BUDGET BRIEF: CYCLE & PROCESSES

SRI LANKA 2019

RATIONALE

This brief on Sri Lanka's Budget Cycle and Processes has been prepared by UNICEF in partnership with Verité Research. Its key objective is to inform readers of the various stages, components, policies and procedures within Sri Lanka's annual budget process. The brief aims to provide the general public and UNICEF's key partners in the policy space with the necessary knowledge to navigate the complexities of the budgetary process. This piece also sets out important insights, which would enable stakeholders to lobby for change to ensure that child-related allocations remain relevant, prioritized, and protected.

UNICEF and Verité Research also value robust and well-informed public engagement in the management of public goods. To this end, this document describes processes in the budget cycle that provide the space to effectively engage citizens, and highlights where it is insufficient or ineffectual. Currently, public discourse on the budget primarily accompanies the budget reading, which usually takes place in November. The document's purpose is therefore twofold: (1) to allow the reader a thorough, if layman's, understanding of the procedures, processes and drivers of all four stages of the budget, thereby facilitating a more meaningful engagement in budgetary allocation and governance; and (2) to allow the reader a view on where future public engagement may be possible, necessary, and most effective.

This publication was produced with financial support of the European Union. Its contents are the sole responsibility of UNICEF and do not necessarily reflect the views of the European Union

Photography: UNICEF Sri Lanka / Earl Jayasuriya

KEY MESSAGES:

- The Sri Lankan government budget, which runs its fiscal year from January to December, is the primary public finance allocation and monitoring mechanism undertaken by both the national and sub-national governments.

- There are three layers of government within the country. The first type is the central government, which has national jurisdiction. The second type are provincial councils(PC), which govern over distinct provinces. The third type are the local authorities such as municipal councils (MC), urban councils (UC) and *pradeshiya sabhas*, which govern even smaller geographical areas. The powers and functions of each government type is determined by the constitution and other national legislation.

- Across government types, two of the three branches of government - the legislative branch that makes laws and approves budgets and the executive branch that makes budgets and implements policies- are active in the budget process (Exhibit 1).

- The associated budget cycle of the central government takes place over a two-year period covering four distinct stages: formulation, approval, implementation and oversight.

- At the central government level, the ministry in charge of finance drives the budget process. Parliament, however, has total control over public finance: a power that is derived from the constitution. Hence, the finalization of the budget and any major deviations require parliamentary approval.

- In a normal budget cycle, central government ministries utilize the *virement procedure* and supplementary appropriation estimates for changes to the intended budget.

- The central government may deviate from the normal budget cycle in one of three ways. First, it may issue an interim budget for a period less than the calendar year called a Vote on Account, which requires Parliamentary approval. Second, the minister in charge of finance may utilize the Contingencies Fund during emergencies. Unlike during the normal budget cycle, parliamentary approval is obtained only after expenditure has been incurred. Third, the President can draw directly from the Consolidated Fund when there has been a dissolution of Parliament and there is no possibility of obtaining parliamentary approval.

- The provincial councils and the local authorities also have similar budget processes. There are distinct procedures reflecting the four stages of the budget cycle.

- Citizen engagement with the annual budget process, either at the national or at the sub-national government level, is low. Although public budget discourse is heightened in November with the speech of the minister of finance, this is not sustained during the rest of the fiscal year. The lack of public engagement on the budget is even more apparent at the provincial council and local authority levels.

- Citizen engagement may be constrained by the paucity of information provided and lack of opportunities given for public participation on the budget. According to the International Budget Partnership's (IBP) last Open Budget Survey (OBS) results, Sri Lanka provides few opportunities for the public to engage on the budget.

1. THE NATIONAL BUDGET CYCLE

EXHIBIT 1 | Three branches of government

Legislative	Executive	Judiciary
Parliament (makes laws, approves budgets)	President, Prime Minister, Cabinet of Ministers (makes budgets, implements policies)	Courts (interprets laws)

The government budget is its annual financial statement containing expected revenue and expenditure for the following fiscal year (January to December).[1]

The processes that run the budget are governed by both laws and customary procedures. In terms of laws or legislation, budget processes are determined by the Constitution, Standing Orders (SO) of Parliament, Financial Regulations (FR), annual Appropriation Acts and other circulars or guidelines issued by the Ministry of Finance.[i] Customary procedures or convention, are tools that bridge gaps where legal measures are not in place. An example of this is the approval of an interim budget or a Vote on Account (VOA).[2]

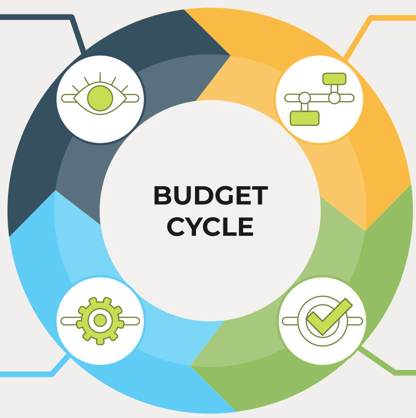
The IBP identifies four stages in a government budget cycle:

4. Oversight

Evaluating the implemented budget by the supreme audit institution of the country and legislative branch of government.

1. Formulation

Drafting of the budget by the executive branch of government.



3. Execution

Implementing the approved budget by the executive.

