

National Budget Circular No: 3/2015

BD/CBP/4/1/2-2016
Department of National Budget
General Treasury
Colombo 01.
July 2015

Secretaries to the Ministries,
Chief Secretaries of Provincial Councils,
Heads of Departments,
Chairmen of Statutory Boards and Institutions.

2016 - Budget Call

Guidelines and Directions for Preparation of Annual Budget Estimates - 2016

1. Introduction

National budget for 2016 will be prepared within the Medium Term Budgetary Framework for 2016-2018 based on Government policy aimed at accelerating economic growth of the country.

It is expected to improve the modified program budgeting currently being used to ensure that the scarce public resources are efficiently and effectively utilized. Hence, it has been decided to introduce zero based budgeting approach through a comprehensive review of public expenditure.

Zero Based Budgeting is a technique which links existing planning, budgeting and review processes. It identifies alternative and efficient methods of utilizing limited resources. It is a flexible management approach which provides a credible rationale for reallocation of resources by focusing on a systematic review and justification for funding and performance levels of current programs.

2. Macro-Economic Framework

In order to achieve an economic growth beyond 8 percent, the total investment level in the economy is expected to be around 30 percent of GDP. As private investment is expected to be around 23-24 percent of GDP and the public investment is required to be increased at least to 6-7 percent of GDP in the medium term.

Similarly, it is required to take necessary measures targeted at achieving the government revenue of 17 percent of GDP by 2018 to reach the expected economic growth. Therefore, it is essential to introduce institutional and revenue sector reforms and restructuring, for reaching the said macroeconomic targets.

3. Budgetary Framework

A better combination of government revenue and expenditure in the budgetary framework would ensure sustainable growth of the economy. Hence, in line with the macro-economic targets and national development priorities, expenditure ceilings are determined.

Sectoral grouping for expenditure ceilings may include several ministries which engage in similar types of activities. In order to avoid duplications, overlapping and carrying out efficient distribution of scarce resources, the approach of **zero based budgeting** is to be linked to the budgetary process from 2016 onwards.

Based on the tentative sectoral ceilings, relevant Secretaries to the Ministries will be invited for budget discussions to identify the limits for each ministry as follows. The Secretaries to the Ministries are requested to ensure achieving final output/outcome associated with the key functions and activities of the ministries/ departments/ institutions when estimating the expenditure.

- Step 1- Discussions on recurrent expenditure will be held with operational teams of the ministries and the staff of the Department of National Budget.
- Step 2 - Discussions on Ministry-wise capital expenditure estimates will be chaired by the Secretary to the Treasury.

4. Preparation of Estimates

All spending agencies are requested to prepare expenditure estimates for 2016 under the medium term budgetary framework (2016-2018) having adhered to the **zero based budgeting method** in the following manner.

- (i) Review missions, objectives and functions of ministries/ departments/ institutions to assess their relevance in the current context and to identify irrelevant activities, duplications, wastes and gaps.
- (ii) Review all programs/ projects/ sub projects in relation to objectives
- (iii) Prioritize all programs/ projects/ sub projects in accordance with the national priorities/goals and identify low priority and irrelevant activities that can be eliminated
- (iv) Link all activities to the sectoral targets in line with desired results
- (v) Estimate costs of projects/ sub projects based on cost unit.

An Annual Budget is prepared with a starting point of "0" and the expenditure items to be limited to approved provisions for a particular year. Therefore, any issues associated with carry forward expenditure should not arise.

The steps on each activity may be performed in accordance with the guidelines set out in **annexure 1** to this circular.

4.1 Expenditure Projections

The following should be considered in the preparation of expenditure projections and estimating performance targets;

- (i) **Inflation:** Inflation should not be considered by the line ministries as the Treasury will make inflation adjustments to the estimates for 2016.
- (ii) **Variations in number of beneficiaries:** Spending Agencies should adjust expenditure for entitlement programmes (such as pensions, social security schemes and school uniforms) in line with the estimated increases or decreases of the number of individuals entitled for the benefits. Each of such development should be reflected in the actual number of beneficiaries to justify the budget requirement.
- (iii) **Adjustments on salaries and allowances:** Spending Agencies should not include provision for salary adjustments in their projections for the medium term, as the Treasury will provide them separately.
- (iv) **Procurement Plans:** All estimates on procurement of goods and services should be supported by well thought-out procurement plan prepared in terms of procurement guidelines. No provisions should be included unless procurements plans have been finalized. Costing of expenditure for the Budget should be based on well thought-out procurement plans.

