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நிதி அமைச்சு  
MINISTRY OF FINANCE

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02.08.2016

**National Budget Circular No. 02/2016**

Department of National Budget  
General Treasury  
Colombo 01.

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

**Budget Call – 2017**

**Guidelines and Directions for the Preparation of Annual Budget Estimates - 2017**

**1. Introduction**

The framework for the preparation of Annual Budget for 2017 has been approved by the Cabinet of Ministers on 20.07.2016. Accordingly, Annual Budget for 2017 will be formulated in line with the economic policy framework of the government which include generating one million job opportunities, enhancing the opportunities to increase income levels, developing rural economies, ensuring land ownership and creating a strong middle class in the country. For achieving these objectives, the economy has to be repositioned in a manner to improve value addition and competitive advantage.

Therefore, within the government's economic policy framework, the major focus areas of the budget for 2017 include job creation in rural area, enhancing export income, improving labour skills, enhancing participation of the private sector in development activities and expediting infrastructure development programs. Details of these areas in focus are as follows:

- (i) Job creation in rural areas: The programs already implemented by the government addressing the regional and rural disparities in development will be continued (as an example, the projects implemented through the cluster villages programs). Those programs which will help promotion of youth activities, create new income generation activities, increase the utilization of rural land, minimize migration from rural to urban areas etc. enabling job creation and rural/regional development are considered important.

- (ii) Export development: This has to be achieved through the product diversification and increase of the share of value addition of the export products and services. In addition, it is encouraged to establish specific production zones or service areas which are directly linked to export markets.
- (iii) Skills development: The availability of skilled labour is critical to facilitate the economic transition expected by the government. For addressing this issue, immediate attention should be given to design and implement focused training programs without any delay. Such training programs are to be designed and implemented by using facilities also available in the private sector.
- (iv) Investment by private sector: It is also needed to create a conducive environment for obtaining active participation of the private sector in new investment programs. As such, institutional framework should be designed for making use of untapped potential of the private sector with a view to enhancing entrepreneurship as well.
- (v) Linkage between production and demand: In this connection, identification of supply chains and associated institutions and infrastructure along with the production activities are priority requirements.
- (vi) Infrastructure development: The infrastructure development programs have to be expedited as scheduled and new infrastructure development programs should be based on the government's development priorities.

## **2. Macro-Economic Framework**

In 2017, the government plans to achieve an economic growth of 6 percent, investing around 30 percent of GDP of which public investment will be 5 percent of GDP. The budget deficit is estimated at 4.7 percent of GDP supported by envisaged revenue growth and rationalized expenditure management. With regard to other macroeconomic indicators, inflation is expected to maintain around 4 percent and unemployment rate at 4.5 percent in 2017.

## **3. Budgetary Framework of 2017**

In 2016, the government introduced the Zero Based Budgeting (ZBB) approach as an instrument for the preparation of the annual budget estimates. The basic rationale of the Zero Based Budgeting approach is that each program or project has to justify its own existence for funding. In this context, it was expected to review the key functions and activities assigned to each Ministry/ Agency and its programs and projects in order to estimate their requirements for funding while avoiding possible duplication and overlap. The relevant guidelines were stipulated in the National Budget Circular No. 3/2015.

In this back ground, the preparation of budget for 2017 will continue on the basis of the Zero Based Budgeting approach while moving towards the Performance Based Budgeting with the view to transforming the budgeting system of the country by 2020.



Considering the prevailing challenges faced by the government, it is required to efficiently manage the government expenditure with a view to obtaining the value for money being spent. Therefore, all Secretaries of line ministries are requested to send the outcome of the reform measures taken so far to improve the productivity and to minimize possible overlap, duplication and uneconomical government expenditure etc. along with the estimates of expenditure for 2017.

Priority attention should be given to the followings areas in designing expenditure of the Ministry for 2017;

- a) Introduction of institutional reforms in accordance with the procedure stipulated in paragraph 4 and Annexure 1 of the National Budget Circular No. 3/2015. In this exercise, the Secretaries should identify institutions that can be merged, consolidated, restructured and rationalized;
- b) Conducting a work assessment of the entire staff and identification of their work load to improve productivity;
- c) Ensuring subsidies and transfers are given to identified targeted groups;

#### **4. Preparation of Estimates**

##### **4.1 Steps to be followed**

All spending agencies are requested to adhere to the following steps before making expenditure estimates.

- i. Identify the projects/ sub projects as cost centers and clearly recognize the activities under each cost center.
- ii. Identify resource requirements (inputs) of each activity or group of activities and the output in relation to the cost centre.
- iii. Analyze the costs of the required resources of a particular cost centre.
- iv. Identify Key Performance Indicators (KPIs) for measuring output of each cost center, reflecting the economy and efficiency.
- v. Ascertain the output or result under each cost center
- vi. Scrutinize the value for money/cost effectiveness/ cost benefit of each project / sub project.
- vii. Justify and make sure the optimum requirement of the estimated cost.
- viii. Set the performance targets for the next 3 years: 2017 - 2019.

