

| | |
|--|---|
| | |
| | <p>Report of the Public Expenditure Review Committee on Rationalization of Government Expenditure Relating to the Ministry of Urban Development and Housing</p> |

REPORT OF THE PUBLIC EXPENDITURE REVIEW COMMITTEE ON THE MINISTRY OF URBAN DEVELOPMENT AND HOUSING

1. Background/Context

1.1. The Minister of Finance, Economic Stabilization and National Policies submitted a Cabinet Memorandum dated 06.02.2023, Pursuant to which the Cabinet of Minister's made a decision bearing No 23/0256/604/030 dated 06th February 2023. According to said Cabinet decision, the Secretary to the Treasury appointed following committee of experts (hereinafter referred to as 'the Committee') to review the expenditure of the Ministry of Urban Development and Housing (here in after referred to as "the Ministry").

1.2 The Members of the Committee are:

| | | |
|-------------------------------|---|----------|
| 1. Mr. R.M.P. Rathnayake | Deputy Secretary of the Treasury | Chairman |
| 2. Prof. Jagath Munasinghe | Head, Department of Town and Country Planning, Faculty of Architecture University of Moratuwa | Member |
| 3. Dr. M. M. S. S. B Yalgama, | Additional Secretary, Ministry of Urban Development and Housing | Member |
| 4. Mr. Ajith Tudawe | Senior Director, Tudawe Brothers (Pvt) Ltd | Member |
| 5. Mr. Nandun Fernando | Chartered Quantity Surveyor and Attorney-at-Law | Member |
| 6. Mr. J.M. Herath Banda | Director, Department of National Budget | Convener |

1.3. As per the mandate spelled out in the Terms of Reference (TOR) issued by the Secretary to the Treasury, the Committee is responsible for rationalizing the expenditure of the Ministry through a systematic review based on the principles of Zero- based Budgeting.

2. Committee meetings and framework for proceedings

2.1. The Committee had several meetings with the officials at the Department of National Budget, and the Ministry of Finance. A list of names of the officials who assisted the Committee is attached herewith as **Annexure 1**. At these meetings, the Committee studied the mandates of the institutions of the Ministry, their current scope of work and the submissions made by respective institutions for necessary improvements.

2.2 The Committee thereafter adopted the following framework to pursue its mandate:

- a. In accordance with its TOR, the Committee reviewed the expenditure of the institutions and the projects under the purview of the Ministry. The Committee especially focused on achieving short-term targets and ensuring long-term sustainability of the investments during the immediate period of economic recovery (next 3-5 years). To this end, a set of criteria

with assigned weights was used to prioritize the on-going projects that are currently being implemented by “the Ministry” and agencies within its purview.

- b. The Committee’s approach was based on the principle that the Ministry should focus on providing policy guidance and leadership in relation to urban development and housing. This is to be undertaken in conformity with the prescribed laws, and by coordinating, supervising and monitoring the activities conducted by the agencies under its purview in order to ensure that the development activities are implemented in compliance with the overall development policies of the government. This includes the National Development Plan, the National Physical Plan, International Treaties, Conventions and Agreements to which Sri Lanka is a party, and the sector development plans.
- c. The Committee reviewed the Vision, Mission and Functions of the Ministry and the individual institutions gazetted under the Ministry. The Committee notes that the Vision and the Mission of the Ministry had been formulated in line with the guidelines provided in the circular No PS/SP/SB/C/22/2019 dated October 03.2019 issued by the Secretary to the President.
- d. The Committee also acknowledged the importance of focusing on the principles of sustainable development. This includes energy conservation and resource planning in urban areas, sustainable mobility and viable modes of transportation, clean air and integrated waste management systems, public recreation, engagement for inclusive development etc.

3. Main observations of the Committee

The Committee noted that in order to plan and reorganize activities of the Ministry on “Zero- based Budgeting” principle, the following needs to be attended to immediately by the respective institutions with the policy and technical support of the Ministry and the Treasury.