4.2 Recurrent Expenditure

Provisions for personal emoluments are provided on the basis of actual number of employees within the approved cadre as at 30th June 2015. Therefore, all the salaries and allowances should be calculated accordingly. Other recurrent expenditure needs to be maintained at 2015 level. However, the Ministries are requested to ascertain any arrears to be paid or any commitments before deciding on the expenditure on recurrent expenditure for 2016.

4.3 Capital Expenditure

Capital expenditure is to be specified separately for;

- a) foreign funded projects and associated domestic fund requirements
- b) other capital expenditure to be met from the domestic sources

In allocating resources for other capital expenditure, priority has to be decided in the following manner;

- (i) Completion of continuation works (Domestic and Foreign financing)
- (ii) Rehabilitation and Improvement of capital assets
- (iii) New projects that can be accommodated after setting apart of funds for (i) and (ii) above within the ceiling

The Spending Agencies have the freedom to allocate resources within the expenditure ceiling after setting aside funds required for items (i) and (ii) above based on the government priorities. 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 of the Ministry concerned.

5. Key Performance Indicators (KPI)

An effort will be made in the budget for 2016 to specify performance indicators in respect of each project. Hence, spending agencies are requested to specify at least two indicators relating to the specific project by using the specimen form given in **annexure 2**. If any spending agency does not achieve the expected results based on the KPI, it will negatively affect the resource allocation in the following year.

6. Other Information

6.1 Cadre Information

All spending agencies are requested to furnish detailed cadre information as at 30.06.2015 using the specimen format given at **annexure 3**.

6.2 Information on Vehicles

All spending agencies are requested to provide an updated information on vehicles as at 30.06.2015 according to the specimen format given at **annexure 4**.

6.3 Building Construction

It is observed that there are large number of requests for construction of new buildings for government agencies. To ensure efficient delivery of services and maximum utilization of resources, it is expected to construct a multi storied office complex to relocate many government agencies under one roof. Therefore, requirement for a new office space for the ministries/departments/institutions should be submitted along with necessary information for consideration.

6.4 Statutory Boards and Institutions

Statutory Boards and Institutions should prepare their annual budget estimates based on existing object codes. Heads of line Ministries of respective Statutory Boards and Institutions should review the profitability, functions in relation to the stipulated mandate of each institution, etc. and should submit a time bound target, if there is any requirement for restructuring.

7. Implementing Integrated Treasury Management Information System (ITMIS)

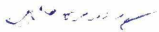
Arrangements have been made to obtain budgetary information from the spending agencies through an online system. Accordingly, an Integrated Treasury Management Information System is being implemented by the Treasury to facilitate the preparation of 2016 budget.

8. Submission of Draft Expenditure Estimates

In order to expedite preparation of estimates, the required information is provided as Microsoft Word/Excel worksheets in the Website www.treasury.gov.lk- titled "National Budget - 2016" Annexes to National Budget Circular No. 3/2015. These Annexes can be downloaded as Word/Excel worksheets and can be printed. All spending agencies are requested to complete the relevant formats and forward the 2016 draft Budget Estimates to the Department of National Budget, on or before 10th August 2015. Agencies are also requested to submit a copy of the institutional budget to the Director General, Department of Public Enterprises. Consultative cluster meetings will take place during 10th August to 28th August, 2015 in order to review the estimates and budget requests.

To ensure a rational allocation of scarce resources to areas where funds are most needed and to enhance the efficiency and effectiveness of public spending through prudent financial management, personal involvement of all heads of spending units in the preparation of estimates pertaining to their organizations is solicited.

For any clarification, you may please contact the officials of the Department of National Budget assigned to your Ministry/ Spending Unit.



R.H.S. Samaratunga

Secretary to the Treasury

Copies to: (i) Secretary to the President
 (ii) Secretary to the Prime Minister
 (iii) Secretary to the Cabinet of Ministers
 (iv) Auditor General

Guidelines for Zero Based Budgeting

1. Comprehensive Review of Functions of Ministries/ Departments/ Statutory Boards

Appoint a team by the Secretary of line Ministry covering all the functional areas of the agency to carry out the following tasks.

eg: covering the areas of Development, Finance and Administration

- 1.1 Review vision, mission, objectives and key functions of the organization to assess their relevance in the current context/ government priorities.
- 1.2 Identify irrelevant activities, duplications, wastes and gaps or low priority activities that can be eliminated or rationalized.
- 1.3 Recognize clearly relevant functions/ activities of the organization.
- 1.4 Re-organize project/ sub-project in order to reduce the cost.

