

## 2008 – Budget Call

National Budget Circular No: 136  
Department of National Budget

25<sup>th</sup> July, 2007

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**Part 1**

**1. Overview**

Budget Call 2008 is issued further to the *National Budget Circular No: 131* of 27<sup>th</sup> July 2006 for the preparation of Medium Term Expenditure Framework (MTEF) 2006-2009 in line with Mahinda Chinthana; Vision for New Sri Lanka: A Ten Year Horizon Development Framework 2006-2016 in order to assist spending agencies in formulating their

annual budgets. Over the next two months (August-September), spending agencies are expected to review their medium term plans (2006-2009) having regard to experience in 2006-2007 and emerging priorities of their organizations in 2008. In doing so, the spending agencies should pay their attention to the priorities identified in the *Mahinda Chintana Initiatives*.

**1.1 A Tentative Budget Calendar for 2008 Budget Process**

**Budgetary Process for 2008**

Action	Date
Preparation of the Medium Term Macro Economic Framework by Fiscal Policy Committee and approval of the Hon. Minister of Finance and Planning	Mid July, 2007
Issuance of Budget call with guidelines and directions for the budget preparation and MTEF to spending agencies	25 <sup>th</sup> July, 2007
Briefing note to the Cabinet to review and approve the Budget and MTEF	15 <sup>th</sup> August, 2007
Submission of Budget requests to the Department of National Budget by Ministries	30 <sup>th</sup> August, 2007
Reviewing of budget requests with Spending Agencies/ Line Ministries	25 <sup>th</sup> August to 10 <sup>th</sup> Sep., 2007
Finalization of the Budget request submitted by spending agencies	12 <sup>th</sup> Sep, 2007
Submission of Cabinet Memorandum on 2008 Appropriation Bill to the Cabinet	19 <sup>th</sup> Sep, 2007
Presentation of Appropriation Bill to the Parliament – First Reading	10 <sup>th</sup> Oct, 2007
Budget Speech – Second Reading of the Budget	7 <sup>th</sup> Nov, 2007
Second/Third Reading - Budget Debate	9 <sup>th</sup> Nov - 14 <sup>th</sup> Dec 2007
Expenditure Authorization – Issue of Warrants by the Hon. Minister of Finance & Planning	20 <sup>th</sup> Dec, 2007
Release of Cash Flow statement for 2008 by the Treasury	27 <sup>th</sup> Dec, 2007

### 1.2 Macro Economic Perspectives

In the preparation of 2008 budget, it is expected to review the medium term spending plans which have been prepared within the context of the government's macro economic and fiscal framework. The macro economic framework is designed to ensure economic growth in excess of 7 percent with stable

economic environment during the medium term. The major sectors are expected to grow at a faster rate. The targeted average growth rate during 2006-2016 is 4.5 percent in agriculture, 8-9 percent in industries and 9-10 percent in the services sector. In all sectors, new growth areas are to be identified to make a greater contribution to income generation.

Table 1: MEDIUM TERM MACRO FISCAL FRAMEWORK, 2006 – 2010 (GDP ratios %)

