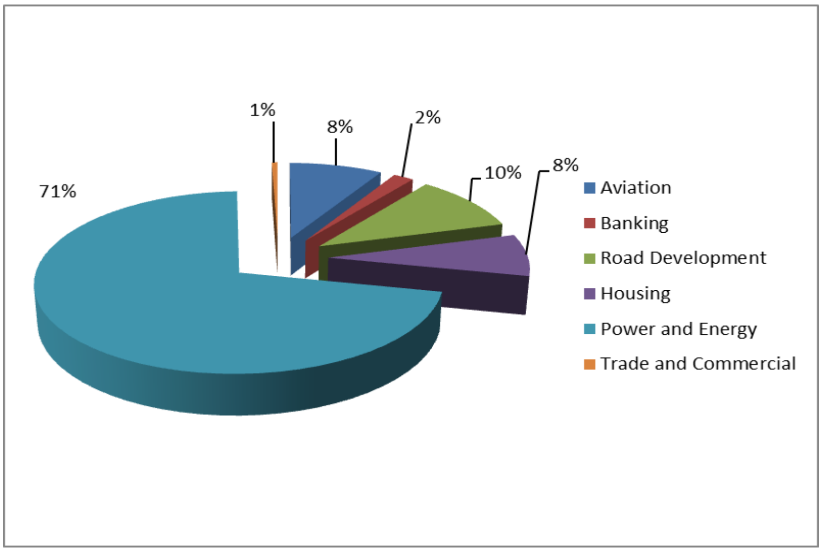
State enterprises when seeking financial assistance from domestic or external sources to meet their capital and commercial requirements, request Treasury indemnities and the Department of Treasury Operations in turn issues the required guarantees subject to the provision made in the Fiscal Management (Responsibility) Act No.3 of 2003.

The total value of the treasury guarantees issued at the end of the year 2012 was Rs.266,074 Million with an increase of 34.3% with compared to the previous year amount of Rs.198,136 Million. Out of the total guarantees issued so far about 71% of the guarantees have been issued for the Power and Energy sector. The sector composition of the Treasury Guarantees is shown in Table 8.4.(c) and Chart ***8.***4.(a).

Table 8.4.(c) : Sector Composition of Treasury Guarantees 2011 and 2012

Sector	Value in Million		Percentage% 2011	Percentage % 2012
	2011	2012		
Aviation	1,804	22,544	1	8
Banking	5,000	5,000	2	2
Road Development	18,880	27,442	9	10
Housing	2,855	20,405	2	8
Power and Energy	168,207	189,294	85	71
Trade and Commercial	1,389	1,389	1	1
Total	**198,136**	**266,074**	**100**	**100**

hart 8.4.(a) : Sector composition of Treasury Guarantees 2012



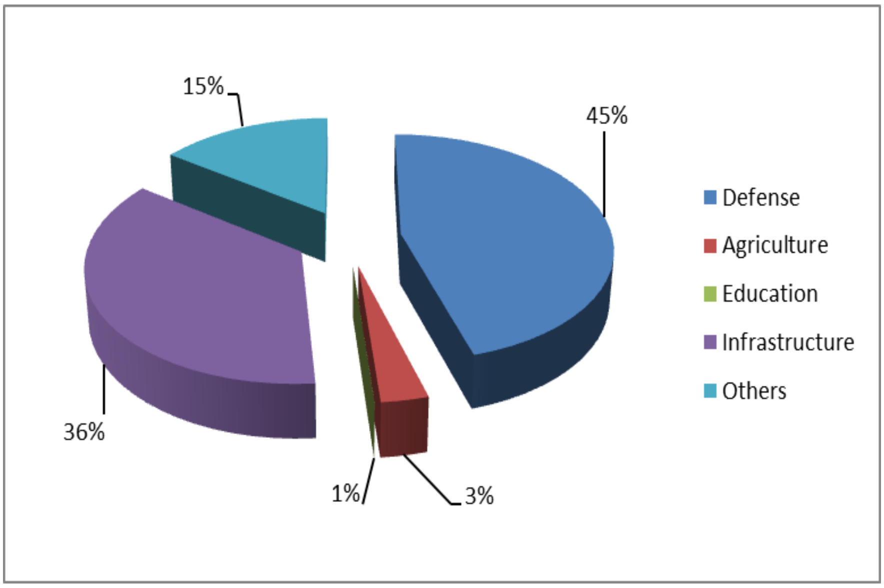
8.4.3.2 Letters of Comfort

Letters of comfort are issued by the department to facilitate the opening of the Letters of Credit in favor of Government Ministries and Departments. The total value of such letters of comfort issued at the end of the year 2012 was Rs.27,743 Million registering an increase of Rs.82 Million with compared to the previous year amount of Rs.27,661 Million. The sector wise composition of the Letters of Credit is shown in table 8.4.(d) and chart 8.4(b).

