

**National Budget Making**

**&**

**Fiscal Devolution**

**In Sri Lanka**

*(Researched Study Material for Workshop  
for 2<sup>nd</sup> tier Politicians of DDF - Batticaloa)*

**Research Department**

**One-Text Initiative**

December 2012

## Legal Framework for Budget Making

The Constitution of the Democratic Socialist Republic of Sri Lanka		
<p><b>Article 148 – Control of Parliament over Public Finance</b></p> <p>Parliament shall have full control over public finance. No taxes shall be imposed by any local or public authority except by the authority of the Parliament or existing law</p>	<p><b>Article 149 – Consolidated Fund (CF)</b></p> <p>All receipts shall paid to the CF</p> <p>All expenditure shall be charged to the CF</p>	<p><b>Article 150 – Withdrawal of funds from CF</b></p> <p>No fund shall be withdrawn from the CF except under the authority (warrants) of the Minister of Finance</p>

Appropriation Act for the financial year
<ul style="list-style-type: none"> <li>• The provision on appropriation for the relevant financial Year <ul style="list-style-type: none"> <li>– First Schedule - expenditure on Appropriation Law</li> <li>– Second Schedule – Special Law</li> <li>– Third Schedule – Advance Accounts</li> </ul> </li> <li>• Borrowing limits</li> <li>• Power to transfer unexpended provisions to same programme or to another programme under the same Head of expenditure (transfers under FR 66)</li> <li>• Treasury Miscellaneous Vote</li> </ul>

Fiscal Management (Responsibility) Act No.03 of 2003		
<ul style="list-style-type: none"> <li>• Ensures fiscal strategy of a government is based on responsible fiscal management and facilitates for public scrutiny of fiscal performance</li> <li>• The government is required to adopt policies relating to fiscal consolidation with a degree of sustainability and predictability</li> </ul>		
Compulsory Reports Submitted to the Parliament under the FMRA		
<i>Name of the Report</i>	<i>Date of submission</i>	<i>Contents Required</i>
1. Fiscal strategy statement	2 <sup>nd</sup> reading day of appropriation bill (with budget speech)	Medium term fiscal policy & short term fiscal objectives
		Budget based strategic priorities
		Key fiscal measures
		Fiscal objectives, targets and outcome
2. Budget economic and fiscal position report	2 <sup>nd</sup> reading day of appropriation bill (with budget speech)	Estimates relating to GDP, Consumer prices, Employment & unemployment, Current account position of BOP, Revenue & expenditure, Govt. borrowing, basis, economic etc use for above variables
		Risks such as contingent liabilities, public announcements on spending, and