Indicator	Actual		Projection	Revised	Projections		
	2005	2006	2007	2007	2008	2009	2010
<b>Revenue</b>	16.1	17.1	18.5	18.7	19.0	19.2	19.3
Tax Revenue	14.2	15.3	16.7	16.9	17.2	17.5	17.6
Income Tax	2.2	2.9	3.2	3.5	3.6	3.7	3.8
VAT	5.9	5.9	6.2	6.2	6.6	6.7	6.9
Excise Tax	3.3	3.3	3.3	3.3	3.3	3.2	3.1
Trade Tax	1.9	1.9	2.2	2.4	2.3	2.4	2.4
Other	1.0	1.3	1.8	1.5	1.5	1.5	1.5
Non Tax Revenue	1.8	1.8	1.8	1.8	1.8	1.7	1.7
<b>Expenditure</b>	24.7	25.4	27.7	26.6	25.6	24.8	24.3
Current Expenditure	18.7	19.6	18.4	19.3	18.1	17.3	16.8
Salaries & Wages	5.9	6.2	6.1	6.6	6.3	6.1	5.6
Interest	5.1	5.4	5.2	5.3	5.1	4.8	4.6
Subsidies & Transfers	5.4	5.1	3.9	4.2	3.8	3.6	3.5
Other Current Expenditure	2.4	2.8	3.2	3.2	2.9	2.9	3.0
<b>Revenue (Deficit/Surplus)</b>	-2.7	-2.5	0.1	-0.5	0.8	1.9	2.5
Public Investment	6.3	6.3	9.4	7.4	7.6	7.7	7.7
Infrastructure	2.7	2.8	5.3	4.3	4.8	4.6	4.5
Human Resources	1.0	1.1	1.2	1.1	1.2	1.1	1.1
Regional Development	1.1	1.5	1.9	1.5	1.7	1.6	1.6
Other Capital	-0.2	-0.4	-0.1	-0.1	-0.1	-0.2	-0.2
<b>Overall Budget Deficit</b>	-8.7	-8.4	-9.2	-7.9	-6.6	-5.6	-5.0
Government Debt	93.9	93.0	86.5	86.5	82.3	77.6	75.0

Source: Department of Fiscal Policy

Since economic targets and projections are vulnerable to unpredictable movements in oil prices, international trade movements and other risks, spending agencies need to corporate with Treasury in adopting flexibilities in Budget Management.

### 1.3 Fiscal Policy and Budget Management

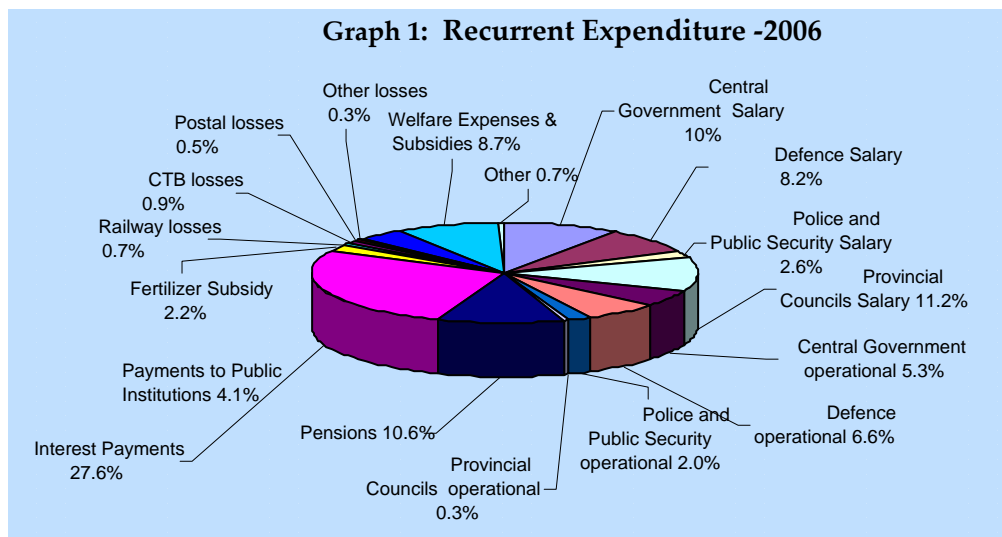
In 2007, the Government revenue is projected at 18.5 percent of GDP and is likely to be

realized. However, estimated recurrent expenditure at 18.4 percent of GDP is likely to increase to around 19 percent due to more than estimated cost in correction of salary anomalies and pensions, new recruitments, leave encashment, cost of living allowance, high cost of interest, additional security related expenditure, humanitarian relief and resettlement expenditure, fertilizer subsidy, continued high international prices of oil. Despite the increase of Government revenue

by over 25 percent the expected revenue surplus in 2007 is therefore compressed and revenue is still inadequate to meet the actual requirements of Government recurrent expenditure such as salaries, pensions and interest payments.

agencies should attempt to manage the recurrent expenditure within their provisions.

