National Budget Making
&
Fiscal Devolution
In Sri Lanka

(Researched Study Material for Workshop for 2nd 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**

<table>
<thead>
<tr>
<th>Article 148 – Control of Parliament over Public Finance</th>
<th>Article 149 – Consolidated Fund (CF)</th>
<th>Article 150 – Withdrawal of funds from CF</th>
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<tbody>
<tr>
<td>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</td>
<td>All receipts shall be paid to the CF</td>
<td>No fund shall be withdrawn from the CF except under the authority (warrants) of the Minister of Finance</td>
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**Appropriation Act for the financial year**

- The provision on appropriation for the relevant financial Year
  - First Schedule - expenditure on Appropriation Law
  - Second Schedule – Special Law
  - Third Schedule – Advance Accounts
- Borrowing limits
- Power to transfer unexpended provisions to same programme or to another programme under the same Head of expenditure (transfers under FR 66)
- Treasury Miscellaneous Vote

**Fiscal Management (Responsibility) Act No.03 of 2003**

- Ensures fiscal strategy of a government is based on responsible fiscal management and facilitates for public scrutiny of fiscal performance
- The government is required to adopt policies relating to fiscal consolidation with a degree of sustainability and predictability

**Compulsory Reports Submitted to the Parliament under the FMRA**

<table>
<thead>
<tr>
<th>Name of the Report</th>
<th>Date of submission</th>
<th>Contents Required</th>
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<tbody>
<tr>
<td>1. Fiscal strategy statement</td>
<td>2nd reading day of appropriation bill (with budget speech)</td>
<td>Medium term fiscal policy &amp; short term fiscal objectives</td>
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<td>Budget based strategic priorities</td>
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<td>Key fiscal measures</td>
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<td>Fiscal objectives, targets and outcome</td>
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<td>2. Budget economic and fiscal position report</td>
<td>2nd reading day of appropriation bill (with budget speech)</td>
<td>Estimates relating to GDP, Consumer prices, Employment &amp; unemployment, Current account position of BOP, Revenue &amp; expenditure, Govt. borrowing, basis, economic etc use for above variables</td>
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<td>Risks such as contingent liabilities, public announcements on spending, and</td>
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<td>3. Mid-year fiscal position report</td>
<td>30th June current year</td>
<td>January to April; estimates and actual of expenditure, revenue, cash flow, and borrowings</td>
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<td>Reasons for any deviation in the actual and estimates</td>
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<td>Any other important economic event</td>
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<tr>
<th>4. Final budget position report</th>
<th>Not later than 5 months end of financial year</th>
<th>Actual position and estimates of expenditure, revenue, cash flow, and borrowings</th>
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<td>Reasons for any deviation</td>
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<thead>
<tr>
<th>5. Pre-election budgetary position report</th>
<th>Within 3 weeks after publication of proclamation general election</th>
<th>Current position of estimates of expenditure, revenue, and borrowings</th>
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<tr>
<td></td>
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<td>Contingent liabilities</td>
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<td>Announced proposals for spending</td>
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<td>Negotiations in progress</td>
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<td>Any other important economic event</td>
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**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

### Year (n-1) Ex: 2012
- **Early June**
  - MOFP sends budget formulation guidelines to government agencies

### Year (n)
- **End of June**
  - Agencies’ budget requests are submitted to MOFP

### Year (n+1)
- **July to September**
  - Completion of Budget (Working level reviews and negotiations)
- **Early November**
  - Submission of Budget to the Parliament (after approved by the Cabinet)

- **An evaluation of the efficiency and effectiveness of money was spend**
- **Budget formulation by the Executive Agency**
- **Enacted by Parliament**
- **Disbursement and spending of funds**
Formulation of the Budget

1. Preparation of the Macroeconomic Framework
2. Preparation of a Budget Circular – “Budget Call” which gives guidelines to line ministries
3. Line ministries prepare the budget proposals on the base of the budget guidelines
4. Budgetary negotiation between the line ministries and MoFP
5. The draft budget
6. Forward the draft App Bill to LD’s office and AG’s office for approval
7. Submission of CM to the Cabinet to present the Appropriation Bill for the Parliament
8. Approved App Bill forwarded to the Government Printer to publish as a supplement in the gazette
9. Presentation of Appropriation Bill to the Parliament – First Reading
10. Preparation of Printed Estimates
11. Budget Speech – Second Reading of the Budget
12. Second Reading debates
13. Committee Stage - Third Reading 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
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 adopted in the case of recurrent expenditures
- 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 Calendar
- 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 Governor
**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

[Diagram showing the hierarchy of officials involved in planning and 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**

1. **Draft Budgets** for the coming year are prepared by the MCs and UCs before August of the Pre-budget year and approved by the Mayor (MCs) or Financial Committee (UCs)
2. Members of the public can have a preview of the budgetary proposals and of the actual budget
3. **Budget to be passed** at a meeting of the MC or the UC
4. **Implementation plans** prepared by each department of the MC (Capital Nature) are prepared after obtaining the approval of the Mayor and the Commissioner
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

PS Chairman and the Secretary prepare the draft estimates with the assistance of the Chief Clerk, Book Keeper, Revenue Clark and Expenditure Clerk

The Draft estimates are prepared separating recurrent and capital expenditure and receipts under the six program structure **

After approval by the Finance Committee, the budget is presented in the standard format to the general assembly sometime in December for discussion and approval

**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

Aid donor

Central Bank remits to

Finance Commission recommends

Treasury, Directors Budget & of State Accounts remits (as per items approved in the Budget)

Ministry of PC and LG remits

Ministry of Plan Implementation

Decentralised Budget Allocations of MPs

To Provincial Council's Provincial Fund including

PC CLG’s Capital and Recurrent Expenditure Grants, Court Fees, Stamp duties

Accumulated Fund of MC/UC/PS

District Secretary Allocations to MPs

Divisional Secretary

Some Capital grants

Allocations to PC members
Bibliography


*The constitution and Public Finance in Ceylon*, (1965) Institute of Chartered Accountants, Ceylon