- 3.1.** The Committee recommends strict adherence of all major development projects to the National Physical Plan and periodically updated National Physical Planning Policy.
- 3.2.** Committee noted that the construction industry is currently dominated by the private sector. As such, the Ministry’s core function shall be to promote and facilitate the private sector to take the lead in construction and housing fields. Ministry and its assigned institutions with regulatory and supervisory authorities shall focus on regulating the industry and providing an enabling environment for the private sector to operate while ensuring quality and reliability rather than directly engaging in construction and housing development services.
- 3.3.** At present, a large number of government institutions are in operation providing a range of services related to urban development, housing and construction sectors. However, integration and coordination among these institutions are weak. As a result, there are duplications and repetitions of works which lead to waste of public resources, confusions, policy failures and inefficiencies.

The current socio-economic context requires stringent measures and strategic interventions to manage scarce financial and other resources. Therefore, such disintegration needs to be addressed at the earliest. In doing so, the scope of some institutions need to be narrowed down and continuation of some institutions established in the past for various task-specific functions need to be reconsidered.

- 3.4.** The Committee observed that the State-Owned Enterprises (SOEs) which perform functions of 'commercial' nature such as the State Engineering Corporation (SEC), the National Equipment and Machinery Organization (NEMO), Department of Government Factory and the Building Materials Corporation Ltd (BMC), are continuously reporting losses. Therefore, time to time, their salaries and other operational expenses had to be borne by the Treasury. As the roles of these institutions are also not of strategic nature, ways and means need to be worked out on how the burden from these organizations on the Treasury is mitigated.
- 3.5.** The Committee further observed that these institutions exclusively undertake government contracts, and often take advantage of 'single-sourced' contracts without going through any competitive bidding or proper modes of procurement. This results in market inefficiencies and misallocation of state resources which is unacceptable.
- 3.6.** The Committee recommends reviewing the mandate of the Department of Government Factory and the Buildings Department and evaluating the unique functions that they have been performing over the last few decades and suitability of continuing the same in current context.
- 3.7.** The Urban Development Authority (UDA), National Housing Development Authority (NHDA), Construction Industry Development Authority (CIDA) and Condominium Management Authority (CMA) need to refocus on their 'essential and core' functions and actively perform duties and exercise the powers designated to them by relevant statutes of their establishment
- 3.8.** The continuation of the Urban Settlement Development Authority (USDA) should be assessed as most of the duties assigned to it can be executed by the other parallel and more active agencies within the Ministry such UDA and NHDA.
- 3.9.** The Committee observed that at present a large number of civil work contracts are being performed under the Ministry and affiliated institutions. Most of these contracts have encountered issues such as long delays and time extensions, scope changes, price escalation, poor contractual performance etc. Furthermore, Return on Investment in some of these projects and their sustainability are questionable. The Ministry should adopt a policy of allowing the private sector to carry out construction services unless there are rare instances of a compelling economic argument to do otherwise.
- 3.10.** Given the current macroeconomic outlook, large-scale government investments in the area of urban development and housing cannot be expected in the medium term. Accordingly, new modalities of implementing projects with private sector participation need to be encouraged. Commercially

viable projects should be assigned to the private sector while government institutions provide support within their core mandate areas as explained above.

4. Committee Recommendations

4.1. General Recommendations

4.1.1 As mentioned above, resource constraints do not permit large scale investments in the urban development and housing sectors by the Government in the forthcoming period. This would in turn likely differ many private sector developments. Therefore, this period of recovery could be effectively utilized by the respective government institutions for internal review and to revitalize their activities. Special focus should be made on the ‘essentials’ and ‘core-functions’ that are critical for the sustainable future of those institutions and progressive developments in the sector and the nation.

4.1.2 The Committee recommends strengthening the regulatory functions of UDA, CMA, and CIDA. These measures shall include.

- (a) Formulating a set of comprehensive Development Plans for all urban areas and a Scientifically Formulated Development Promotion and Regulation framework, integrated with an efficient development permit clearance process and a regulation enforcement mechanism (by UDA);
- (b) Developing an all-inclusive Building Code suitable to local contexts, strengthen the current process of contractor registration in to an accreditation process with authority to evaluate and regulate their conduct and creating a pool of skilled labour, accredited through formal training in construction activities (by CIDA);
- (c) Developing a well- regulated operational environment for the condominium sector to facilitate wide range of activities including condominium development and condominium property management and a rating system for condominium developers to increase the buyer’s confidence on their investment (by CMA).