The maintenance of public investment at least above 6 percent of GDP in 2007 and the gradual increase towards 7-8 percent of GDP thereafter necessitates moderation in recurrent



Since salaries and pensions absorb 32 percent of Government revenue, the spending agencies should ensure that the appointments are made only within the approved cadre and budget. Non salary expenditure in relation to personal management should be strictly economized. In the context of rising energy cost, the operational expenditure on electricity, telecommunications, water, fuel, rents etc. should also need to be managed with minimum costs and under strict supervision. Every spending agency must attempt to focus more on the provision of their services to the general public and implementation of capital expenditure programmes.

expenditure and to ensure revenue surplus.

At present, the funds transferred to non performing enterprises have accumulated at Rs 1,875 mn. Although temporary provisions have been provided for these entities, only a few have made satisfactory improvement. Line Ministries should take realistic assessment on their viability. Loss making Public enterprises should aim at increasing their operational efficiency to reduce their reliance on budgetary support. These entities should propose measures to reduce their reliance on the budget when they make new requests from 2008 allocations.

The performance in capital spending generally remains below expectation due to procurement and procedural delays, inadequate supervision, monitoring and follow up as well as uneven releases of cash by the Treasury. The Treasury Operations (cash flow management) often affected due to revenue lags and expenditure leads owing to variety of reasons. However, during the second half of the year, capital expenditure indicates an upward trend. In order to maintain this trend, all spending

The contribution from the profit making public enterprises to the Government budget needs improvements. Such enterprises should aim at giving higher dividends in 2008.

### **1.4 Sectoral Policy Priorities**

The 2008 budget, the third year of MTEF 2006-2009, will continue on a sectoral basis to achieve the development objectives identified in the Ten Year Horizon. In order to facilitate this process each sector is given a share of resources from the total budget to be allocated among spending agencies. All Ministries, Departments, Enterprises and other agencies will be classified under nine clusters: (1) Arts, Culture & Religion (2) Governance, Operations & Monitoring (3) Human Resource Development, (4) Infrastructure Development, (5) Production, Services & Environment, (6)

Livelihood & Regional Development, (7) Science, Technology, Research & Development, (8) Social Protection and, (9) National Security & Law Enforcement.

The budgetary projections for 2008 need to be revised strictly in accordance with the sectoral policy priorities and the specific development programmes identified to implement in 2008. The Ministry of Finance and Planning will finalize the 2008 MTEF after engaging in a dialogue with the respective spending agencies and ensure sectoral resource limits are appropriately allocated among spending agencies identified under each sector.

## **Part 2**

### **2. Preparation and Submission of Budget Estimates**

#### **2.1 A Self Assessment**

Before reviewing the projected figures for 2008 appeared in the 2007 budget estimates, all Secretaries and Heads of Departments & Institutions are requested to do a self assessment on the performance during 2006-2007 against the budgetary provisions.

Having evaluated the 2007 performance, it is suggested to review the 2008-2010 estimates paying attention to expenditure requirements of 2008 reflecting implementation capacity and procedural considerations as well as macro economic considerations highlighted above. Moreover, spending agencies are also requested to look into their implementation plans on development projects and identify where the programme objectives have not been achieved and address how to overcome those problems.

#### **2.2 Guidelines for preparation of Budget Estimates 2008**

All spending agencies are requested to prepare the estimates for 2008 by making revisions for 2007 estimates & 2008 projections provided in

Budget Estimate 2007 adhering to the guidelines spelt out in this circular, using appropriate *Annexes*.

**2.2.1. All the heads of Spending Agencies are requested to personally involve themselves in the revision of MTEF baseline for 2008** focusing on both recurrent and capital expenditure for their individual organizations. Accordingly all spending agencies are requested to;

- a. Follow the Government expenditure control procedures given in **Box I**.
- b. Give due consideration to the observations made by Auditor General on their annual accounts.
- c. Reflect the areas for flexibility when estimates are reviewed with the Department of National Budget to ensure that the programmes are consistent with the Government priorities.

