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National Budget Circular No: 05/2022

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

Budget Call - 2023

Guidelines for the Preparation of Annual Budget Estimates 2023 within the Medium Term Budgetary Framework 2023-2025

01. Background

The economy of Sri Lanka is currently faced with the most challenging state of affairs since independence. In these circumstances, fiscal space has become extremely tight due to the drastic increase of government expenditure, severely limited government revenue and the diminished capacity of the government to borrow. In this context, preparation of the National Budget 2023 has become highly challenging.

In the above backdrop, the objective of this circular is to provide guidelines to prepare the budget estimates for the year 2023, within the medium-term budgetary framework 2023-2025.

The Budget 2023 should be prepared with the aim of restoring the lives of the people which have been severely affected in the face of the economic crisis, preventing further deterioration of weak economic indicators, and laying the foundation for subsequent macroeconomic stability and economic growth. In that respect, "whole-of-Government approach" is crucial in managing the present crisis situation. Further, instead of preparing expenditure estimates by considering only about the respective organization, the spending agencies should contemplate beyond such estimate preparation and pay close attention to the availability of imprest for financing such expenditure.

02. 2023-2025 Medium Term Macro-Economic Trajectory

In preparing the annual budget, income and expenditure should be adjusted in line with medium and long-term macroeconomic goals and government policies/priorities. Therefore, the budget 2023 should be prepared with the objective of achieving a surplus of 2 per cent of GDP at the end of 2023-2025 medium term.

Although increasing of the Government Revenue is a foremost necessity to bring down the primary budget deficit, the alternative of reducing the expenditure has become mandatory, as it takes a certain period of time to increase the government revenue. In order to reduce the government expenditure while maintaining the quality of public service delivery, increasing the productivity is a must. Accordingly, the theme of the preparation of budget 2023 should be “making a transformative change via minimum in puts”. This theme should become the common objective of every public institution.

03. Areas/Sectors of Priority

Projects/programmes which are capable of providing immediate benefits to people and the country within the 2023-2025 medium-term and restoring the lives of the people by uplifting the areas that are lagging behind due to the economic crisis, should be prioritized in the upcoming budget. Accordingly, due attention should be paid to the following areas/sectors during the preparation of the Budget 2023.

- i. Moving towards renewable energy sources immediately and ensuring a continuous energy supply
- ii. Improving and streamlining public transport service
- iii. Encouraging Foreign Direct Investments (FDIs) favorable to the country (Promoting Sri Lanka’s position in the Indian Ocean Region which will be the center of future economic power in the rapidly developing world, creating a conducive environment for investments, activating port-city project, bringing in capital market reforms and Labour Law reforms including increasing the women participation in the labor force)
- iv. Formulating policies and providing required support to help tourism industry and small-scale businesses affected by the current economic crisis in the country in order to recover
- v. Special programmes and projects focused on entrepreneurial promotion, generation of new jobs and attracting the youth to economic activity
- vi. Ensuring food security in the country
- vii. Establishing a competitive export economy and trade liberalization
- viii. Programmes to increase foreign remittances
- ix. Reforming Public Enterprises including restructuring or closing down of loss-making public enterprises, merging the institutions carrying out similar functions, strengthening the good corporate governance and ensuring financial viability of State Owned Enterprises
- x. Empowering the legal framework required for minimizing bribery, fraud and corruption

- xi. Making arrangements to take care of poor and underprivileged groups and to empower them economically
- xii. Connecting with global production chain and enhancing export revenue by promoting export oriented industries
- xiii. Expanding the field of Research and Development (R&D) and encouraging innovation while facilitating widespread adoption thereof
- xiv. Expanding Information and Communication Technology (ICT) and strengthening digitization
- xv. Formalizing and increasing the efficiency of the method of granting subsidies
- xvi. Training the youth community of the country to suit the global job market
- xvii. Selected projects on priority basis that are capable of stimulating the economic growth

04. Strategies and Activities

The following strategies/activities have been identified for achieving the expected macroeconomic goals.