##### **4.2 Expenditure Projections**

Draft budget estimates for 2017, prepared under the guidelines stipulated in this circular, should be provided to the Department of National Budget. The followings should be considered in the preparation of expenditure projections and establishing performance targets;

- (i) **Inflation:** Inflation should not be taken into account by the line ministries as the Treasury will make inflation adjustments to the estimates for 2017.

- (ii) **Procurement Plans:** All estimates should be consistent with the procurement plans designed as per the procurement guidelines. Costing of expenditure for the budget should be based on well thought-out procurement plans.
- (iii) **Commitment Register:** A Commitment Register should be maintained throughout the year to overcome any possible cost overruns.
- (iv) **Provision for Settlement of Taxes:** Budgetary provision should be estimated to cover duties, taxes and charges applicable to the items relating to the projects. Provisional entry based facilities or supplementary budgetary allocation shall not be provided.

#### 4.2.1 Recurrent Expenditure

- (a) **Personal emoluments:** Spending Agencies should calculate the salaries and wages based on the actual cadre as of 30<sup>th</sup> of June 2016.
- (b) **Variations in number of beneficiaries:** Spending Agencies should adjust expenditure for entitlement programs (such as pensions, social security schemes and school uniforms etc.) in line with the estimated increases or decreases in the number of individuals entitled for the benefits.
- (c) **Fuel cost:** Fuel cost should be based on the relevant circulars (Presidential Secretariat Circular No. CSA/1/17/1/1 dated 11.02.2015, and Circular No. CSA/P1/40 dated 23.10.2006 and Public Administration circulars on this matter), the number of pool vehicles, running hours etc. with due consideration being given to the levels of fuel consumption. A detailed estimation/calculation should be submitted with the estimates.
- (d) **Rent and local taxes:** Detailed cost estimation for rent and local taxes should also be provided with justification of the requirement as it is observed that many institutions are used to transfer provisions from the "object code 1404 – Rents and Local Taxes" to another object codes.
- (e) **Unauthorized Investments:** The balance sheets of all statutory institutions coming under the purview of the line ministry, specially funded through the Consolidated Fund should be examined to find out whether there are unauthorized investments in fixed deposits, Treasury Bills etc. If any, those amounts should be taken in to account for the preparation of budgetary requirement for 2017.

#### 4.2.2 Capital Expenditure

- (a) Capital expenditure to be specified separately under;
  - (i) Foreign funded projects and associated domestic fund requirements
  - (ii) Other capital expenditure to be met from the domestic sources
- (b) In allocating resources for other capital expenditure, priority has to be accorded as follows;
  - (i) Completion of continuation works, if any
  - (ii) Rehabilitation and improvement of capital assets
  - (iii) New projects within the ceiling



(c) The Spending Agencies have the freedom to allocate resources within the expenditure ceiling after setting aside funds required under items 4.2.2. (b) (i) and (ii) 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 line Ministry concerned. The Capital Expenditure should be estimated with due considerations for the followings.

- (i) It is observed that most of the provisions allocated for Capital expenditure have not been properly utilized during the financial year-2016. Therefore, considering the available capacity, scope of the project and total cost estimate, required provision for the particular financial year should be clearly identified within the Medium Term Budgetary Framework.
- (ii) Required approval for new projects has to be obtained from the relevant authorities to consider making the budgetary provision.
- (iii) The beneficiaries of new development projects to be identified separately in order to ensure that women are benefited.

## **5. New Expenditure Proposals**

Secretaries to the line ministries are requested to submit a list of new projects and programs (“Wish List”) with the estimated costs and brief descriptions to be considered for the Budget Proposals 2017.

## **6. Projects Performance Indicators**

Spending agencies are requested to specify performance indicators in respect of their key functions and activities which are grouped under projects/sub projects. These indicators should be measurable. This will be monitored during the financial year for consideration of imprest releases.

## **7. Presentation of Estimates**

The standard object codes have been revised slightly in order to facilitate the requirements of accrual based accounting approach, especially on the creation of asset database driven by the Integrated Treasury Management Information System (ITMIS). The revised object codes are given in **Annexure 1**. It is required to select the correct object code as the ITMIS includes the detailed levels of classification of expenditure.

## **8. Submission of Expenditure Estimates**

Hard copies of duly prepared estimates with all the annexures including new projects and programs (ie. Wish List) should be sent to the National Budget Department **on or before 19<sup>th</sup> August 2016**. In addition, a soft copy of the documents should be emailed to the relevant staff officer of the Department of National Budget. Consultation process with the spending agencies will begin after **10<sup>th</sup> of August 2016**.