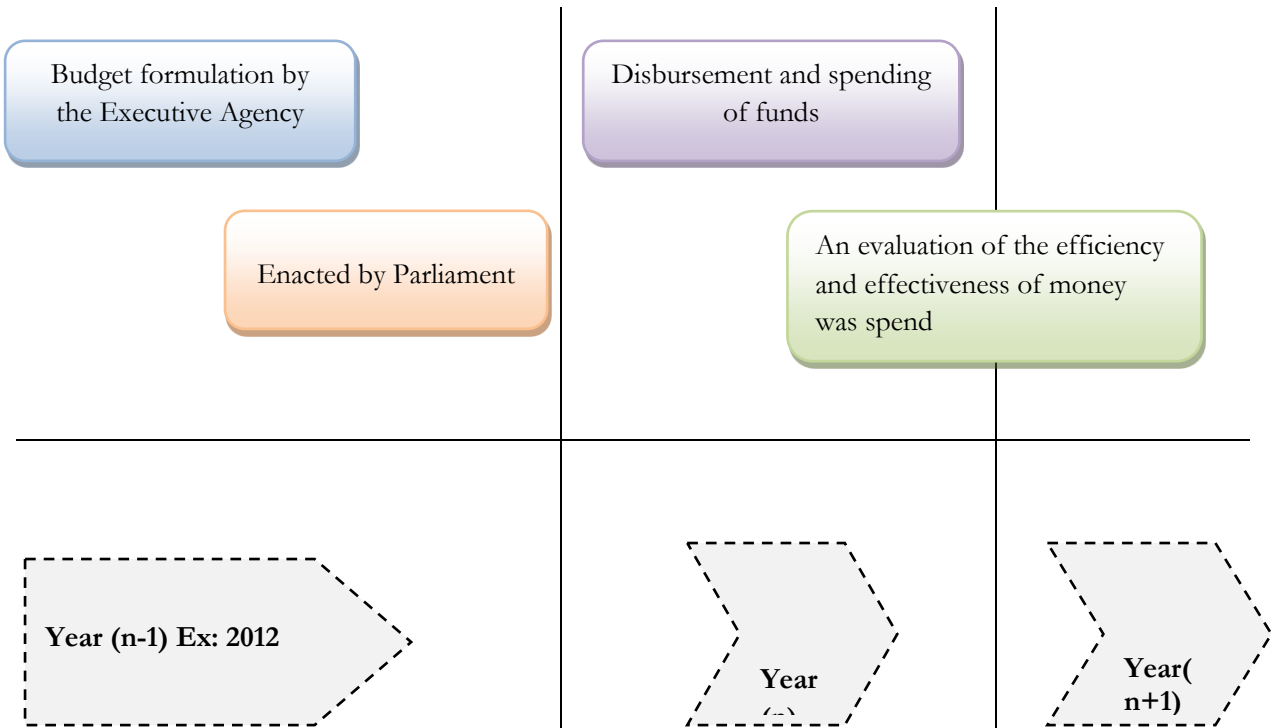
		negotiations
3. Mid-year fiscal position report	30 <sup>th</sup> June current year	January to April; estimates and actual of expenditure, revenue, cash flow, and borrowings
		Reasons for any deviation in the actual and estimates
		Any other important economic event
4. Final budget position report	Not later than 5 months end of financial year	Actual position and estimates of, expenditure, revenue, cash flow, and borrowings
		Reasons for any deviation
		Any other important economic event
5. Pre-election budgetary position report	Within 3 weeks after publication of proclamation general election	Current position of estimates of expenditure, revenue, and borrowings
		Contingent liabilities
		Announced proposals for spending
		Negotiations in progress
		Any other important economic event

#### **Financial regulations**

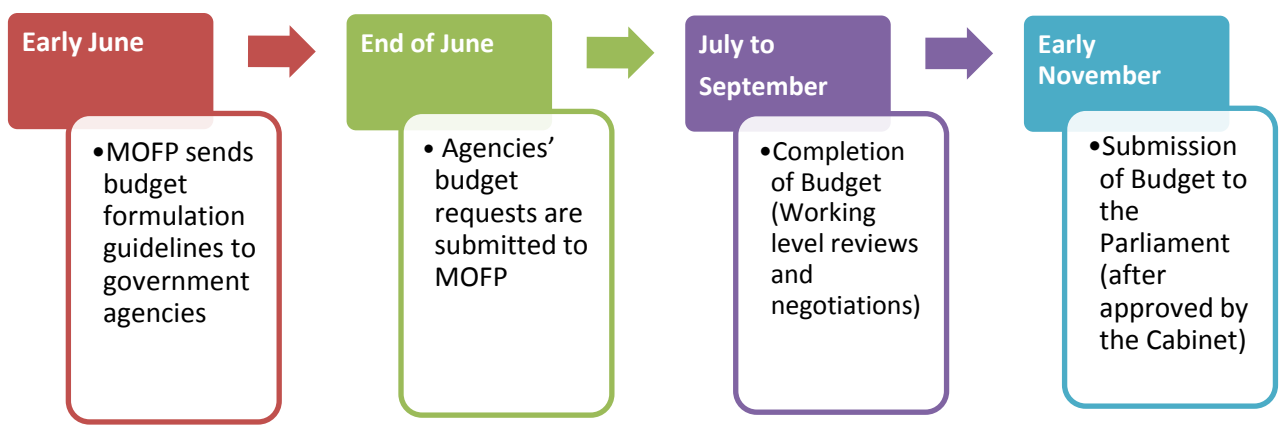
- FR 65, FR 66, FR 68, FR 69 FR 208 > Variations / transfers of expenditure estimates
- FR 74 and FR 75 > Supplementary Estimates
- FR 78 > Advance from contingences fund
- FR 90 > Issuing of General Warrant, Special Law Warrant, Advance Warrant, Supplementary Special Law Warrant