- i. Reducing Recurrent Expenditure and eliminating unnecessary expenditure.
 - (a) Strictly adhering to the provisions of the Budget Circular No. 03/2022 issued under the title "Controlling Public Expenditure"
 - (b) Suspension of new recruitments to posts to which payments are made through the Consolidated Fund.
 - (c) Preparing estimates strictly in line with the relevant fuel limits that have been approved as it has been reported that, the instructions of circulars pertaining to the approved fuel limits are being transgressed.
 - (d) Introducing mechanisms to reduce expenditure by conducting a special review on the expenditure related to institutions incurring an expenditure above 5 percent of the overall expenditure under each recurrent object code, in terms of the Revised Budget Estimates 2022.
- ii. Inclusion of provisions required to achieve the objectives of the institutions with a minimum cost while paying a close attention to the statutorily assigned functions, with a "Zero-Based Approach", instead of traditional formulation of estimates by considering the expenditure trends in the previous years and adjusting for the inflation.
- iii. Limiting the Capital Expenditure only to projects of investment nature with direct and immediate benefits that are capable of providing speedy solutions to the economic crisis. Paying attention to the Public-Private Partnerships when developing economic infrastructure, as an alternative, in order to widen the limited fiscal space.
- iv. Introduction of a short-term special social security scheme to minimize the adverse effects on the groups vulnerable to the impacts of macroeconomic adjustments.

- v. Reviewing “subsidiary programmes” which have been continuing for a long time and, working towards a sustainable and long-term empowerment of the beneficiaries economically, eliminating a targeted number of beneficiaries from the relief programme annually, after being empowered.
- vi. Restructuring/closing down loss-making public enterprises.
- vii. Merging the institutions carrying out similar functions.
- viii. Conducting a comprehensive study of movable and immovable properties, including government owned buildings, lands and vehicles by the Department of Comptroller General and the Department of Management Audit with a view to optimize the utilization and to identify potential real estate for income generation activities
- ix. Ensuring that the officers to whom an official vehicle has been assigned or officers who are allowed to use private vehicles for official transport requirements on rental basis, enjoy only the rights they are entitled to.

05. Preparation of Expenditure Estimates

In view of the extremely limited borrowing capacity of the government and identification of the reduction of expenditure as a priority within the short-term plans in economic recovery, the expenditure within the 2023-2025 time frame would be subject to a strict control, whenever possible. Further, necessary steps have already been taken by certain foreign funding agencies to repurpose the foreign funds contracted for financing of some of the large-scale projects, in order to enable such funds to be mobilized to mitigate the current economic crisis. Accordingly, in the formulation of the upcoming budget, certain needs will have to be traded off for the sake of the most essential requirements. Provisions allocated for certain sectors where traditionally more resources were mobilized, will be limited in order to prioritize sectors that provide direct and immediate benefits to the economy/country and provide relief to the people affected.

5.1 Capital Expenditure

i. Institutional Capital Expenditure

- (a) Restrictions imposed by the National Budget Circular No. 03/2021 regarding the purchase of vehicles shall remain unchanged in the year 2023 as well.
- (b) No provisions should be allocated to purchase of office equipment and accessories for public institutions, in the year 2023
- (c) No provision pertaining to the foreign trainings under capacity building, for which payments are made through the Consolidated Fund should be included. However, provisions required for the completion of trainings which have already commenced will be considered. Such training requirements should be fulfilled through virtual methods and local agencies.
- (d) Local trainings should also be limited only to the most essential service requirements.

ii. Development Expenditure

- (a) It is mandatory to provide information requested in relation to the development expenditure to be included in the Budget 2023, in the formats contained in Annexures 1 and 2.
- (b) When estimates for development projects are prepared, provisions of each such project should be disaggregated in to standard object codes. For instance, if project funds are used to construct buildings, purchase machinery or develop a software, provisions should be allocated according to the standard object codes assigned to each activity, under the relevant sub-project.
- (c) It is difficult to source adequate financing to commence new projects within the Medium-Term Budgetary Framework 2023-2025. Therefore, the on-going capital projects under ministries should be reviewed and if the projects are redesigned to cover the areas of priority mentioned in paragraph 03, such projects will be treated as priority projects in allocating provisions.
- (d) If there are new projects approved by the Cabinet of Ministers or the Department of National Planning that generate short-term benefits in connection with the priority sectors mentioned in paragraph 03, such projects should be submitted along with the information to be furnished as per the annex 1 and 2, enabling to consider for the allocation of provisions.
- (e) Prior to requesting allocations, programmes/projects that have already commenced yet indicate no physical progress or with extremely low progress, should be reviewed and determined in consultation with the Department of National Planning and the Department of Project Management whether such programmes/projects to be continued.
- (f) The same guidelines of above (e) should be applied to the programmes/projects commenced as per budget proposals or commenced based on foreign financing assistance, that are further continued with local funds after the expiration of the duration of the programmes/projects.
- (g) Functioning of project offices/project management units that have already been established, yet project activities have not been commenced or seem uncertain to be implemented in the future, should be suspended, until specific decision is taken.
- (h) When requests regarding provisions for repurposed foreign financed projects are made, the fact that whether provisions to be included within the initial project or provisions to be allocated for the repurposed work under the respective expenditure head should be widely considered and the due provisions should be included accordingly.
- (i) Commencement of new projects in the form of direct investment from the private sector or potential projects for Public-Private-Partnerships is encouraged while the implementation of new projects through traditional government investments is discouraged. Measures should be taken to maintain the financial contribution