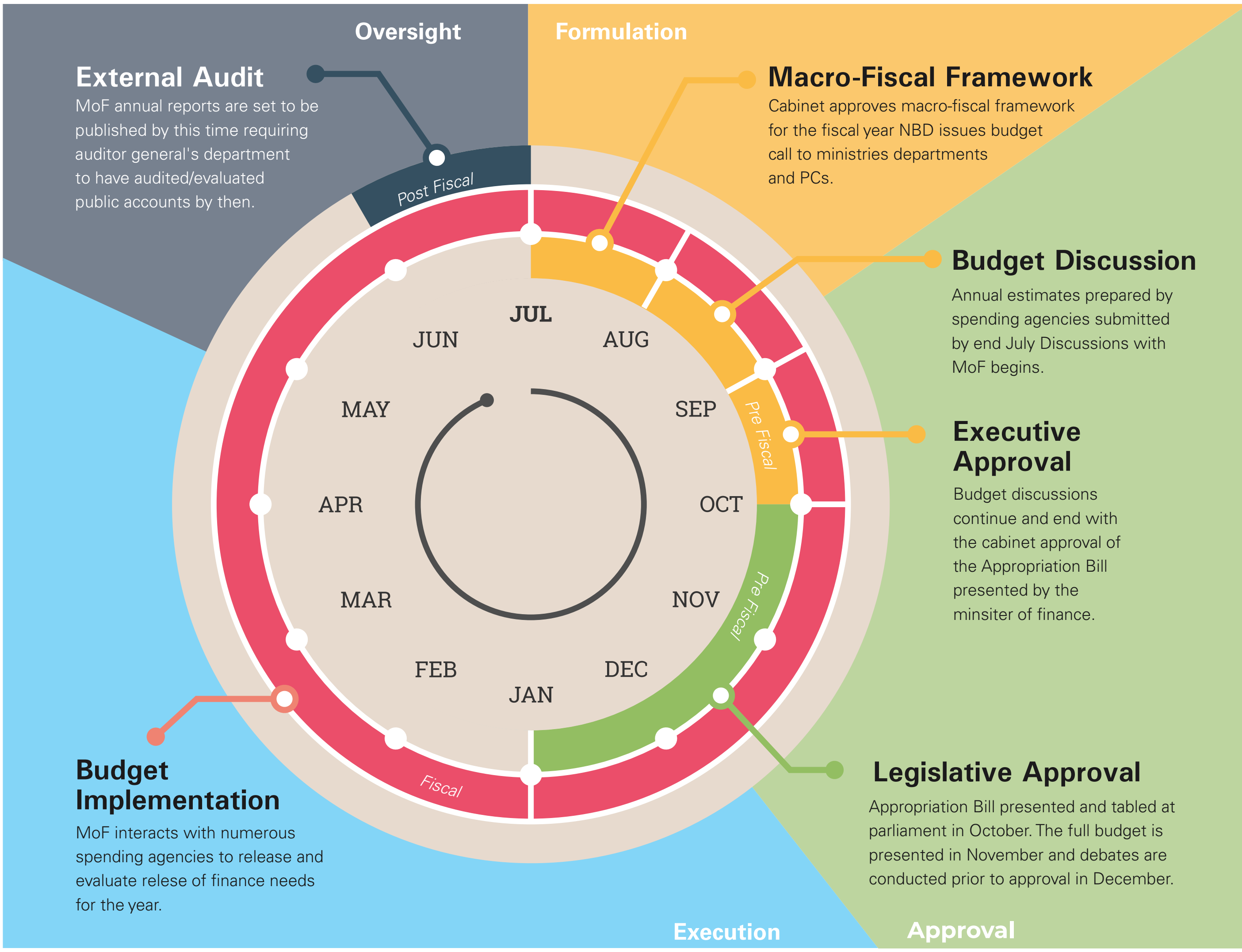
2. Approval

Amending and approving the proposed budget by the legislative branch of government.

The budget cycle begins in July of the preceding fiscal year and ends in October of the following fiscal year, running a total 28 months. The initial phase, the Formulation of the budget, runs from July to October, followed by Approval from October-December, and Implementation during the fiscal year. The cycle closes with a ten-month ex-post Evaluation through internal and external audit mechanisms (Exhibit 2). There is, however, no defined timeline in the cycle for parliamentary oversight.[3]

1. In 1972, the government's fiscal year was changed from October-September to January-December. In 2019, the Sri Lanka government was not able to follow the normal budget cycle due to the Constitutional Crisis in October-December 2018. For more information on this deviation to the budget cycle, see Section 3.2.
2. For more information on VOAs, see Section 3.2.
3. Parliament is empowered to engage in public finance concerns throughout and beyond the typical budget cycle. For more information, see Section 3.1.4.

EXHIBIT 2 | Sri Lanka's national budget cycle



Note: The annual report of the MOF, which contains the Auditor General's opinion on public accounts, is usually released in June. Further, the government's Final Budget Position Report, which is incorporated into the MoF annual report, must be released within 5 months of the end of the financial year as per the Fiscal Management Responsibility Act (Section 13). Also, as per the Audit Act of 2018, the treasury must submit general financial statements to the Auditor General by 31st March, and the Auditor General's opinion on these statements must be tabled in parliament by 31st May.

The following sections delineate the four stages of the Sri Lankan budget cycle, including the chronology of key-actor engagements, activities and milestones, and a demarcation of exceptional circumstances where the government departs from customary processes.

BUDGET FORMULATION

The executive branch of government has the responsibility of formulating the budget by October in the preceding fiscal year. During this stage, the National Budget Department (NBD)[4] of the MoF leads three major activities: a) preparation of the macro-fiscal framework; b) determination of budget allocations based on stakeholder consultations and the government's pre-existing plans[5]; and c) finalisation of the budget under the authority of the President and his/her Cabinet (Exhibits1 & 2).

A key strategy document influencing budget formulation is the Medium-Term Macro-Fiscal Framework, prepared by the MoF's Department of Fiscal Policy. The framework is a forward-looking document that sets out three-year fiscal targets for the government. The objective of this document is to set spending agency expectations and align devolved expenditures under a single fiscal strategy. The document is presented toCabinet for approval in early July.[6,ii]

4. Housed under the MoF, the NBD is tasked with formulating the national budget, managing related public expenditure and ensuring that budget objectives are met through effective coordination with line ministries and other government agencies.
5. The government's existing plans include the Public Investment Programme and approved budget proposals from previous budget cycles.
6. The framework defines government targets (such as revenue, expenditure, investment, budget deficit and outstanding debt) for the third year, and corresponding macroeconomic budgetary projections. This is made based on the medium-term fiscal strategy (presently, Vision 2025).