#### **Circulars/guidelines issued by the Treasury**

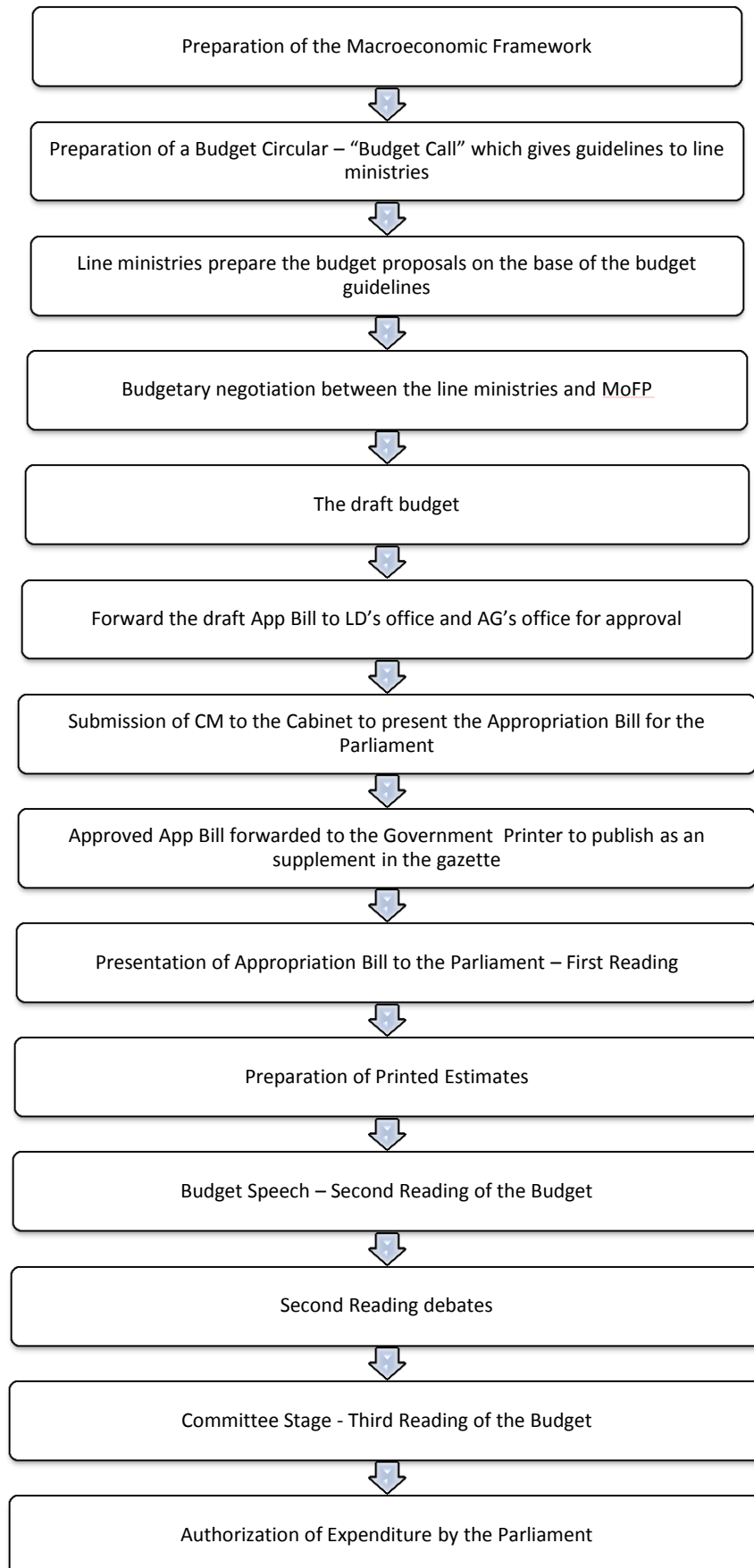
## Process of the Government Budget



## Timeline for the Government Budget preparation



## Formulation of the Budget



## **Finance at the Provincial Council Level & Local Government Level**

Legislative enactments that define the financial powers of the Provincial Councils and local government bodies:

1. The Thirteenth Amendment to the Constitution
2. Provincial Councils Act No. 42 of 1987
3. Municipal Councils Ordinance of 1865 amended in 1939 & 1947
4. Urban Councils Ordinance No. 61 of 1939
5. Pradeshiya Sabha Act No. 15 of 1987