by the Government in connection with the projects to be commenced under Public-Private-Partnership at a minimum level. Further, business models capable of covering the expenditure as far as possible through revenue generated from the project should be prepared. In that respect, projects planned with business models subject to settlement of the total cost of the project through annuity payments made to the relevant private party by the Government, should not be commenced.

5.2 Recurrent Expenditure

The following matters should be considered in preparation of estimates for recurrent expenditure

i. Salaries, Wages, Overtime and Other Allowances

- (a) New recruitments will not be made to the Public Service in the year 2023. Hence, no allocation will be made for the said purpose. Further, instructions given in the Budget Circular No. 03/2022, regarding the payments made in addition to the salary are to be applied for the year 2023 as well.
- (b) Salaries, Wages and other allowances for the year 2023 should be calculated separately for each officer based on the actual number of employees as at 01.08.2022, whereas the details should be prepared at institutional level and submitted in line with the format in Annexure 3. Details regarding officers making provisions for personal emoluments under object code 1503 should also be submitted in this format, separately for respective institution.
- (c) Personal emoluments and other expenditure for the year 2023 in connection with officers who have been recruited as Graduate Trainees and currently confirmed in service should be included in the estimates of the institution under the purview of which the positions of the said officers fall on permanent basis.

ii. Development Subsidies and Welfare Expenditure

As welfare programmes are well looked into due to the adverse economic conditions prevailing at present, when preparing the budget estimates for the year 2023, provisions should not be allocated for any subsidy or welfare programme implemented on the decisions taken by institutional level, except for those subsidies granted by virtue of any law or with the approval of Cabinet of Ministers. Further, the approved number of beneficiaries for the ongoing subsidy programmes should not be increased unless otherwise stipulated in a Cabinet Decision or determined by any other lawful manner.

06. Advance Account Activities

Estimates pertaining to Public Officers' Advance Accounts should be submitted in the format given by Annexure 4. Institutions maintaining commercial advance accounts should submit their estimates, in an appropriate format containing adequate information.

07. General Guidelines

- (i). Provisions will be granted in the following order of priority
 - (a) Provisions required to conduct essential activities
 - (b) Provisions required for accounting or settlement of liabilities/commitments
 - (c) Completing the work that has almost been completed
 - (d) Re-purposed projects stipulated in 5.1 ii (c)
 - (e) Provisions for the next phase of projects that have been commenced.
 - (f) New projects will only be considered if the requirements stipulated in 5.1 ii (d) are met.

- (ii). Special attention should be paid to gender responsiveness in preparing the annual budget since the goal no. 05 of the Sustainable Development Goals aims at gender equality and empowerment of all women and girls.

08. Submission of Expenditure Estimates

Considering the above, you are kindly requested to submit duly prepared expenditure estimates using “2023 EXP_ES Planning Version” for expenditure estimates and “2023ADV_ES Planning Vision” for the Advanced Accounts, through the Integrated Treasury Management System (ITMIS) with all the annexures on or before 14th September 2022. It is mandatory to enter the Annual Budget Estimates for the year 2023 and projection of Budget Estimates for the years 2024- 2025 within the Medium Term Budgetary Framework for 2023-2025. In addition, hard copies of such documents should be submitted to the relevant staff officer of the Department of National Budget. If any assistance is required, please contact ITMIS helpdesk officers on 011-2484999.

09. Clarifications

If any further clarification is required, please contact the relevant staff officer of the Department of National Budget, who is in charge of the subject holding responsibility over your Ministry/Department/Institution.

Sgd./ K.M. Mahinda Siriwardana
Secretary to the Treasury

Copies to:

1. Secretary to the President
2. Secretary to the Prime Minister
3. Secretary to the Cabinet of Ministers
4. Auditor General