While the above endeavors will not need heavy capital expenditure, they will contribute to the fast recovery, stability and reliability of the construction sector and long-term growth of the national economy. It is recommended that the government provide these institutions with necessary approvals as well as financial and technical support to develop these ‘systems infrastructure’ on priority basis. Both CIDA and CMA shall be strengthened with necessary skilled staff including professionals to discharge their core functions effectively, efficiently and at internationally acceptable standards.

4.1.3. The Committee reiterates that the Ministry and its institutions should prioritize policy formulation and regulation and allow the private sector to provide construction services. As such, the government should reconsider the role of Project Management Units. For essential and continuing

projects, the Committee recommends considering the following (taking into account the current limitations imposed on recruitment of specific skills through existing recruitment policies, guidelines, and circulars of the Government):

- (a) The possibility of transferring project management to relevant implementing agencies; or
- (b) Implement the projects by ministry staff; or
- (c) Continue with a reduced PMU staff.

- 4.1.4. Given that functions of the Department of Coast Conservation and Coastal Resources Management (DCCCRM), and Marine Environment Protection Authority (MEPA), are remotely associated with the Ministry's core functions and more relevant to a central Ministry handling environmental affairs, the Committee recommends assigning these organizations and related functions under more appropriate ministries.
- 4.1.5. The Committee observes the need to focus on the attention of National Physical Planning Department (NPPD), on planning, monitoring and updating the National and Regional Physical Plans and their reviews. It is important that the Department plays an active role in the evaluation of large scale, nationally and regionally impactful developments with proper cost-benefit analyses and appraisals. For that, it needs recruit suitably qualified skilled and professional staff. It may be advisable to transfer its currently undertaken sacred area development and management functions to the Ministry of Religious Affairs, Cultural Affairs or other suitable Ministry/Department.
- 4.1.6. The Committee recommends restructure the State Engineering Corporation (SEC), National Equipment and Machinery Organization (NEMO), and Building Materials Corporation Ltd (BMC). The SEC may focus its functions on Project Consultancy and construction supervision and stay away from construction, while the NEMO and BMC may be wound up.
- 4.1.7. The Department of Government Factory (DGF), and the Department of Buildings (DB), need to review their mandates and potential roles for the progress of construction industry. The current modes of operations and undertakings are no longer justifiable in a market economy. Current operations of DGF only has a remote relevance to the functions and mandate of the Ministry and may be assigned to an appropriate line Ministry. Its relevance and operational activities need to be re-evaluated in the context of current and future trends of public sector needs and functions.
- 4.1.8 The Buildings Department needs to be a regulator for public built infrastructure facilities and be able to introduce minimum standards for identified public sector built infrastructure (offices/ quarters/ hospitals/ schools etc). It shall not to be a key provider of the same but may provide for certain least-advantaged sections of the public sector. Buildings Department shall be strengthened with skilled and professional staff to evaluate building needs of public sector and advise relevant organizations with sound evaluations/ life cycle costing/ cost benefit analysis and be able to forecast/ plan for public sector built infrastructure on short/ medium and long term basis. By forecasting such availability for private sector investments, a new path may be created to serve the public sector with private sector funds on a competitive basis.