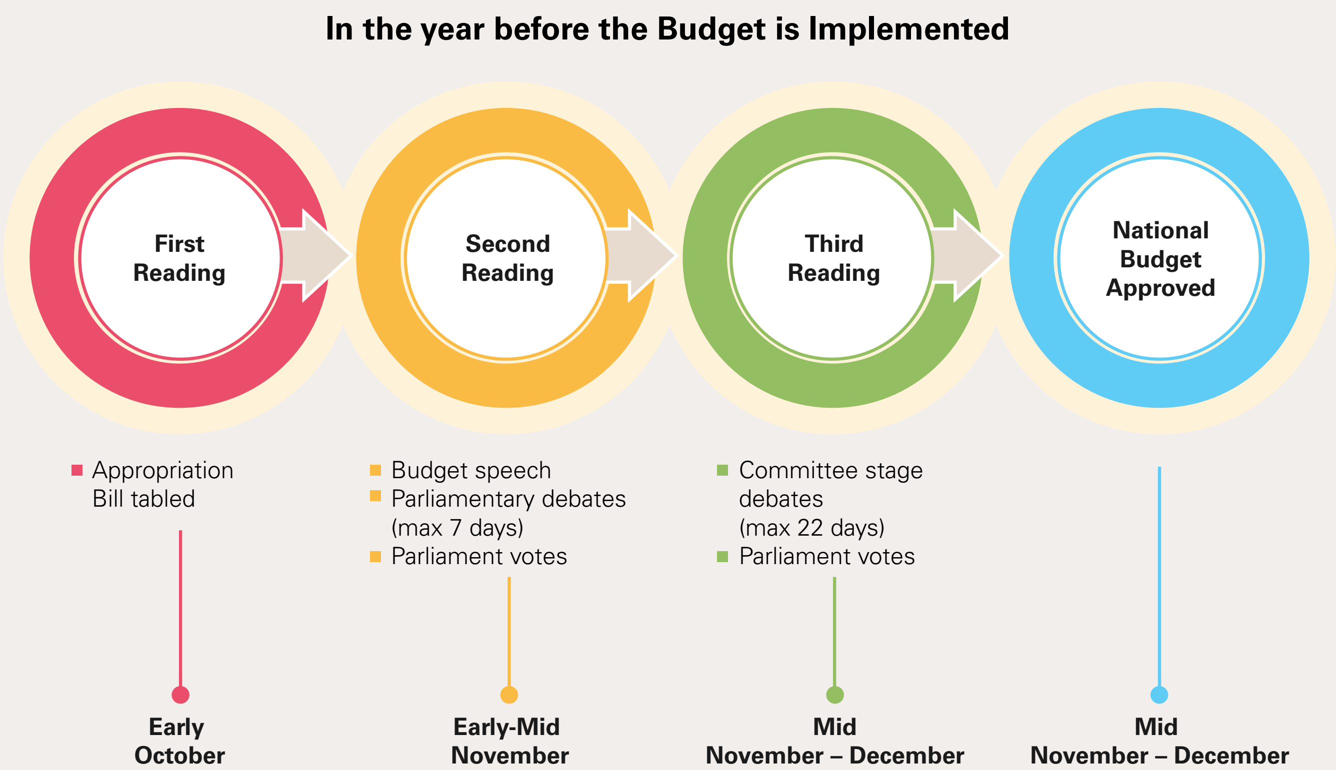
In mid-July, the NBD issues a budget call directed at ministry secretaries, chief secretaries of PCs and heads of departments, where it outlines the medium-term macro-fiscal framework along with other guidelines for designing budgets and making submissions.[7,iii] Spending agencies (SA) then estimate recurrent and capital expenditures using feasibility and cost evaluations of operations.[8,iv] By the end of July, these agencies are expected to submit financial plans using the Integrated Treasury Management System (ITMIS).[9] However, as at the time of writing this interface has not been fully implemented. In August and September, the NBD consults with SAs to finalize expenditure proposals based on their alignment with the government's fiscal and development strategy.

The NBD then drafts the Appropriation Bill, indicating the expenditure of each SA, and presents the Bill to Cabinet for approval. The document is published in the gazette a week before Parliament is scheduled to meet for the Bill's first reading (Exhibit 2).[10,v] The Budget Speech is presented by the Minister of Finance to parliament in November. This includes additional proposals for expenditure and revenue that are not included in the Appropriation Bill and form an important component of the budget. The MoF would typically call for public submissions on budget proposals, which would be directed to the Department of Trade and Investment Policy. In addition, the Minister and MoF officials may meet with line ministries, business chambers, and other selected stakeholders as part of consultations in the budget process. However, this process of consultation is not structured and institutionalized , but occurs based on the priorities and objectives of the Minister in shaping his/her budget speech.

BUDGET APPROVAL

The legislative branch of government conducts the budget approval process. This occurs via three readings of the Appropriation Bill and related budget debates in Parliament (Exhibits 2 & 3). The parliamentary procedures governing the passing of the Appropriation Bill are similar to those of an ordinary bill.[11,vi]

EXHIBIT 3 | Timeline of the budget approval process



Source: Standing Orders of the Parliament of Sri Lanka, Parliamentary Procedures in Sri Lanka (2002).

7. NBD specifies expenditure ceilings for each spending agency. However, spending agencies may include expenditure proposals that exceed budget constraints as annexes to budget plans.
8. Recurrent expenditure is determined using feasibility studies and forecasts and considering targets, outputs and objectives. Capital expenditure is determined by an approved budget's implementing agency , which prepares detailed total cost estimates indicating financing and timeline.
9. ITMIS is an IT-based commitment control system. The MoF aims to eventually have ITMIS as the only public finance management system used for budget planning, execution and reporting.
10. For more information on the timeline of the Appropriation Bill, see Section 3.1.2.
11. A major deviation from Ordinary Bill procedures, however, is that the Standing Orders of Parliament specify the number of days allotted for Appropriation Bill procedures (i.e., 26 days).

The **first reading of the Appropriation Bill** takes places in early October after Cabinet publishes the Bill in the gazette.[12] At this time, the Minister of Finance places the Bill in the Order Paper for the first reading as per Standing Order No. 50(1). Before the second reading, three formats of the national budget are made for legislative consideration:

- The Appropriation Bill proposes law authorising the government's spending plans;
- The Draft Budget Estimates provide a further breakdown of revenue and expenditure estimates;
- The Budget Speech introduces new revenue and expenditure proposals not previously included in the Bill or Estimates (Exhibit 4).