### **Budgeting in Provincial Councils**

- The Chief Secretary of the Provincial Council is the authority responsible for financial management
- He is assisted in functions related to finance by a Deputy Secretary (Finance) who is usually a member of the All Island Accountants Service.
- The budget of a Provincial Council is called the Annual Financial Statement
- It has to be passed by the respective Provincial Council and approved by the Provincial Governor
- The sources of funds for a Provincial Council are:
  1. Grant for new establishment (recurrent) costs from the central government
  2. Block Grant to meet all recurrent expenditure for the 16 devolved functions receivable from the central government
  3. Criteria based Grants for capital expenditure
  4. Allocations made by the Members of Parliament in the area of the Provincial Council
  5. Devolved revenue (Eg. Vehicle Licenses, Turnover tax, Court fines, Stamp duty)
  6. Contributions made under Projects like the Integrated Rural Development Project
  7. Loans
  8. Profits from commercial operations (Advance Accounts)
  9. Other receipts like Donations, Grants etc.

## Annual Budget Making Process: Provincial Councils

Preparing the estimates of expenditure & revenue by heads of provincial departments (Around March of the previous year)

Assembling the estimates by the Deputy Chief Secretary

Examining the estimates in the light of actual figures of expenditure and revenue of the previous year by the Deputy Chief Secretary, Chief Secretary & the Chief Minister

Proposals from the Ministers,  
Members of the PC & Department

An increment approach is usually  
adonted in the case of recurrent

Requests of Ministers and Members of the PC and Departmental heads will be referred to the Director Planning of the PC

Once these cost estimates are entered in the Provincial Investment Program (Draft Estimates) they will be sent for the approval of the Chief Minister

The Deputy Chief Secretary will then transmit these draft estimates to the Finance Commission in Colombo in April/May of the Calander \*\*

The Financial Commission summons the Chief Secretary & Senior Members of the staff of the PC to discuss the estimates

The Financial Commission will then meet the Director General of Budget (DGB) in the Finance Ministry to negotiate for the share to be allocated to the PCs

The Financial Commission informs the tentative allocations to the PCs and recommendations of the FC to the Ministry of Finance and the President

After the adjustments to the original estimates of Ministries, Provincial Councillors and Departments, Annual Financial Statement is presented to the General Assembly of the PC by the Govenor