- 4.1.9. The Committee recommends that if the Buildings Material Corporation (BMC) is continued, it may be re-modelled to popularize and facilitate innovation, production and marketing of eco-friendly or sustainable building materials. This too should be ideally through Private Public Partnerships (PPPs) / ventures / tie-ups with universities conducting related research work. BMC can act as an incubator to develop entrepreneurs in eco-friendly/ sustainable building materials.
- 4.1.10. The Committee observed that almost all the functions assigned to the USDA are covered by UDA and NHDA. Therefore, Committee recommends winding up USDA or designate USDA as a unit of the UDA. The NHDA can play a more active role in addressing the demand for housing in Colombo Metropolitan region and other major cities in Sri Lanka, keeping to its mandate.
- 4.1.11. The Committee noted that a few training institutes are functioning under CIDA such as, Galkulama Training Centre, Construction Equipment Training Centre (CETRAC), Centre for Housing, Planning & Building (CHPB)). These institutions are financially struggling and their operational expenses are met by the Treasury and CIDA. Therefore, Committee recommends exploring possibilities of operating these training institutes under PPP scheme.
- 4.1.12. The Committee recommends divestment of business entities coming under the Ministry, specifically, Hotel Developers (Lanka) Ltd and Ocean View Development (Pvt) Ltd. Committee further noted that actions have been already taken to wind up Selendiva Investment Limited.
- 4.1.13. For long-term sustainability, effective functionality and to assure their responsibilities to the public, the Committee strongly suggests establishing an internal organizational progress management system, employee performance evaluation mechanisms, continuous training and skills development, completely automated working environments, and cost/profit-centre based evaluation of internal units.

4.2. Project / Program Specific Recommendations

- 4.2.1. The Urban Regeneration Program is recommended to be implemented as a public-private partnership project. In order to encourage the private sector investors to competitively bid for such projects, the current model of total 'relocation and clearing the land for commercial uses' need to be revisited. It is suggested that housing developments, where possible, shall not be categorized as low income and instead be executed with multiple layers to attract potential buyers from lower and upper middle-income categories, too. This may avoid social stigma associated with low-income categorization and also will facilitate generation of investment capital through the project itself, and will be an attractive option to private sector developers.
- 4.2.2. In order to redirect the on-going urban sprawl, National Housing Development Authority (NHDA) may re-initiate affordable middle income housing projects such as Jayawadanagama, Raddolugama etc., in areas where developable lands are available, accessibility is high and urban facilities and public services are available.

In order to ensure sustainability of projects, it is recommended that the agencies that may be entrusted with ultimate responsibility of operation and maintenance of such projects should have close involvement in attaining these objectives. For example, in the Aruwakkalu Solid Waste Management project, it was observed that operation and maintenance mechanism is planned towards the latter part of the project. As such the institute which is responsible for operation and maintenance is facing difficulties to familiarize itself with the structure and operational mechanisms when coming in to the project at a later stage.

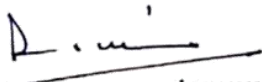
- 4.2.3. Government bears a high cost to implement urban solid waste management and sewage projects. The government can cover the initial costs by awarding contracts for operation and maintenance activities to the private sector.
- 4.2.4. It is recommended to rationalize the vehicle fleet to match with real requirements of the Ministry. The Ministry may explore the possibility of reducing fuel expenditure by releasing unnecessary vehicles, if any, to other government agencies.
- 4.2.5. The Committee recommends settling the bills in hand of the completed sub projects under the “Siyak Nagara Programme” and to complete only sub projects which are difficult to be terminated with high physical progress, if possible, in a de-scoped manner. The Committee also recommends terminating ongoing sub projects if they can be terminated without causing any distress to the public.
- 4.2.6. As activities of demining are not within the scope of the Ministry, the Committee recommends that the program for demining be implemented under an appropriate line Ministry.
- 4.2.7. Instead of construction of new public recreational facilities and bus stands, it is recommended that already constructed units using the Consolidated Fund be maintained in proper order without being a burden to the Treasury and identifying alternative financing modalities for maintenance.
- 4.2.8. Committee noted that in some instances objectives of sub projects do not fall in line with prime objectives of the main project.*

*As an example, the Committee cites the Anuradhapura Integrated Urban Development project where the Project Development Objective is to promote a balance mode of co-development between sacred and modern parts of Anuradhapura City with an aim to preserve its cultural and natural heritage which are key to preservation of heritage and its attractiveness. However, several implemented sub projects such as car parks, open air theaters and landscaping are not on par with original scope and less in priority. Some core sub projects have not even been initiated.