The **second reading of the Appropriation Bill** commences in early November with the Budget Speech, delivered by the Minister of Finance. This speech is the most visible and publicised milestone of the budget cycle. Concurrently, draft budget estimates are published to provide the legislature with a detailed breakdown by budget heads (Exhibit 4).[13] This is followed by second reading debates- the primary debate in which Members of Parliament (MPs) express their views on the general merits and principles of the bill. During this time, the legislature also prepares for the third reading whereby (a) the opposition allocates time for both the government and the opposition to discuss the budget and, (b) MPs notify Parliament of intended budget amendments.[vii] The second reading ends with a vote on the Appropriation Bill under Parliamentary Standing Order 47.

The **third reading of the Appropriation Bill** begins with Parliament being referred to as a Committee of the Whole House. The committee is appointed by a resolution of Parliament and the Speaker of Parliament presides as the Chair. The third reading, conducted over a maximum of 22 days, is the longest in the budget approval phase. It is during this period that debates discuss budget heads[14] and ministry-specific expenses, along with proposed amendments. The amendments that are accepted are

EXHIBIT 4 | Key documents presented during legislative budget approval

Document	Relevant Appropriation Bill Reading	Description
Appropriation Bill	First Second Third	The Bill makes financial provisions for government operations, enables payment from government funds (including the Consolidated Fund) and authorises borrowing to meet public financing requirements. The Appropriation Bill, like all other bills, is traditionally drafted by the Legal Draftsman's Department.
Draft Budget Estimates	Second Third	These are detailed accounting budgets that have been approved by Cabinet and sent to the government printer for publication.
Budget Speech	Second	The Budget Speech contains two parts. The first is a general survey of the economy, and the second consists of new proposals impacting revenue or expenditure. The budget proposals are kept confidential until the Minister of Finance presents them in Parliament on the first day of the Second Reading (Budget Day).
Committee Stage Amendments	Second Third	Ministers may propose urgent and essential changes to the budget following preparation of the Draft Budget Estimates. These are submitted to Cabinet through the Minister of Finance. Following Cabinet approval, new proposals are submitted for parliamentary consideration along with printed Draft Budget Estimates and the Appropriation Bill.
Appropriation Act	Third	Parliament first passes the Appropriation Bill and subsequent amendments. Next, the relevant certificate of the Speaker of Parliament is endorsed under Article 80(1) of the Constitution. In this manner, the Appropriation Bill and amendments become the Appropriation Act.
Approved Budget Estimates	Third	These estimates incorporate the Committee Stage Amendments approved by Parliament during the Third Reading.

Source: FR 58, Parliamentary Procedures in Sri Lanka (2002).

12. For more information, see Section 3.1.2.
13. At this time, the Ministry of Finance releases an economic and fiscal position report evaluating pre-fiscal year government performance, a part of its public disclosure obligations stipulated in the Fiscal Management (Responsibility) Act, No. 03 of 2003.
14. A head of expenditure is assigned to each department and cabinet ministry; it is a unit of appropriation and indicates the line of authority and accountability (FR 8 (1)).

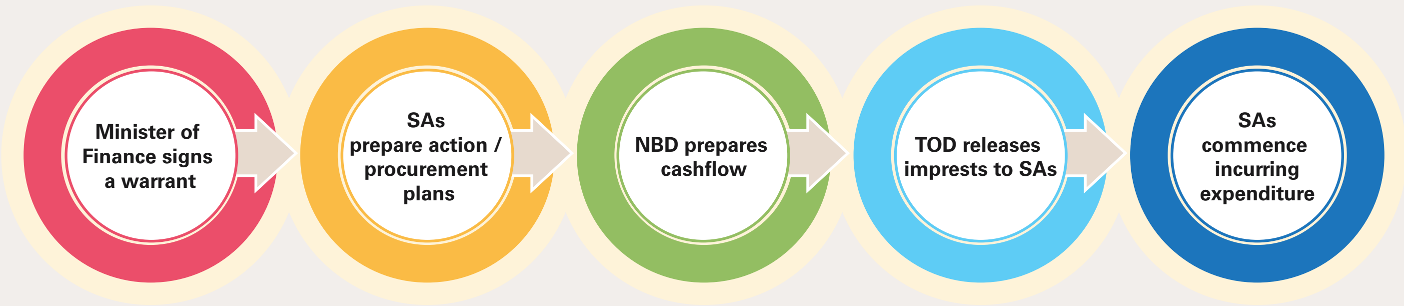
incorporated into the final version of the Appropriation Bill and then included in the Approved Budget Estimates.

Once discussions on all budget heads are concluded the expenditure schedule is put to a vote. Parliamentary convention is that a vote is not called by the opposition on each head[15], and that a vote is taken only at the conclusion of all debates. Thereafter, Parliament resumes usual procedures and the Speaker reports to the House that all budget heads are considered passed in the Committee, with or without amendments. The Bill is then read for the third time and passed in Parliament by a vote. The Speaker thereafter announces that the Appropriation Bill for the upcoming fiscal year is passed by parliament, with or without amendments.[16,viii]

BUDGET EXECUTION

Budget execution, or implementation, is carried out during the fiscal year from 1 January – 31 December (Exhibit 2). In addition to SA involvement, this stage requires continuous engagement between the MoF's NBD and TOD offices (Exhibit 5). There are three funds, which finance budget execution: Consolidated Fund, Special Statutory Funds and Advance Account Activities.[17]

EXHIBIT 5 | Overview of the national budget exection



Source: Ministry of Finance and Planning – A Guide: The Budget Process (2011), and National Budget Circular No. 03/2017.

