

National Budget Circular No.117.

My No.BDA/965/1  
Department of National Budget,  
General Treasury,  
Colombo 1.

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Secretary,  
Ministry of

**Guidelines for Preparation of Expenditure Estimates  
for the Year 2005 Using the Expenditure Ceilings**

**1. INTRODUCTION:**

**1.1 Policy Orientation:**

The National Budget for the year 2005 will be prepared within a Medium Term Budgetary Framework with a view to achieving growth with a regionally balanced development while ensuring economic stability. It will be a policy based and result oriented strategy which will be framed within the overall policy vision articulated in the Economic Policy Framework of the Government - "Creating our Future: Building our Nation"(This document is available in the Ministry of Finance Web Site [www.treasury.gov.lk](http://www.treasury.gov.lk) for downloading). Public investment will be directed towards ensuring a planned development in rural economy, infrastructure and human resource development.

**1.2 Macro Economic Framework:**

The target of the Government is to achieve 6% - 8% economic growth in the medium term. This requires the total investment level in the economy to be around 26% - 28% of GDP. As private investment is expected to be in the region of 20% - 22% of GDP, it is necessary to increase public investment at least to 6% of GDP in 2005 and gradually move towards 7% - 8% in order to complement private investment to achieve and sustain a high growth. In view of the inflexible nature of certain expenditures and the increased outlays involved in implementing certain policies for the benefit of the masses, the recurrent expenditure is expected to be in the region of 17% - 18% of GDP and the total expenditure which will be 23% - 24% of the GDP in 2005.

The government has given highest priority to reverse the current downward trend in government revenue and reach a target of 17% GDP in 2005 by pursuing vigorously reforms both in terms of institutional modernization, policy changes and

reforms. Despite all these efforts, the expected budget deficit of around 7% of GDP would still be high. The aim of the government is to bring the deficit closer to 5% of GDP over the medium term as enunciated in the Fiscal Management (Responsibility ) Act No. 03 of 2003. In the circumstances, the following factors have to be stressed.

- (a) the ability to divert more resources to development related activities will depend on the ability to curtail recurrent expenditure and raise revenue beyond 17 percent of GDP.
- (b) every effort should be made to ensure the effectiveness of spending so that more benefits can be achieved through efficient use of resources.
- (c) spending agencies need to think creatively to find alternative ways of economising their programme to provide greater service to the public.
- (d) capital expenditure proposal have to be scrutinized thoroughly and prioritized taking into consideration the declared socio-economic objectives so that only the best projects are accommodated using scarce resources.

## **2. EXPENDITURE CEILING**

### **2.1 Sectoral Ceiling on Expenditure**

In order to facilitate the allocation of resources on policy priorities, expenditure ceilings for Ministries have been specified under respective sectors as shown in the Annexure I. For this purpose, Ministries have been grouped under ten sectors as follows:-

Civil Administration Sector  
Law & Order Sector  
Defence Sector  
Agriculture Sector  
Infrastructure Development Sector  
Enterprise Development Sector  
Housing and Community Amenities Sector  
Human Resource Development Sector  
Art, Culture and Religion Sector  
Rural Development & Poverty Alleviation Sector

It will be seen that the expenditure ceilings for 2005 in general are higher than those stipulated for 2004. These ceilings were derived by suitably amending the indicative ceilings specified for the year 2005 in the printed estimates for 2004. A separate note

explaining the assumptions used in the preparation of expenditure ceilings for each sector (Sector Highlights) is attached hereto as Annexure II. The budgetary provision for Statutory Boards and other public institutions have been included under "Other Recurrent" and "Other Capital" expenditures of the respective Ministries.

In order to explore possibilities of rationalising the expenditure, Secretaries to Ministries are requested to identify areas of overlapping and instances of duplication within the sector so that the particular subject handled by number of Ministries can be assigned to the most relevant Ministry or the agency. Pursuant to such identification it may be necessary to reallocate resources within the sector. The possibility of such adjustments within the ceiling will be taken up at the discussion the Treasury will be having with Secretaries of each sector prior to the finalization of estimates. This exercise has to be done in respect of activities which were devolved to Provincial Councils in terms of the 13<sup>th</sup> Amendment to the Constitution and still carried out by the Central Government Ministries.

## **2.2 Ceilings on Recurrent Expenditure:**

Budgetary provisions for personal emoluments were computed on the basis of the actual number of employees as at 30.04.2004 out of the approved cadre. Provision has been added to accommodate the salary increase which became effective from January, 2004 and also for the staff to be recruited on the approval granted by the Treasury recently. Other recurrent expenditure has been computed on the basis of relevant Circulars and also by allowing a moderate margin for cost escalation. Certain liabilities/commitments identified without dispute were also taken into consideration.