## **9. Public Officers Advance Accounts**

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

## **10. Clarifications**

If you need any further clarification, please contact the relevant officer of the Department of National Budget dealing with your Ministry/Department /Institution.



**R.H.S. Samaratunga**  
**Secretary to the Treasury**

Copies to:

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

## Standard Object Codes, Categories and Object Titles - Budget 2017

Object Code	Object Category/Title Code
<b>Recurrent Expenditure</b>	
<b><u>Personal Emoluments</u></b>	
1001	Salaries and Wages
1002	Overtime and Holiday Payments
1003	Other Allowances
<b><u>Travelling Expenses</u></b>	
1101	Domestic
1102	Foreign
<b><u>Supplies</u></b>	
1201	Stationary and Office Requisites
1202	Fuel
1203	Diets and Uniforms
1204	Medical Supplies
1205	Other
<b><u>Maintenance Expenditure</u></b>	
1301	Vehicles
1302	Plant and Machinery
1303	Buildings and Structures
<b><u>Services</u></b>	
1401	Transport
1402	Postal and Communication
1403	Electricity & Water
1404	Rents and Local Taxes
1406	Interest Payment for Leasing Vehicles
1408	Lease Rental for Vehicles Procured Under Operational Leasing
1409	Other
<b><u>Transfers</u></b>	
1501	Welfare Programmes
1502	Retirements Benefits
1503	Public Institutions
1504	Development Subsidies
1505	Subscriptions and Contributions Fee
1506	Property Loan Interest to Public Servants
1507	Contribution to Provincial Councils
1508	Other
<b><u>Interest Payments</u></b>	
1601	Domestic
1602	Foreign

<b>Object Code</b>	<b>Object Category/Title Code</b>
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**Other Recurrent Expenditure**

- |      |   |
|------|---|
| 1701 | Losses and Write off                            |
| 1702 | Contingency Services                            |
| 1703 | Implementation of the Official Languages Policy |

**Capital Expenditure**

**Rehabilitation and Improvement of Capital Assets**

- |      |                                |
|------|--------------------------------|
| 2001 | Buildings and Structures       |
| 2002 | Plant, Machinery and Equipment |
| 2003 | Vehicles                       |
| 2004 | Infrastructure                 |

**Acquisition of Capital Assets**

- |      |  |
|------|--|
| 2101 | Vehicles   |
| 2102 | Furniture and Office Equipment                                 |
| 2103 | Plant, Machinery and Equipment                                 |
| 2104 | Buildings and Structures                                       |
| 2105 | Land and Land Improvements                                     |
| 2106 | Software Development   |
| 2108 | Capital Payments for Vehicles Procured under Financial Leasing |
| 2109 | Infrastructure   |

**Capital Transfers**

- |      |  |
|------|--|
| 2201 | Public Institutions                        |
| 2202 | Development Assistance                     |
| 2203 | Contribution to Provincial Councils        |
| 2204 | Transfers Abroad                           |
| 2205 | Capital Grants to Non- Public Institutions |

**Acquisition of Financial Assets**

- |      |                     |
|------|---------------------|
| 2301 | Equity Contribution |
| 2302 | On - Lending        |

**Capacity Building**

- |      |                |
|------|----------------|
| 2401 | Staff Training |
|------|----------------|

**Other Capital Expenditure**

- |      |                          |
|------|--------------------------|
| 2501 | Restructuring            |
| 2503 | Contingency Services     |
| 2505 | Procurement Preparedness |
| 2507 | Research and Development |

**Public Debt Amortization**

**Public Debt Repayments**

- |      |          |
|------|----------|
| 3001 | Domestic |
| 3002 | Foreign  |



**BUDGET ESTIMATE FOR PUBLIC OFFICERS ADVANCE ACCOUNT -2017**

1.Name of the Ministry /Department :-.....

2.Head No :- .....

3.According to the salary particulars of June 2016 :-

- I. Number of Officers entitle to obtain Festival Advance :-.....
- II. Number of Officers entitle to obtain Special Advance :-.....
- III. Number of Officers entitle to obtain Distress loan :-.....
- IV. The amount of installment recovered from June 2016 salary :-.....
- V. Expenditure of salaries for June 2016 :-.....  
(As per expenditure object code No 1001)

4. Estimated Salary for January 2017 - According to Public Administration Circular No 3/2016 (As per expenditure object code No 1001) : .....

5.According to the Reconciliation of public officers Advance Account of the year -2015

- I. Total Expenditure (under 011) :.....
- II. Total Receipt (under 011) :- .....
- III. Debit Balance as at 31<sup>st</sup> December :-.....

6.The limits proposed for the year -2017

- I. Maximum limit of Expenditure (under 011) :-.....
- II. Minimum limit of Receipt (under 011):-.....
- III. Maximum limit of Debit Balance:-.....

Date.....

.....  
Signature of Head of Institution