Following budget approval, the Minister of Finance issues warrants for the release of public funds to SAs. The warrants grant agencies the authority to withdraw these funds. The nature of the warrant depends on the expenditure it is for and the fund that it utilizes. [18] These warrants are directed to the Secretary or the Deputy Secretary to the Treasury, who liaises with the Chief Accounting Officers of SAs , communicating such matters as warrants' allocation limits, etc.[19, ix] In tandem, the Treasury Operations Department (TOD) enforces limits on disbursements based on agency-specific ceilings on quarterly expenditure.[20]

Thereafter, SAs prepare the action and procurement plans necessary for fulfilling their programme targets and set key performance indicators (KPIs) to measure expenditure outcomes. These plans and related estimates, defined per quarter, are submitted to the NBD for approval and serve as the markers within which SAs are required to manage expenditures.[x]

In instances where financing requirements are beyond the allocated budget, SAs can follow two procedures to obtain additional funding: (a) a virement procedure or (b) a supplementary estimate, as described below.

a) Virement Procedure

This procedure grants SAs the authority to exceed the approved estimate of a budget head in the following circumstances:

i. To transfer monies allocated to recurrent expenditure of any programme to a capital component of another programme under the same budget head, provided

15. In the April 2019 budget, specific expenditure heads were defeated by voting on individual heads (for instance: Ministry of Megapolis and Western Development, Ministry of Home Affairs).
16. If the Appropriation Bill is rejected by Parliament, the Cabinet of Ministers is dissolved as stated in Article 48(2) of the Constitution.
17. See FR 2 for more information.
18. For more information on warrants, see FR 90 (1).
19. This is called an imprest. This letter issued by the Treasury to each spending agency is called an "Imprest Authority" and the amount of money as "Limit of Imprest" (according to FR 91).
20. Ceiling adjustments require the approval of both the NBD and the TOD.

the original allocation has not been spent and is not expected to be utilised. This must be approved by the Secretary to the Treasury;

ii. To transfer savings from projects, objects, items or financing categories to other projects, objects, items or financing categories of the same programme. This must be approved by the Secretary to the Treasury or Deputy Secretary to the Treasury;

iii. To create a new project, an object class, an item or financing detail in a programme, if savings are available within that programme. This must be authorised by the Secretary to the Treasury or Deputy Secretary to the Treasury;

iv. To withdraw in whole or in part any amount previously released for expenditure, in accordance with the provisions of the Appropriation Act;

v. To approve variations in the cadre of an establishment and related alterations of salary scales;

vi. To approve variations in total cost estimates of a project or work;

vii. To approve increases in budget heads;

viii. To vary prescribed limits of advanced accounts.[xi]

b) Supplementary Estimates

Supplementary estimates (SEs) are presented in Parliament to meet unforeseen and unexpected expenditures. They are issued in addition to the annual Appropriation Acts during the fiscal year and are enacted as Supplementary Appropriation Acts in Parliament. There are two reasons for resorting to SEs: 1) when an SA needs financing to cover expenses beyond the allocated budget[21]; and 2) when the Minister of Finance needs to obtain parliamentary approval to replace an advance received from the Contingencies Fund and where the spending requirement is too urgent to allow for prior approval of Parliament.[22,xii]

BUDGET OVERSIGHT

There are three different budget oversight and auditing channels: a) internal audit units within each department and ministry unit[23]; b) the Auditor General's Department (AGD), the country's supreme audit institution; and c) three legislative committees within Parliament that evaluate external audit reports and other public finance information. Unlike the AGD's reporting, parliamentary oversight does not have a defined timeline.

a) Internal Audit Units

Each SA houses an internal audit unit that functions independent of the agency's accounting, finance and implementation operations. These units provide oversight for the SA at the most granular level by: (1) maintaining an effective system of internal controls of financial operations to prevent and detect errors and frauds; (2) assisting relevant accounting officers and evaluation committees[24] to assess progress of development plans and other undertakings of the agency; and (3) liaising between project implementors, department heads and evaluation committees.[xiii]

b) Auditor General's Department

The AGD has the mandate to audit public sector institutions at all tiers of government, including the Election Commission, PCs, local authorities, and other state-owned entities. [xiv] The AGD's financial audit methodology follows the *Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995* and the *International Standards of Supreme Audit Institutions* issued by the International Organization of Supreme Audit Institutions.[xv] Under the constitution, the Auditor General is mandated to complete an audit as per the time frames set out in the Audit Act of 2018 and report to parliament on the whole of his/her activities within ten months.[xvi]

c) Parliament (Legislative Oversight)

Parliament inspects public finance via two legislative committees that evaluate external audit reports and other pertinent information: the Committee on Public Accounts (COPA), which oversees ministries and departments; and the Committee on Public Enterprise (COPE), which

21. Unlike the annual Appropriation Acts, this can be done by the minister directly associated with the SE.
22. For more information, see Section 3.2.
23. See FR 133 for more information.
24. Each implementing agency must have a progress/monitoring committee, which ensures that expected outputs of budget plans are achieved. These committees are required to maintain detailed breakdowns of projects, record progress against pre-determined target dates and identify implementation constraints that may delay progress and undertake remedial action for the respective agencies. The committees are also expected to report regularly to the relevant accounting officers and the chief accounting officer of the agency. When other departments are involved in a project, their members may be co-opted into the committee following consultation with the secretaries of the related ministries (FR 4).

oversees all public corporations, state-owned enterprises, trust funds and special statutory funds. The two committees are empowered to summon responsible institutions to answer to Parliament on issues highlighted during their investigations.[xvii]

Additionally, a third parliamentary committee, the Committee on Public Finance (COPF), has the power to investigate decision making and execution of public finance before and during the fiscal year. Unlike COPA and COPE, which conduct ex-post reviews, COPF evaluates public finance documents released during the course of the year to assess budget concerns such as revenue collection, payments from the Consolidated Fund, public debt servicing and other uses of public funds.[25, xviii] By providing continuous supervision, COPF bridges a gap in legislative oversight, which is otherwise limited to the very beginning or the very end of the budget cycle.

DEVIATIONS TO THE NATIONAL BUDGET CYCLE

The government can deviate from the budget cycle to meet unanticipated financing requirements through three mechanisms: a) drawing directly from the Consolidated Fund after a dissolution of Parliament; b) drawing and replacing money from the Contingencies Fund; and c) issuing a Vote on Account (VOA).

a) Drawing directly from the Consolidated Fund after a dissolution of Parliament

Only two entities can draw from the Consolidated Fund: the Minister of Finance, contingent upon approval through a parliamentary resolution or existing legislation; or the President of Sri Lanka, if:

- the dissolution of Parliament occurred before the Appropriation Bill for the relevant fiscal year was passed and the previous Parliament had not made necessary provision for the functioning of public services. The President may draw from the Consolidated Fund to finance public services for a period of 3 months from the date the new parliament is summoned to meet; or
- the dissolution is followed by the President fixing a date/s for general elections, for the execution of which the President may make a provision after consulting with the Commissioner of Elections, provided the previous Parliament did not make any relevant budget provisions.[xix]

b) Drawing and replacing money from the Contingencies Fund

The Constitution (Article 151) and the *Contingencies Fund Act No. 35 of 1979* established the Contingencies Fund to address urgent and unforeseen requirements for additional funds where neither a virement procedure nor prior parliamentary approval (through a Supplementary Appropriation Bill) are possible.[26] In these circumstances, the Minister of Finance may make an advance from the Contingencies Fund with the consent of the President. A Supplementary Appropriation Bill must subsequently repay the advance.[xx]

c) Vote on Account (VOA)

The VOA, or an interim budget, is another measure used prior to a dissolution of Parliament, where the government is constrained in presenting to Parliament a budget covering the entire year. The specific conditions under which a VOA are used are:

- When general elections are called for and a full budget has not been implemented. In this case, the incumbent government recognizes that financial plans will be implemented by the post-election's government;
- When a new government has been sworn in but has not had time to formulate the annual budget.[xxi]

The main purpose of the VOA is only to ensure that a government's pre-determined functions can continue, and there is no government shutdown because of the absence of a national budget. The VOA traditionally authorizes expenditures for up to four months. The main budget, thereafter, absorbs the expenditure incurred in the VOA.[xxii]

Unlike other urgent and interim budget measures, neither the Constitution nor other legislation provides guidance for a VOA. Rather, convention and practice govern this measure. As of 2019, the national government had passed a VOA on ten different occasions. The Constitutional Crisis of October-December 2018 led to the most recent

25. Additionally, Standing Order 121 specifies two reports that COPF is expected to produce regarding a new budget: (1) a report on estimates, including whether the allocation of money is in compliance with the policies of the government, within six weeks of the tabling of the Appropriation Bill, and (2) a report on the fiscal, financial and economic assumptions used as the basis for arriving at total estimated expenditure and revenue, within four days following the presentation of the budget and the second reading of the Appropriation Bill.

26. For more information, see Section 3.1.3.

example[27], when the national government was unable to execute a regular budget cycle. A VOA was therefore presented and passed in Parliament on 21 December 2018.[xxiii] The first and second readings of the 2019 Appropriation Bill occurred on 5 February 2019 and 5 March 2019 respectively with the 2019 budget finalized on 4 April 2019.[xxiv]

27. The Constitutional Crisis of 2018 centered on a political debate over the validity of the 19th Amendment to the Constitution introduced in 2015. The crisis began on October 26, 2018, with President Maithripala Sirisena appointing former president Mahinda Rajapaksa as prime minister, before formally dismissing the incumbent prime minister Ranil Wickremasinghe. On October 27, President Sirisena prorogued Parliament until November 16. On November 9, following failed attempts to form a new Cabinet of Ministers with former president Rajapaksa, President Sirisena tried to dissolve Parliament and call for a General Election. However, the Supreme Court stayed the dissolution until December. On December 13, the Supreme Court, made up of a seven-member bench, unanimously ruled that the Proclamation issued by the President on November 9 to dissolve Parliament and call for a General Election was ultra vires and unconstitutional. Although Parliament returned to its pre-crisis state with the Supreme Court decision, the controversy had a significant impact on the functioning of government, and therefore of the regular budget cycle.

2. SUB-NATIONAL GOVERNMENT BUDGET PROCESSES

EXHIBIT 6 | Levels of government

Source: MoF Approved Budget Estimates 2019.

The sub-national government budget processes refer to the procedures followed by the nine PCs, and three other forms of local authorities: MCs (24); UCs (41); and *Pradeshiya Sabhas* (276) [Exhibit 6]. While sub-national governments have their own revenue streams, the national government remains its most significant source of funding.[28] As such, the Constitutional Crisis of 2018, which brought the national government to a standstill, also severely constrained the spending capacity of sub-national governments.[xxv]

The sub-national level budget cycle parallels the national budget cycle in its four stages of formulation, approval, execution and oversight. Sub-national government units formulate the budgets, but the process relies on promised and actual budget transfers from the national government. Although individual provincial and local authorities implement budget execution, external oversight measures of national government – i.e., of the AGD and of Parliament– apply to sub-national level budgets. The differences in budget processes based on the type of local authority are discussed below.

28. Provincial council revenue only covered 54% of the 9 PCs' recurrent expenditure in 2017, according to the 2018 Approved Budget Estimates.

PROVINCIAL COUNCIL BUDGET PROCESSES

The 13th Amendment to the Constitution of 1987 and the *Provincial Council Act, No. 42 of 1987* established the nine PCs, currently under the purview of the Finance Commission (FC).[29]

Revenue

Each province maintains a Provincial Fund, consisting of proceeds collected by the PC through provincial level taxes, central government grants, loans advanced to the PC from the Consolidated Fund, and all other receipts of the PC. Fund sources include:

Funds from the central government, such as

- Block grants to meet recurrent expenditure[30],
- Criteria-based grants for institutional development[31],
- Province Specific Development Grant (PSDG) for identified provincial capital expenditure,
- Other contributions related to projects in the national budget.

Funds from financing sources, such as

- Devolved revenue (such as vehicle licenses, turnover tax, court fines, and stamp duty),
- Loans,
- Profits from commercial operations,
- Other receipts such as donations and grants.[xxvi]