## **2.3 Ceilings on Capital Expenditure**

Financial commitments for 2005 for existing projects were taken as the basis for ceiling on capital expenditure. It was shown separately as:

- (a) the cost of foreign funded projects and the associated domestic fund requirements, and
- (b) other capital expenditure the entirety of which has to be met from domestic sources .

However, the spending agencies have the liberty to allocate resources within the expenditure ceiling for activities which deserve priority by reducing budgetary allocations for non-priority projects in terms of the government policy priorities.

### **3. GUIDELINES ON PREPARATION OF ESTIMATES:**

The following Formats and Annexures that have to be used in the preparation of estimates are attached to the Circular.

- Annexure I - Expenditure Ceilings - 2005
- Annexure II - Sector Highlights
- Annexure III - Estimate Presentation Format - 2005 - Ministries and Departments
- Annexure IV - Project Summary 2005 - 2007
- Annexure V - Fund Required for Capital Projects/Capital Expenditure 2005
- Annexure VI - Information on Public Sector Cadre and Vehicles - 2005
- Annexure VII - Standard Expenditure Programmes
- Annexure VIII - Estimate Presentation Format 2005 - Institutions

All Ministries are requested to prepare their estimates for 2005 (for Departments and Institutions coming under them as well) within expenditure ceilings given in Annexure I, following the guidelines spelt out in this Circular and using the relevant formats referred to above. Secretaries to the Ministries have the liberty to allocate provision to spending agencies falling under their purview, within the total ceiling of the Ministry. However, if the Treasury observes that provision has not been allocated adequately to a high priority activity, the Treasury will re-arrange the provision within the ceiling in consultation with the Secretary concerned.

Please note that new "Expenditure Head" numbers have been assigned to Ministries as shown in the Annexure I. However, Departments will have the same "Expenditure Head" numbers that were assigned to them as shown in the printed estimates for 2004.

#### **3.1 Estimates on Recurrent Expenditure:**

- (a) In the preparation of the estimates for Recurrent Expenditure other than Personal Emoluments, Spending Agencies are requested to ascertain the arrears to be paid or any commitments spilling over to the subsequent year before allocating resources for operational activities in 2005. After making a correct assessment of the provision required for arrears, Spending Agencies are free to decide on the expenditure on recurrent components. If budgetary provision cannot be allocated to certain liabilities within the expenditure ceiling, such liabilities should be shown separately outside the ceiling with an explanatory note.
- (b) Provision has to be made under new Object Code 1004 - "Contribution to the Pension Fund" in respect of recruitment made after 01.01.2003 in terms of Management Services Circular No.18.

- (c) The provision for Overtime should be justifiable. In general, it is suggested that the total provision for overtime for any Spending Agency be limited to 5% of the salaries and wages.
- (d) Adequate provision should be made for Utility Services.
- (e) In order to motivate the Spending Agencies to manage recurrent expenditure more efficiently, they will be permitted to use any savings on personnel emoluments, for any recurrent expenditure component or capital expenditure programme. However, there should not be the requests for additional funds for personnel emoluments later in the year.

### **3.2 Estimates on Capital Expenditure**

Spending Agencies will not be permitted to use provision made for foreign funded projects for the use of other capital expenditure programmes. They are required to prepare the estimates on capital expenditure within the expenditure ceiling in compliance with the prioritization principle stated below:-

- (i) Settlement of previous year/past commitments: Unsettled liabilities such as duties and fees payable on imported items declared on provisional entries and the cost of Customs forfeited vehicles purchased by the spending agencies and dues on items imported under the Indian line of credit.
- (ii) Completion of continuation work.
- (iii) Rehabilitation and improvement of capital assets.
- (iv) Any new projects within the ceiling (After setting aside funds required for items (i), (ii) and (iii) above.)

### **3.3 Financing of Capital Expenditure through the Small Scale Infrastructure Rehabilitation and Upgrading Project II (SIRUP II)**

A SIRUP II Programme loan has been concluded to finance Projects on Health, Education, Rural Development and Public Administration (which were normally financed through domestic funds in the past.)

Spending Agencies of the above sectors are requested to formulate projects that can be financed through the SIRUP Programmes in compliance to the requirements

mentioned below to qualify for this assistance. (Required budgetary provision for this has been considered when fixing ceilings for foreign aided projects. )

(i) The Project components:

- (a) Rehabilitation and Improvement of buildings.
- (b) Supply of equipment and furniture to Schools & Hospitals.
- (c) Water supply to Schools and Hospitals.

(ii) Other criteria:

- (a) Project should be completed by end of 2006.
- (b) Project which has commenced in 2003 or earlier, can be accommodated.
- (c) Each project shall cost not less than Rs. 10.0 million and not more than Rs. 400.0 million.

Attention is drawn to instructions issued by the project office of SIRUP II in this regard.

### **3.4 Additional Capital Allocations (outside the ceiling)**

Spending agencies can submit under this category additional requests for new projects or for continuation projects that cannot be considered within the stipulated ceiling under this category. The Treasury will endeavour to provide additional funds taking into consideration the availability of resources, inter-sector priorities and expected benefits to the people. Proposals under these projects (outside the ceiling) can be forwarded to the Department of National Budget using the format given in the Annexure V.