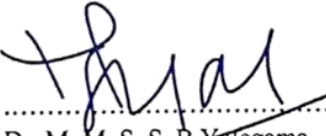
- 4.2.9. Committee proposed a criteria based selection and evaluation process for project rationalization and prioritization considering following criteria.

| No. | Criteria for Ranking | Total Points |
|-----|---|--------------|
| 1. | Subproject having potential to be taken under PPP Marks - (+10 if creates infrastructure for PPP and -10 if possible with Alternative Financing) | 10 |
| 2. | Sub projects with foreign financing availability | 10 |
| 3. | Subprojects to improve municipal/local/UDA/SLRDC revenue | 10 |
| 4. | Subproject which enhances urban profile (i.e. A potential area which will improve the land use, likely to increase land values of the surroundings on development, will increase urban aesthetics, livability of usability of the area) | 10 |
| 5. | Subproject improving the overall environment/climate resilience (waste management, drainage, protection of water bodies, flood protection etc., giving importance to nature based solutions) | 15 |
| 6. | Subprojects without/minimum social and environment safeguards issues | 10 |
| 7. | Subproject with simple O & M requirement | 05 |
| 8. | Subproject to support local employment generation/ livelihood improvement | 15 |
| 9. | Land issues (+15 if no land issues and -15 if yet to be acquired) | 15 |
| | Total Maximum Points | 100 |

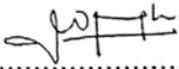
Accordingly, the priority list of projects are attached herewith as **Annexure 2**.




 R.M.P. Rathnayake
 Deputy Secretary to the Treasury
 Chairman of the Committee



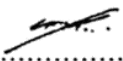
 Dr. M. M. S. S. B. Yalagama
 Additional Secretary
 Ministry of Urban Development and Housing
 Committee Member



 Prof. Jagath Munasinghe
 Head, Department of Town and Country Planning
 Faculty of Architecture University of Moratuwa
 Committee Member



 Ajith Tudawe
 Senior Director, Tudawe Brothers (Pvt) Ltd
 Committee Member



 Nandun Fernando
 Chartered Quantity Surveyor and Attorney-at-Law
 Committee Member

Name of the officials who assisted the committee

1. Mr. Indika Premarathna - Director , Department of National Planning
2. Mr. Mubarak - Director, Department of National Planning
3. Mr. Eshan Tudawe - Director , Tudawe Brothers(Pvt) Ltd - Analysts
4. Mis. Romali Tudawe - Director, Tudawe Brothers(Pvt) Ltd - Analysts
5. Mr. Gamini Jayasooriya - Development Officer , Department of National Budget