### **2.2.2 Budgeting for Personal Emoluments**

- a. Salaries & wages should be calculated on the actual number of employees as at 1st August 2007 on salary points applicable to them.
- b. Provisions for new recruitments (Approved by Department of Management Services), Cost of Living Allowance, Leave Encashment and other committed expenditure will be provided in the Treasury Miscellaneous Votes.
- c. Estimation of Overtime should be equivalent to the actual expenditure incurred in 2007 or 5 percent of the salary provision which ever is less.

The cadre related information and requirement of Personal Emolument should be submitted in the given format in *Annex I*.

### **2.2.3 Expenditure on Services**

- a. Existing rules and regulations (given in *Annex II*) should be strictly adhered to in calculation of fuel, telecommunication and hiring of vehicles.
- b. The cost of expenditure control should be reflected in the cost estimation of electricity & water, cleaning & security services etc. (Several agencies have reported that this expenditure can be reduced by 20-30 percent through various cost reduction measures).

Information on vehicles and telecommunication should be submitted in the formats given in *Annex III & IV*.

### **2.2.4 Development Expenditure**

Most spending agencies are unable to utilize their provisions on development projects. Since the entire development budget is funded through concessional loans and domestic borrowings, the spending agencies should be conscious on the return on investments. Therefore, following criteria are to be adopted in determining the development expenditure;

- a. Capital provision on development projects should be based on a realistic implementation capacity assessment.
- b. Rehabilitation and improvement of capital assets should be given priority assessment.
- c. New MTEF proposals
  - I. Due attention should be given to early completion or reformulation of slow moving development projects before embarking on to new projects.
  - II. New projects which have been recommended by Department of National Planning and obtained approval of the Cabinet as at 1st August 2007 (see Box 1) can be incorporated.
- d. **Foreign Aided Development Expenditure**
  - I. Expedite on-going work of delayed projects and list the non-performing projects. Propose appropriate alternatives in 2008 budget to address problems in non performing projects.
  - II. Obtain concurrence of Department of External Resources to ensure funding.
  - III. Identify the associated domestic fund requirements

on new and ongoing foreign funded projects.

- IV. Identify provisions for unsettled tax liabilities if any, of the previous year, released on provisional entry basis by the Sri Lanka Customs.
- V. Early identification of special Grant aid assistance received from different donors to be incorporated in 2008 Budget.
- e. Procurement of Vehicles
  - I. Provisions for procurement of vehicles except utility vehicles (Ambulances, Tractors, Lorries, Trucks & Bourses) can be considered on actual needs of such requirements.
  - II. Double Cabs and utility vehicles will only be allowed under foreign funded projects.
- f. Coordinate with Provincial Councils to avoid duplication and overlapping of functions with regard to projects & programmes undertaken in areas of devolved subjects.

#### **2.2.5 Estimates on Statutory Boards & Institutions**

Statutory Boards & Institutions should prepare their estimates based on existing

object codes using the specimen form given at *Annex VI*. Please note to prepare the estimate of expenditure on cash basis.

#### **2.2.6 Supplementary Allocations**

Under utilization or over utilization of resources will be subjected for queries of Auditor General under public expenditure control. Therefore Ministries are advised to prepare a realistic budget within the availability of limited resources. Additional budgetary allocations and approval of FR 66 transfers will not be encouraged by the Treasury unless under special circumstances.

#### **2.2.7 General Requirements**

- a. Ensure the availability of provision before proceeding to Tenders and opening of Letters of Credit.
- b. Procurement plans should be submitted with major prioritized items according to the guidelines issued by the National Procurement Agency.
- c. Emphasize the need to adopt methods to curtail wasteful expenditure among all employees of your organization.