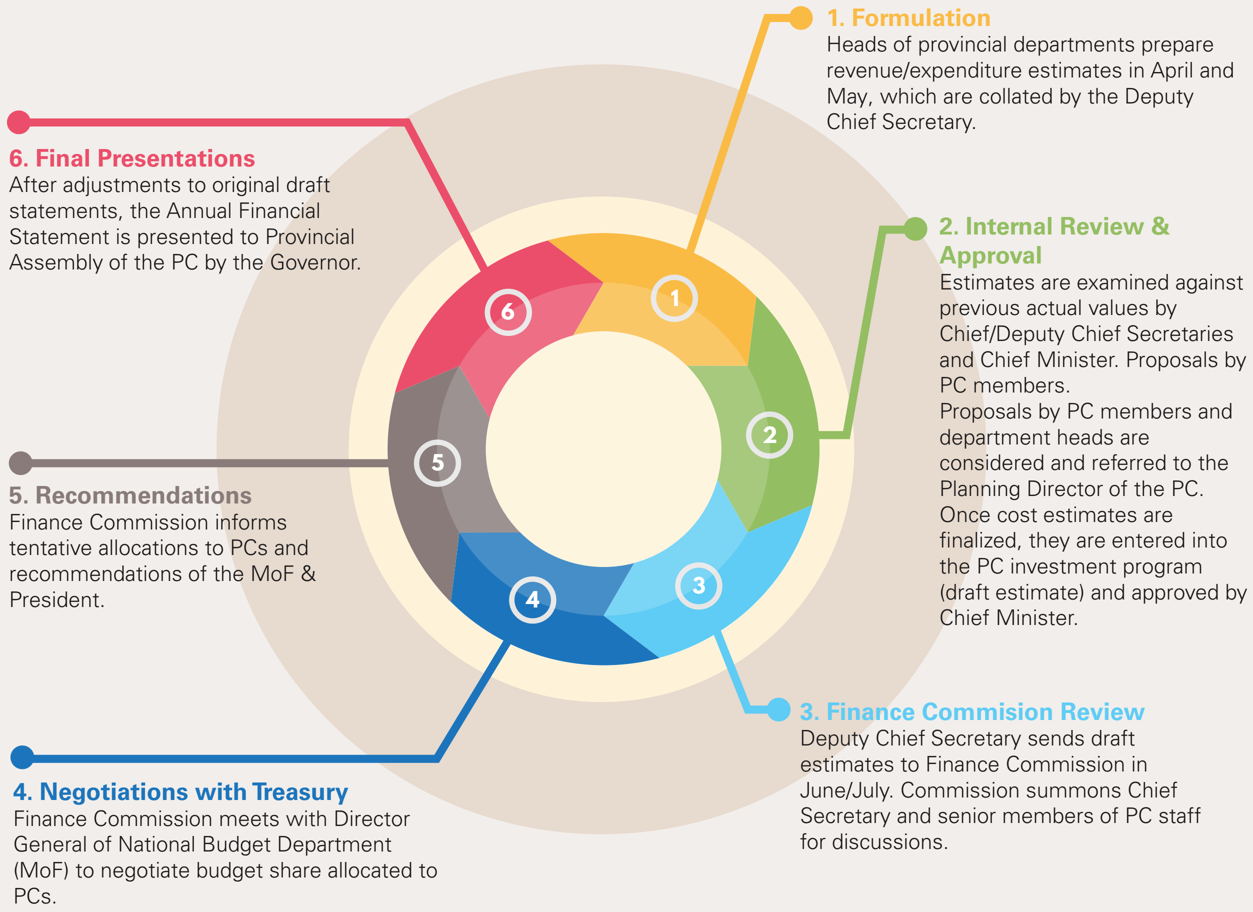
Expenditure

At the sub-national level, each PC's Chief Secretary has the overall responsibility of public finance management. Deputy secretaries of finance, traditionally members of the Sri Lanka Accountants' Service, provide assistance to individual Chief Secretaries. During April-May of the pre-fiscal year, each PC's departments assess its upcoming annual needs and formulate a tentative annual budget (Annual Financial Statement), later approved by the relevant Provincial Governor.[xxvii]

PC budgets subsequently undergo multiple rounds of review and negotiations that involve the FC, the Treasury, the President and his/her Cabinet (Exhibit 7). In negotiations with the national government, the FC collates public finance estimates for the nine PCs and acts as the agency for provincial needs. The PC budgets are revised based on these reviews/negotiations, as well as final allocations provided for the PC from the national budget. They are then presented to the General Assembly of respective PCs for approval. During budget implementation, the Chief Minister (CM)'s functions are similar to that of the Minister of Finance. The Chief Minister issues warrants for withdrawals from the Provincial Fund. Provincial budgets are subject to similar audit and oversight mechanisms as the national budget, with additional oversight provided by the FC. Each PC's General Assembly also houses Public Account Committees which function like Parliament's COPA.

29. The FC, established under the 13th Amendment to the Constitution of 1987, facilitates transferring resources to provinces and planning of regional spending. Key responsibilities of the Commission include providing recommendations to the government, and formulating principles, policies and guidelines on provincial allocation of funds to ensure balanced regional development. The Commission acts as the intermediary between central government and PCs in finance matters.
30. The difference between total recurrent expenditure and revenue collected is met by block grants.
31. This is usually on the basis of a set of socio-economic indicators such as per capita income objectives.

EXHIBIT 7 | Provincial council budget formulation and approval



Source: National Budget Making & Fiscal Devolution in Sri Lanka (2012 December).

MUNICIPAL AND URBAN COUNCIL BUDGET PROCESSES

The legislative enactments under the *Municipal Councils Ordinance of 1865*, amended in 1939 and in 1947, and the *Urban Councils Ordinance No. 61 of 1939* enable budget financing at the MC and UC administration levels.[xxviii] Annually, MCs and UCs prepare budgets indicating accumulated reserves and provide income and expenditure statements. For both capital and recurrent expenditure, MCs and UCs receive grants from PCs and also receive a part of the revenue collected by these councils (including stamp duties and court fines).[xxix] There are four stages of budgeting: formulation, public access to draft budgets, approvals at the MC and UC levels, and implementation of expenditure plans (Exhibit 8). The same oversight mechanisms outlined for the PCs apply to MCs and UCs.[xxx]

PRADESHIYA SABHA BUDGET PROCESSES

Legislative enactments under the *Pradeshiya Sabha Act No. 15 of 1987* dictate public finance related activities at the *Pradeshiya Sabha* administration level. *Pradeshiya Sabha*s receive grants from PCs for both capital and recurrent expenditure, currently 45-50% of recurrent expenditure and almost 90% of capital expenditure financing. *Pradeshiya Sabhas* also generate their own revenue. The *Pradeshiya Sabha* budget process has three basic stages: preparation of revenue and expenditure estimates, formulation of budgets in standard formats, and the approval and presentation to first the FC and then the General Assembly of the local authority (Exhibit 9).[xxxi] They are also subject to the same oversight mechanisms as their respective PCs.[xxxii]

32. This national budget circular, while containing some relevant information, is issued as an official directive of the NBD and is not necessarily for public use. The information contained in the document can be considered limited relative to other countries where the statement is a standard practice (e.g. South Africa). However, as this is available in the official ministry of finance website, and comprises of the minimum information required by IBP, this statement is considered publicly accessible.