Annexure 2

Priority List of Ongoing Projects

| P/ No | Project Name | Project Duration | TEC (Mn) | Project Objectives |
|-------|---|------------------|-----------|---|
| 01. | Urban Project Preparatory Facility (GOSL/ADB) ¹ | 2020-2026 | 2,000 | Urban Development (Infrastructure & other facilities development) |
| 02. | Metro Colombo Solid Waste Management Project ² | 2017-2023 | 33,238 | To provide sustainable solid waste management system |
| 03. | S/Urban Regeneration Programme -AIIB | 2019-2025 | 47,113 | To improve housing conditions of low income communities and increase land use efficiency in Colombo |
| 04. | Construction of houses in Shobitha Thero Village in Anuradhapura Indian Grant | 2018 -2023 | 555 | To provide 153 houses for homeless people and provide to Infrastructure facilities |
| 05. | Construction of 600 Houses under model Village Housing Project in 25 Districts of Sri Lanka | 2017 -2023 | 300 | Construction of 600 houses to improve housing facilities of community |
| 06. | Housing project (600 houses) in Southern Province-2017 | 2017 -2023 | 300 | Construction of 600 houses to improve housing facilities of community |
| 07. | Housing project (600 houses) in Northern Province of Sri Lanka-2019 | 2019 -2023 | 300 | Construction of 600 houses to improve housing facilities of community |
| 08. | Housing project phase II (600 houses) in Southern Province - 2019 | 2019 -2023 | 300 | Construction of 600 houses to improve housing facilities of community |
| 09. | Siyak Nagara / Urban Infrastructure & Township Development Programm ³ | 2021-2024 | 2,000 | Project identify in the UDA Development plan which is not involve in the other Organization |
| 10. | Construction of 2,000 Housing units under the Chinese Aid Programme for the Low income people | 2020-2026 | 31,269 | Providing house units for income people in colombo city and suburbs |
| 11. | Urban Regeneration Programme - GOSL | 2016-2022 | 58,169 | Complete 15349 housing units to improve housing facilities of community |
| 12. | Middle Income Housing Project | 2016 -2025 | - | Providing affordable housing units to the middle income people |
| 13. | Reconstruction of Jaffna Town Hall | 2019- 2023 | 2,660 | To solve difficulties among general public in Jaffna |
| 14. | Oliyamulla Storm water Drainage and Environment | 2018-2025 | 3,000 | Flood Mitigation of Peliyagoda & Kelaniya Area |
| 15. | kolonnawa Storm water Drainage and Environment | 2018-2024 | 8,300 | Minimized Inland Flooding Improve environment quality of the area. |
| 16. | Beira Lake Rehabilitation and Redevelopment Project | 2017-2020 | 12,550 | Tourism attraction, to develop commercial value and flood control |
| 17. | Resettlement/ Permanent Houses for the Conflict Affected families | 2021-2025 | 43,540 | To provide permanent Houses for Conflict Affected families in Northern & Eastern Province |

| P/ No | Project Name | Project Duration | TEC (Mn) | Project Objectives |
|--------------|---|-------------------------|------------------|---|
| 18. | Development of Strategic Cities - Anuradhapura -(GOSL-AFD) | 2016-2021 | 20,900 | Urban Development |
| 19. | "Samata Niwahana" Housing Programme (obata geyak ratata hetak) | 2020 -2026 | 10,663 | Construction of 9049 houses |
| 20. | Renovation of Housing Schemes ² | 2021 -2023 | 126 | Repair of Treatment Plant of Himbutu Uyana & Gothamipura |
| 21. | Restoration of Water Quality of Beira Lake | Annual | 50 | Establish floating wetlands 500, Continuous water Quality Monitoring,minimizing of flood ,solid waste, discharge sewerage and siltation |
| 22. | Development of Training Infrastructure at Operator Training Centre at Galkulama | 2 Years | 243 | Upgrading of technical Training |
| 23. | Improvement of Road Infrastructure in the Homagama Region (Tech City) | 2018-2022 | 6,902 | To create opportunities for people through infrastructure development |
| 24. | Weras Ganga Storm Water Drainage & Environment Improvement Project ⁴ | 2013-2022 | 11,050 | Flood Mitigation, Drainage Improvement & preserve retention areas |
| 25. | Township Development Plans - Anuradhapura Lolugaswewa New Town Project | 2016-2022 | 1,450 | Facilitate the archeologies excavation of the citadel.Increased the tourist attraction concering the citadel |
| 26. | Programme for Demining ⁵ | 2010-2027 | 4,410 | Programme for Demining in Northern & Eastern Province |
| 27. | Development of Strategic Cities - Jaffna - (GOSL-World Bank) ⁶ | 2016-2021 | 20,800 | Urban Development |
| 28. | Metro Colombo Urban Development Project-(GOSL-World Bank) ⁶ | 2018-2023 | 68,160 | Mitigate physical and socioeconomic impact of flooding in Metro Colombo Area. Improve the physical infrastructure and O&M capacity of 4 Local authorities in Metro Colombo Area. |

-
1. Since, this is a project preparatory facility we can continue identify the required subprojects.
 2. Project Need to be completed and continue operation as PPP.
 3. Agreed to settle bills in hand and all other project need to be suspend taking precautionary measures to mitigate public safety issues and inconvenience.
 4. Since this project was implemented raising loan from NSB bank, fund required allocate repay the loan.
 5. Priority of this project cannot be determined based on the criterion adapted for urban development projects.
 6. Project has already been completed. Budgetary allocation is provided for bill settlements.