***Box 1: Expenditure Control Procedures***

<i>Capital</i>	<i>Recurrent</i>
<ul style="list-style-type: none"> <li>• Project proposals to be forwarded to the Department of National Planning (NPD) for appraisal and recommendation with the concurrence of Department of External Resources (ERD) if it is financed by foreign assistance. The projects over Rs 20 mn is required to obtain approval of the Cabinet and for those below Rs 20 mn required to obtain NPD approval.</li> <li>• According to the Ten Year Development horizon, the provision is made in the MTEF, by setting out estimates for the current year and projections for the balance two year horizon with the approval of the Parliament for the current year together with warrant issued by the Minister of Finance for Treasury operations.</li> <li>• Preparation of cash forecast according to the action plan and be forwarded to the Department of Treasury Operation (TOD) for cash releases.</li> <li>• Changes in MTEF provisions should be recommended by the NPD with the concurrence of ERD (if foreign funds) to the Department of National Budget (NBD).</li> <li>• Additional allocations or FR 66 transfers be recommended by NBD</li> <li>• Revision of the total estimated cost of projects to be approved by the relevant authorities such as Cabinet, Tender Board etc. with the concurrence of NBD, Public Enterprise Department (PED) and ERD (if foreign funds).</li> <li>• Financial and physical performance to be monitored by the NPD, NBD, ERD, TOD together with spending agencies. In addition, the Department of Foreign Aid and Budget Monitoring is responsible for project monitoring.</li> </ul>	<ul style="list-style-type: none"> <li>• Identification of recurrent expenditure items on the action plan, past expenditure and nature of the Department and forecast the expenditure in terms of circulars issued by Public Administration and the Treasury.</li> <li>• As per action plan of the institution, forecasted expenditure provisions are made in the MTEF with the approval of the Parliament together with the Ministry of Finance.</li> <li>• Cash forecast prepared according to the monthly and seasonal requirement to be forwarded to the TOD for cash releases. Facility Account for the releasing of cash on the imprest authorized by the Treasury.</li> <li>• Changes in provision during the year through FR 66 transfers or additional allocation to be determined by the NBD on request made by the spending agency.</li> <li>• Reviewing of monthly recurrent expenditure patterns by the NBD and make suggestions and remedial actions to control expenditure within budgetary provisions.</li> </ul>
<ul style="list-style-type: none"> <li>• As per financial regulations, Treasury directions, Presidential directions and Cabinet decisions and agreed framework with the funding agencies to be adhered by Chief Accounting Officers, Accounting Officers and other officers involved in authorization, approval, certification and payments.</li> <li>• Consideration of internal and external audit findings and remedial actions for the same.</li> </ul>	



### **2.3. 2008 Budget Submissions**

You are requested to forward the 2008 draft Budget Estimates to the Department of National Budget by using formats in **Annex V & VI, on or before 30<sup>th</sup> August 2007**. 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 25<sup>th</sup> August to 10<sup>th</sup> September, 2007 in order to review the estimates and budget requests.

### **2.3 Clarifications**

For any clarification, you may please contact the officials of the Department of National Budget assigned to your Ministry /Departments/ Statutory Board/ Project or the

relevant sector as given in **Annex VII**. Relevant officer in the Department of National Budget will also send you a copy of the preliminary budget estimate prepared by the Department of National Budget for 2008-2010 together with 2007 revision before 15<sup>th</sup> August 2007 for you to comment and facilitate the budget meetings to be chaired by Secretary/Deputy Secretary to the Treasury.

### **2.4 Annexure**

You are requested to use the following Formats in reviewing the Medium Term Expenditure Framework and preparation of 2008 budget on the given guidelines.

<b>Annexure</b>	<b>Description</b>
Annexure I	Information on Approved Cadre and Personal Emoluments - 2008
Annexure II	Circulars and Guidelines on Fuel, Hiring / Renting of Vehicles & Telecommunications
Annexure III	Information on Vehicles
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**P B Jayasundera**

Secretary to the Ministry of Finance & Planning  
and Secretary to the Treasury

- Copy to:**
- i. Auditor General
  - ii. Chairmen / State Corporations and Statutory Boards
  - iii. Project Directors