In formulating the new projects, Spending Agencies should be guided by the policy priorities spelt out in the Economic Policy Statement of the Government "Creating Our Future: Building our Nation."

Ministries should not include provision in the form of grants or contributions to commercial public enterprises unless there is a specific Cabinet directive.

## **4. MEDIUM TERM EXPENDITURE FRAMEWORK (INCLUDING 2006 AND 2007)**

Since the government has decided to present the budget in a Medium Term Budgetary Framework, Spending Agencies are requested to prepare their expenditure (for the

years 2006 and 2007 as well for both recurrent and capital expenditure) and forward these to the Department of National Budget by using formats in Annexure IV.

#### **4.1 Medium Term Projections Guidance and Assumptions**

For recurrent expenditure, spending agencies should be guided by the following assumptions in preparing projections for the medium term (financial years 2006 and 2007):

- (a) Inflation: Inflation should not be included. Inflation adjustments for 2006 and 2007 will be made by the Treasury.
- (b) Demographic changes: Spending agencies should adjust expenditures for entitlement programmes (such as pensions, school uniforms) for estimated increase or decrease in numbers of individuals entitled to benefits.
- (c) Policy adjustments: Spending Agencies should include expenditures for the continuation of specific policy initiatives affecting the 2006 and 2007 budgets, identified in terms of the policy priorities enumerated in the Economic Policy Statement of the Government for the medium term, in addition to the future cost of projects commenced in the past.
- (d) Salary adjustments: Spending agencies should not include any amount for salary adjustments in their projections for the medium term.

No other adjustments should be made in calculating the medium term projections.

#### **4.2 Particulars to be furnished with the capital requests**

All requests for capital provision should be submitted with the information as spelt out in Annexure V. Please note to mark the relevant box in Annexure V when you submit the capital request.

#### **4.3 Procurement of Vehicles**

Provision should not be included for the procurement of passenger transport vehicles.

### **5. OTHER INFORMATION:**

#### **5.1 Information on cadre and vehicles.**

All Spending Agencies are requested to furnish a summary statement on cadre and vehicles by using the format given in Annexure VI.

## **5.2 Mission Statements and Objectives:**

Secretaries to the Ministries are requested to send statements on missions and key functions for each Head. In addition, Objectives for each project should be indicated in the relevant space in the format in Annexure IV. As a general rule, project objectives are explicit, measurable, short-term targets of a programme.

## **5.3 Project Performance Indicators:**

Continued efforts will be made in the Budget for 2005 to specify performance indicators in respect of each project. Therefore, spending agencies are requested to specify indicators on input, output, efficiency, and outcome for key activities in consultation with relevant officials of the Department of National Budget by using the specimen form given in the Annexure IV.

## **6. PRESENTATION OF ESTIMATES**

### **6.1 Programmes and Object Codes**

Object Codes and Standard Programmes which have been changed to suit the international classification are given in Annexures III and VII respectively. You are requested to select correct Programmes and Object Codes when submitting the expenditure estimates.

### **6.2 Sub-projects**

It has been observed that some important activities with substantial outlay have been grouped under Object Code details specially under Capital Expenditure. Therefore, Spending Agencies are encouraged to identify such activities specially those relating to policy initiatives and show this as sub-projects. This will facilitate better expenditure management and monitoring.

### **6.3 Estimate pertaining to Statutory Boards and Institutions**

Statutory Boards and Institutions should submit their estimates on the basis of the Object Codes as applicable, as in Annexure VIII. Please note to prepare the estimate of expenditure on cash basis.



**7. SUBMISSION OF EXPENDITURE ESTIMATES**

In order to expedite preparation of estimates the required Forms which are given as Annexures to this Circular are provided as Microsoft Excel worksheets in the Website [www.nbd.gov.lk](http://www.nbd.gov.lk) titled "Annexures of National Budget Circular 117" . These Annexures can be down loaded as Excel worksheets or be printed. The Spending Agencies are required to complete these Annexures as soft copies (without making structural changes) and submitted to the Department of National Budget on 3 1/2" diskettes together with the duly signed corresponding hard copies.

The Budget Circulars and their annexures are given under the option 'Circulars & Ceilings' in the Home page of the web site [www.nbd.gov.lk](http://www.nbd.gov.lk)

**8. CLARIFICATIONS**

If you need any clarification you may please contact the officials of the Department of National Budget dealing with your Ministry/Departments/Statutory Board as indicated in Annexure I.

**9. DEADLINE FOR SUBMISSION OF DRAFT ESTIMATES**

You are requested to furnish relevant information before 20<sup>th</sup> August 2004.



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Copies to: Auditor General  
: Heads of Departments and Institutions coming under  
the Ministry of