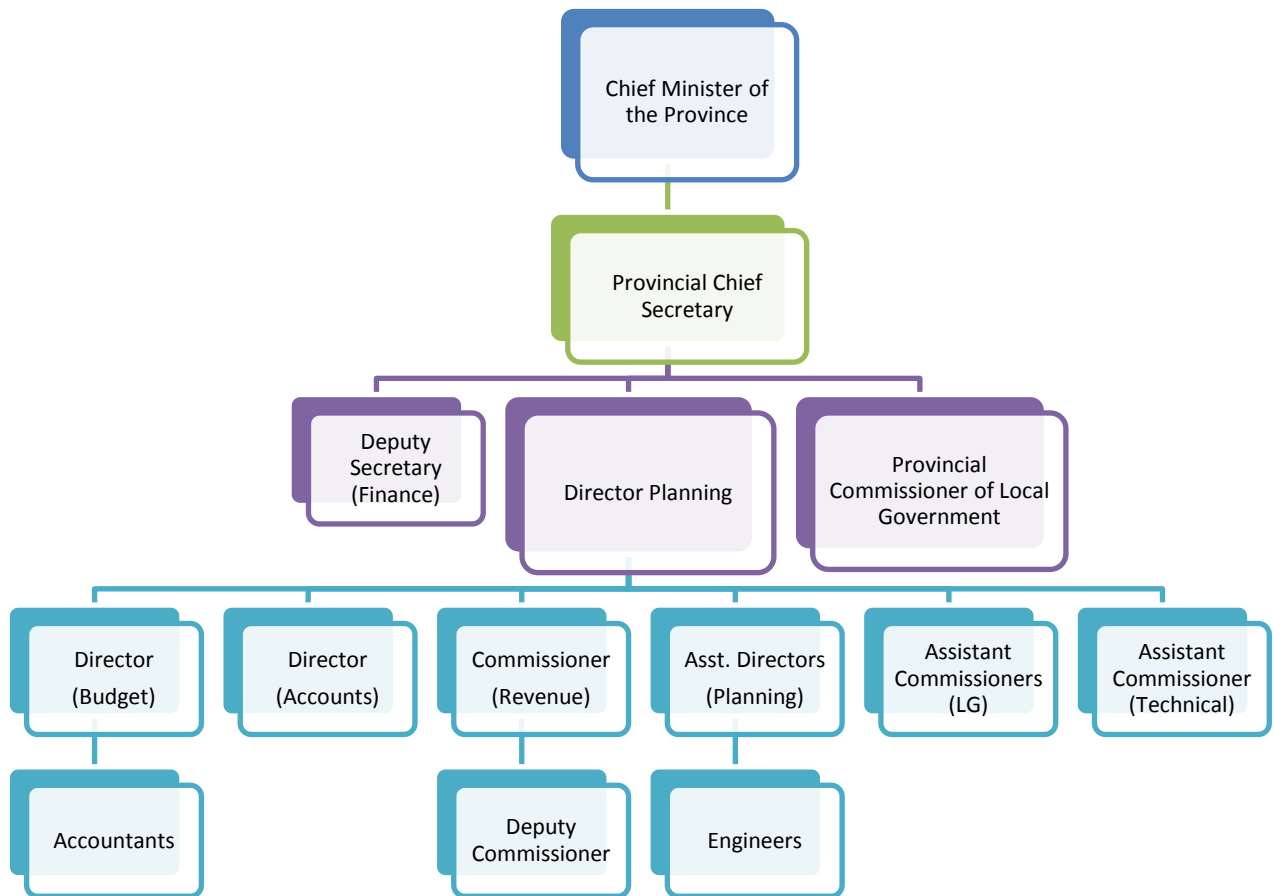
**\*\* The Deputy Chief Secretary is expected to fill a set of forms to be transmitted to the Finance Commission**

The more important forms are:

1. Program of Budget Framework
2. Capital Investment Program
3. Financial Proposals-Overview of capital and recurrent expenditure & revenue
4. Estimates of Recurrent Expenditure in detail
5. Estimates of Capital Expenditure in detail for continuing and new works
6. Employment summary
7. Revenue collections
8. Performance Measurement data