2. Review the existing Projects/ Sub Projects under the programs

- 2.1 Assess whether the existing projects/ sub projects in order to understand their contribution to achieve the objectives of the organization
- 2.2 Prioritize the projects/ sub projects based on the national importance
- 2.3 Re-organize the projects/ sub projects in order to reduce the cost
eg : Merge projects of similar nature

3. Identify cost units

(Cost unit is treated as a project/ sub project. After assessing, derive the cost as per the **attached table 1**)

- 3.1 Recognize minimum resource (financial and human, etc.) requirement, based on each activity
- 3.2 Justify the expenditure for a cost unit using acceptable criteria/ reasons and indicate it in the table
- 3.3 Identify Key Performance Indicators (KPIs) relating to the cost units to evaluate the achievements of targets

4. Prepare Budget Estimate for 2016 within the given ceiling

5. Specify advantages in adopting zero based budgeting process for the organization.

Ministry of

Department of -----

- Vision :
- Mission :
- Objectives :

Indicators to measure the outcome: (Ex. Reducing travel time, Reducing cost of businesses)

Programmes: (Example)

1. Highway Development
2. Expressway Development
3.

1. Programme Highway Development	Resources/ Inputs	Qty.	Total Cost per Activity (Rs. Mn)	Previous year budget (Rs. Mn)	Increase/ Decrease (%)	Target	KPIs
1.1 Project – (eg. Badulla –Kandy Road Project)							
Activity 1 – (eg. Road Construction)	Work force/ Men					1. 2. 3.	(Please refer annexure 2)
	Machinery/Equipment						
	Land						
	Material etc.						
Activity 2 – (eg.)							
1.2 Project – (eg. Peradeniya – Anuradhapura Road Project)							
Activity 1							
Total Cost of the Unit							

Criteria used for reducing the cost of the unit:

Responsible officer for the Unit : Name:

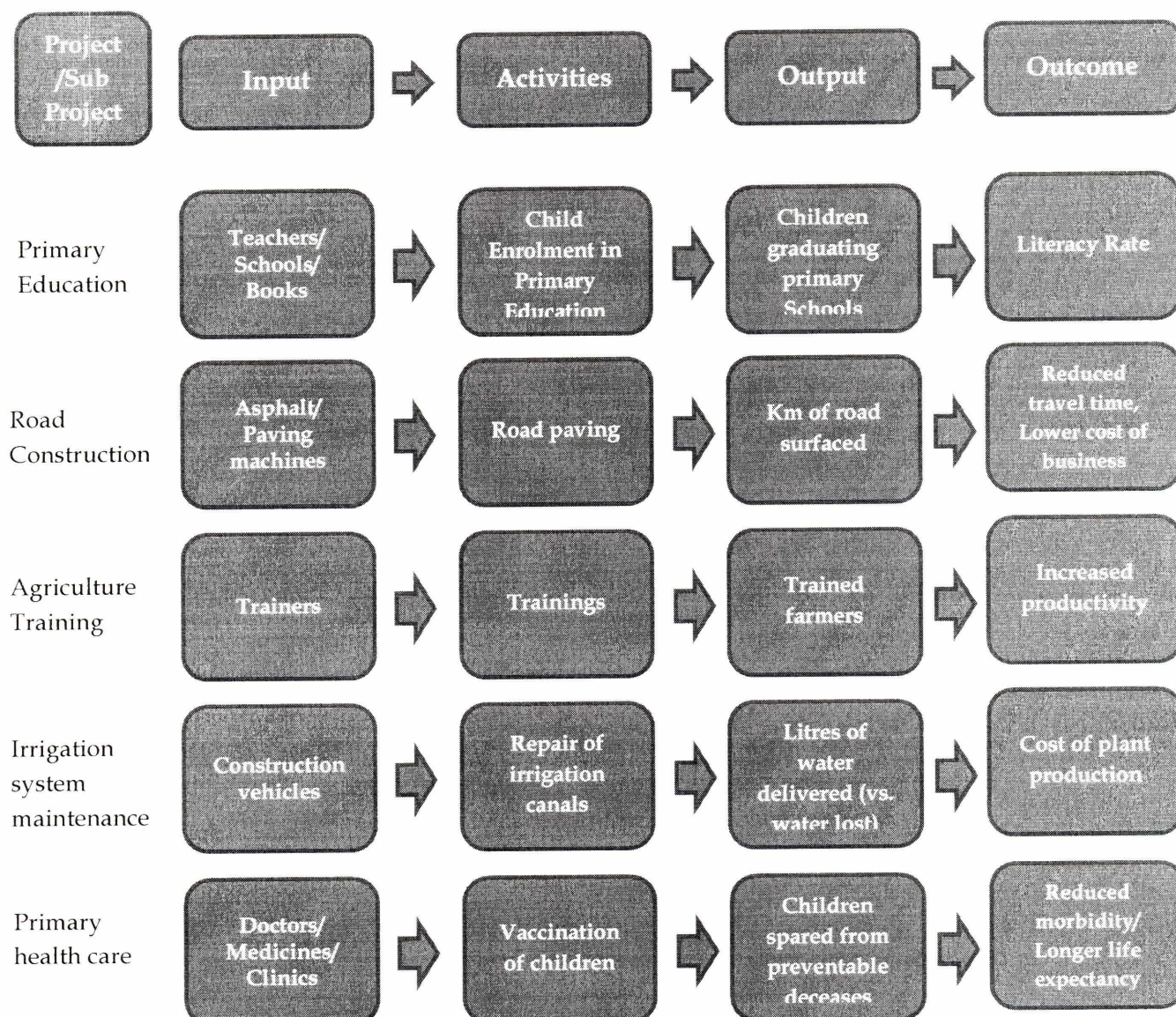
Designation:

Key Performance Indicators

Developing Key Performance Indicators (KPIs) requires systematic processes and methods of gathering, managing, analysing, distributing and reporting performance data/information. Therefore, once KPIs and targets have been developed, it is necessary to ensure;

- minimum data that need to be collected
- data sources
- data collection methods

The following example of the **Project Level Logical Model** could be used as the basis of identifying Output and Outcome indicators of Projects.



Identified KPIs are used for policy analysis, programme monitoring and evaluation, performance improvement and communication of results. Therefore, each KPI should be SMART. (S - Specific, M- Measurable, A - Achievable, R - Relevant, T- Time-bound)

Accordingly, the following example describes how to derive the KPIs as per the above Project Level Logical Model.

Table 1: Derive Key Performance Indicators

No.	Name of the Project/ Sub Project	Possible Key Performance Indicators	Expected Result/ Outcome/ Sector Goals
01	eg. Agriculture Training	1. No. of Trained farmers	1. Increased productivity
02	eg. Primary health care	1. No. of outpatients reported	1. Reduced morbidity
			2. Longer life expectancy

Information on Approved and Actual Cadre with Personal Emoluments, 2016 (Ministries and Departments)

Ministry/Department/Institution :
 Head No. :
 Cost Unit/Project :

Name and Designation	Salary Scale	Casual/ Temporary/ Contract (1)	No. of Posts			Basic Salary of 2015 (Annual) Rs.	Amount of next increment (Annual) Rs.	Cost of Living Allowance (Annual) as at 30.06.2015 (2) Rs.	Language Allowance for 2016 Rs.	Other Allowances as at 30.06.2015 (3) Rs.
			Approved Cadre as at 30.06.2015 (a)	Actual Cadre as at 30.06.2015* (b)	Variation (a-b)					
Category - Senior level										
eg: 1- Director	SL 1		8	4	4					
Name 1										
Name 2										
.....										
Name 4										
Category - Tertiary Level										
eg: 2- Management Assistant Supra	MN 7		12	7	5					
Name 1										
Field / Office based officers seg 1	MN 6	Contract(RE)								
Name 2										
Category - Secondary Level										
eg: 3- Management Assistants (class II)	MN 2		5	4	1					
Name 1										
.....										
Name 3		Contract								
Category - Primary Level										
eg: 4 - Labor (Unskilled)/Drivers of Motor Vehicles	PL 1/2/3		3	2	1					
Name 1										
.....										
Name 3		Temporary								
Total										

* Please identify the number of new recruitment as per the Circular No. 25/2014 separately.

Employment Profile (Summary of the Annexure 3)

Category	Approved Cadre as at 30.06.2015	Actual Cadre as at 30.06.2015
Senior level		
Permanent		
Casual/ Temporary/ Contract		
Contract (RE)		
Tertiary Level		
Permanent		
Casual/ Temporary/ Contract		
Contract (RE)		
Secondary Level		
Permanent		
Casual/ Temporary/ Contract		
Contract (RE)		
Primary Level		
Permanent		
Casual/ Temporary/ Contract		
Contract (RE)		
Total		

Note :-

1. Casual/Temporary/Contract cadre should be identified separately under each category.
If retired public servants are re-appointed on contract basis, please specified as "RE"
2. Other Allowances should be specified.