Table 8.4.(d) : Letters of Comfort

Sector	Value in Million		Percentage%
	2011	2012	2011
Defence	7,704	12,627	45
Agriculture	13,952	872	3
Education	1,006	3	1
Infrastructure	1,546	10,072	36
Others	216	4,169	15
Total	**27,661**	**27,743**	**100**

Chart 8.4.(b): Sector composition of letters of Comfort 2012



8.4.4 Property Loan Guarantee Fund:

The government, with the view of ensuring all the public officers to have the opportunity to acquire valuable assets, introduced a housing loan scheme through the banking sector as a budget proposal in 2005. The Guarantee Fund was established under the Department of Treasury Operations to ensure the prompt settlement of loans by the General Treasury in the event the officers who obtained loans through this scheme are died, totally disabled or retired on medical grounds (Qualifying category). For this purpose, the above Guarantee Fund was established on 5th August 2005 with the initial investment of Rs. 916 Mn in the Treasury Bonds.

In terms of Budget Circular No.122 of 26.04.2005, the execution of the fund, investment from the fund, recovery of earnings on investment and settlement of loans on behalf of public officers referred to above was entrusted to the Department of Treasury Operations.

Settlement of loan balances for Qualified officers under this fund, during the year 2010- 2012 is shown in Table 8.4.(e)

Table 8.4.(e): Settlement of loan balances

Year	2010	2011	2012
No. of Officers	39	46	63
Value of the loan settled (Rs.)	29,098,098	31,605,785	47,144,445

The total loan settlements made under this scheme from the inception of the fund was Rs.165,564,967 for 238 public officers who qualified under the above category and the balance of the loan Guarantee Fund lying at the end of the year 2012 was Rs.1, 326,328,081.

The operation of the fund during the year 2012 in summarized form is shown under Table *8.4.(f)*

Table 8.4.(f) : Operation of Property Loan Guarantee Fund - 2012

			Rs.
Balance as at 01.01.2012			
	Treasury Bonds	916,231,000	
	General Deposit	374,991,276	**1,291,222,276**
Add: Income			
Interest income			82,250,250
			1,373,472,526
Less : Payments			
Settlement of loan balances			(47,144,445)
Balance as at 31.12.2012			
	Treasury Bonds	916,231,000	
	General Deposit	410,097,081	**1,326,328,081**

The above table further indicates that settlements of loan balances so far were able to be met from the interest income without disturbing the initial investment of Rs.916 Million.

8.5 Progress on Treasury Single Accounts System (TSAS) and Electronic Payment System

The Department of Treasury Operations being become a pioneer in the financial management in South Asia region has achieved the following targets during the year 2012.

01. TOD was able to record total receipts of Rs. 4,365.1 Billion and total payment of Rs. 4548.8 Billion, excluding inter-bank transactions in 2012. All these receipts and payments have been made under 8816 pay- in – vouchers and 15,926 payment vouchers respectively. To ensure the efficiency, convenience and safety in financial transaction process in Sri Lanka, all these 15926 payment vouchers had been made through 15556 transactions. Out of these, 14109 transactions have been made though electronic fund transfer system via Central Bank of Sri Lanka, Bank of Ceylon and People's Bank. It represents 88.5% of the transactions. In addition, 370 inter-bank transactions have been made through the Real Time Gross Settlement (RTGS). And also, out of 8798 receipt entries recorded in 2012, 35% was made through fund transfers without using Cheques.

    Being an influential partner in the financial market of Sri Lanka, TOD could able to reduce the circulation of high value Cheques in 2012. Thereby, efficiency, safety and effectiveness of the financial transactions in Sri Lanka were enhanced.
    At the same time, to facilitate the e-government policy of the government, TOD could able to inform the details of total no of 14,109 transactions to the spending agencies through electronic media. These paperless transactions were significantly contributed to reduce the postal expenditure while avoiding the postal delays.

02. Implementing of the TSAS contributed to enhance the operations of the Deputy Secretary's bank accounts (DST's Accounts). Efficiently and effectively and as a result overdrawn interest cost of the government were reduced.

    Accordingly, end of the day idle cash balances of the bank accounts of every Ministries, Departments, District and Divisional Secretaries are effectively used to reduce the overdrawn of DST's accounts.

At any time average idle cash balances of government at ministries, departments, District and Divisional Secretaries are approximately Rs. 40 Billion in 2012. Thus, it was saved about Rs. 4,227 Mn of interest expenditure since these idle cash balances could be getting back to DST's Accounts through the TSAS. The total interest cost on overdrawn fund would have been increased by 36.6%, unless the TSAS was in place. The following graph shows this situation.

Chart 8.5 (a)