## Officials Involved in Planning & Finance functions in a Province

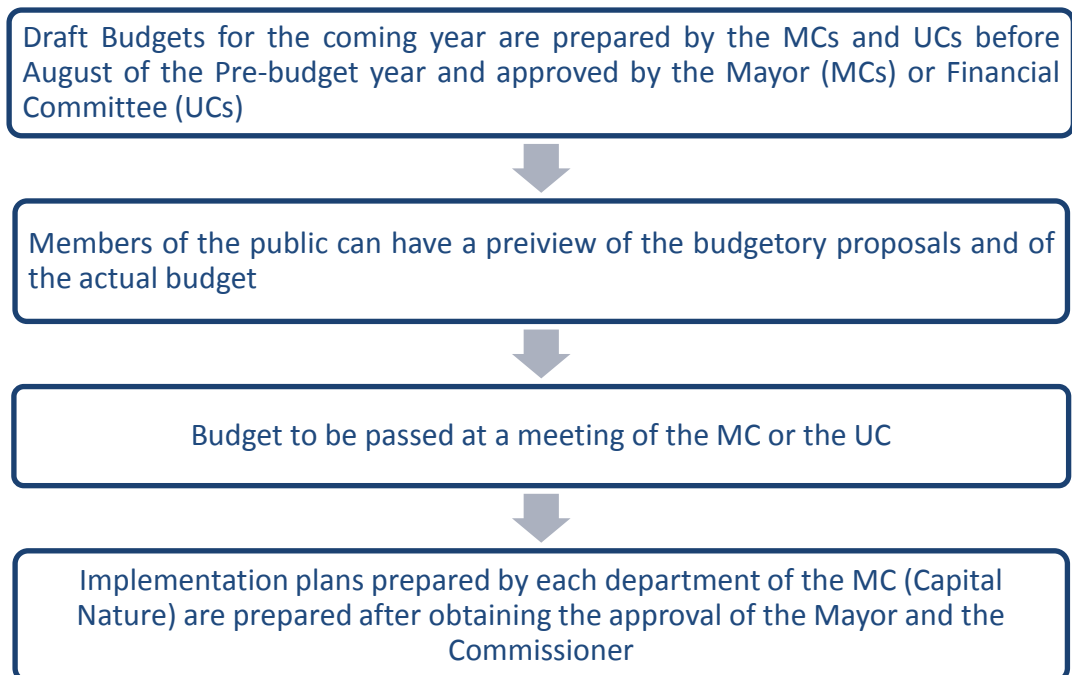


**NB:** The hierarchy of positions below the fourth level at the fifth level and sixth level are not included in the chart (Fifth level – Book Keepers, Financial Assistants, Assessors, Tax Officers, Revenue officers, Technical Officers, Local Government Officers, Technical Officers & Sixth Level – Assisted by Assistant Managerial/Clerk and other Support Staff)

## Budgeting in Municipalities (MCs) and Urban Councils (UCs)

- The Process of budgeting in MCs and UCs are similar to that in Provincial Councils
- Local Bodies are however, created under separate legislation having a status similar to private companies owning assets and bearing liabilities and keeping accounts on accrual basis
- MCs and UCs prepare budgets of Accumulated Reserves & Income and Expenditure Statements
- MCs, UCs and PSs get grants from Provincial Councils both for recurrent and capital expenditure
- They also receive part of the revenue collections of the Provincial Councils: i.e Stamp fees, Court fines.

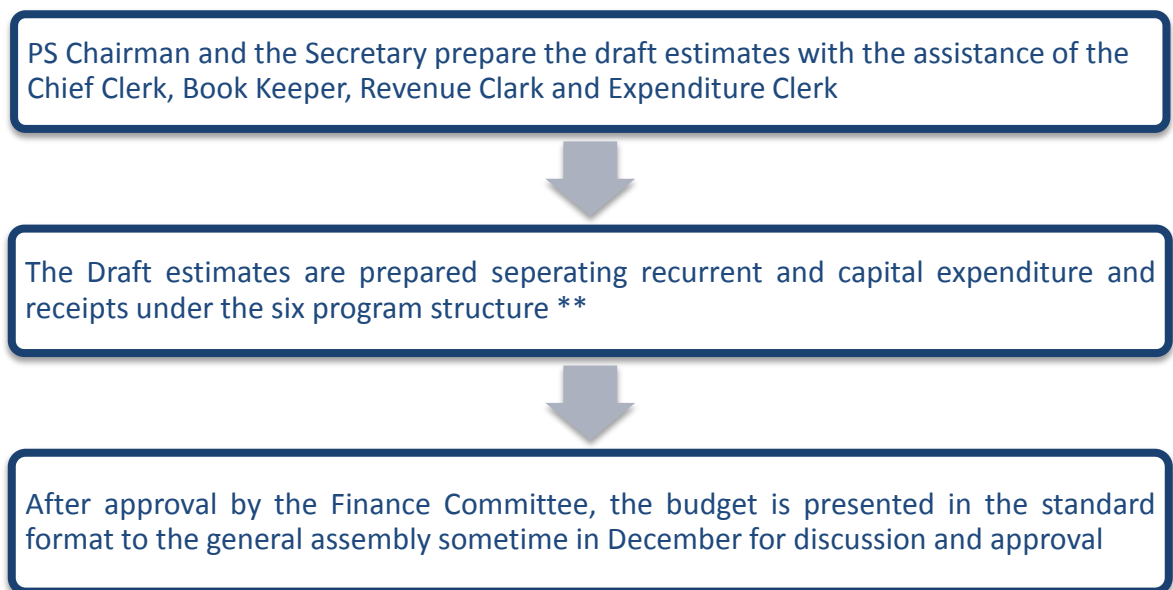
### Budget Making Process: Municipal Councils & Urban Councils



## Budgeting in Pradeshiya Sabha

- Pradeshiya Sabha budgets are compiled based on a standard format given by the Ministry of Provincial Councils and Local Government
- Money for almost 45% to 50% of recurrent expenditure and almost 90% of capital expenditure is received from the Provincial Councils
- All Pradeshiya Sabhas generate their own revenue

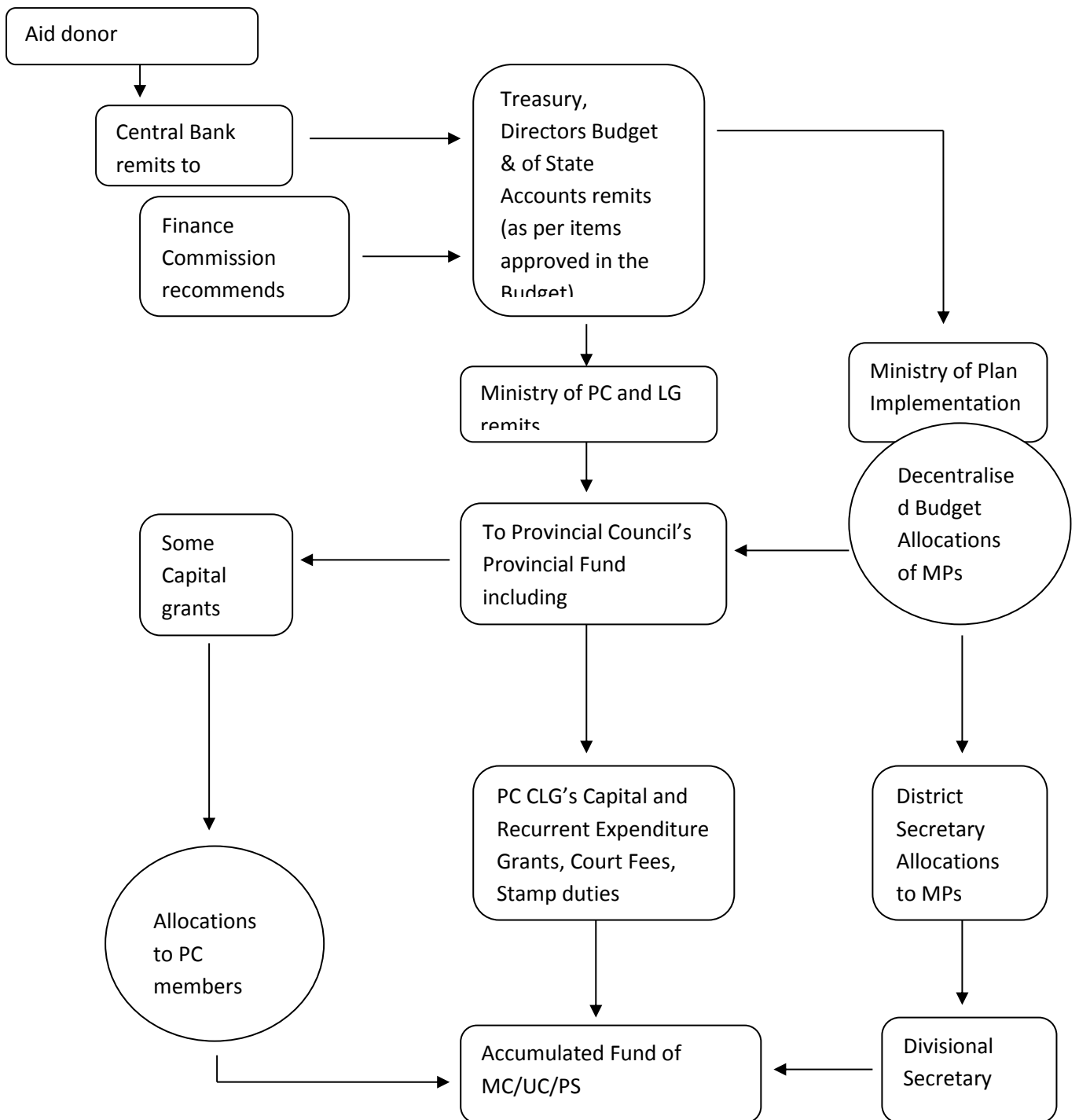
### Process



\*\*The Six programmes of expenditure:

1. Programme 01 – General Administration
2. Programme 02 – Health Services
3. Programme 03 – Physical Planning, Roads, Land & Buildings
4. Programme 04 – Water Supply
5. Programme 05 – Other Common Utilities
6. Programme 06 – Welfare

## Channels of Fund flow from the Central Government to the Sub-national level



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