EXHIBIT 8 | Municipal and urban council budget process

1. Formulation

Draft budgets are prepared by the MCs and UCs in August. Budget is approved by the Mayor in MCs and Financial Committee in UCs.

2. Public Access

Public can have a preview of budgetary proposals and of actual budget.

3. Approval

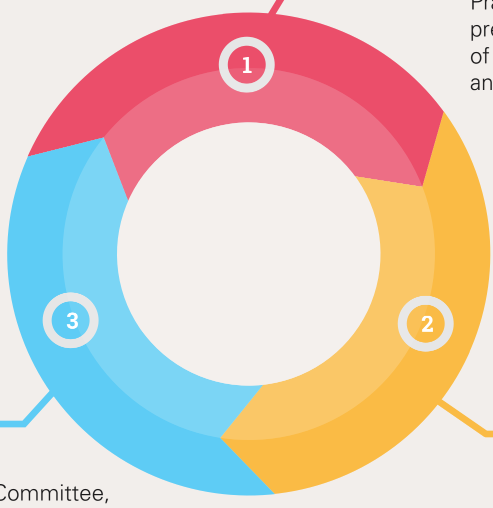
Budget is passed at a meeting of MC or UC. They also receive approval from the relevant Mayor or Commissioner.

4. Implementation

Implementation plans related to capital are prepared by each department of the MC.

Source: National Budget Making & Fiscal Devolution in Sri Lanka (2012 December).

EXHIBIT 9 | Pradeshiya sabha budget formulation and approval



1. Preparation

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

2. Formulation

Draft estimates are prepared separating recurrent and capital expenditure and receipts under the six programme structure.

3. Approval & Presentation

Budget is approved by the Finance Committee, and then presented in the standard format to the general assenbly in December for discussion and approval

* Six programmes of expenditure are: programme 01 – general administration; programme 02 – health services; programme 03 – physical planning, roads, land & buildings; programme 04 – water supply; programme 05 – other common utilities; programme 06 – welfare.

Source: National Budget Making & Fiscal Devolution in Sri Lanka (2012 December).

3. CITIZEN ENGAGEMENT ON PUBLIC FINANCE

A citizen's right to obtain information on public finance is protected by law in Sri Lanka: (a) the Right to Information Act, No. 12 of 2016 (or RTI Act) and (b) the Fiscal Management (Responsibility) Act, No. 03 of 2003 (or FMRA Act).

Under the RTI Act, ministers assigned a subject must publish, in the vernacular and in electronic formats, biannual reports containing key public finance information including budget allocations, proposed expenditures and realized disbursements. Under the FMRA Act, the government commits to facilitating public scrutiny of fiscal policy and performance, primarily by publishing key documents such as: the Budget Economic and Fiscal Position Report, Mid-Year Fiscal Position Report, Final Budget Position Report, and Pre-Election Budgetary Position Report.

There is more citizen engagement at the national government level relative to the sub-national government level. This is due in part to the scope and scale of the national budget being significantly larger—in 2018, the national budget was almost 10 times that of the sum of the 9 PC budgets—, and in part to public accessibility to the national government budget over the sub-national government budgets. For example, the annual budget estimates of the national government are available online, whereas comparable estimates for sub-national governments are not.

Regardless of government-level, however, opportunities for direct public engagement in budget processes face structural limitations. At the formulation stage, citizen engagement is informal and not as well-defined as government agency level interactions on budgets. In practice, citizens may approach ministries and local authorities to propose new expenditure allocations, but no consistent, formalized mechanisms exist.

At the budget approval stage, one specified opportunity for citizen engagement exists: in the period between the First and Second Readings of the Appropriation Bill, a Sri Lankan citizen may challenge the constitutionality of provisions before the Supreme Court under Article 121 of the Constitution. However, such challenges rarely occur. Citizens are generally unaware of this provision, and information on the First Reading is scarce.

While the RTI Act does require proactive disclosure of information by public authorities, disclosures rarely occur in practice. Proactive disclosure, particularly of financial information, is uneven across ministries.[xxxiii] The government has made recent, sporadic attempts to share more information with the public, including the quarterly reports issued by the Department of Project Management and Monitoring that evaluate progress of development projects and programmes for December 2017-September 2018. Nevertheless, these and other reports (the national and institutional audits reports, parliamentary oversight reports, etc), are not always available, and many citizens are unaware of their existence.

International assessments, such as in evaluations of the IBP's OBS, confirm the weakness of public disclosure mechanisms. The OBS assesses three components of a budget accountability system:

i. **Transparency**
   public availability of budget information,

ii. **Public Participation**
   opportunities for the public to participate in the budget process,

iii. **Budget Oversight**
   the role and effectiveness of formal oversight institutions, including legislature and the national audit office.

IBP considers countries that score above 60 out of 100 on the three components as having sufficient provision of budget information to enable informed public engagement, having adequate opportunities for the public to participate in the budget process, or having adequate oversight practices.

As the last survey results for the 2016 fiscal year show, Sri Lanka failed in all 3 components of transparency, public participation and budget oversight with scores of 44, 11 and 50 respectively. In addition, although the national government of Sri Lanka provides most public documents recommended by the IBP's OBS, sub-national government levels do not (Exhibit 10).[xxxiv] Moreover, despite the availability of documentation at the national government level, compliance with IBP OBS standards is still low, with key budget documents not provided in comparable and comprehensive formats (Exhibit 10). Public access to budget information and data continue to be a problem in the Sri Lankan government. As in other areas of the public sector, lack of transparency contributes to lack of accountability, and it is essential that Sri Lanka continues to move towards more accessibility in the budget process.

EXHIBIT 10 | Public disclosure of key budget documents for the 2016 fiscal year

National Budget Cycle Stage	Key Budget Documents	Equivalent SL Budget Documents	Status of Disclosure
Formulation	Pre-Budget Statement	Budget Call	Publicly accessible, limited information[32]
Approval	Executive's Budget Proposal	Appropriation Bill, Draft Budget Estimates, Budget Speech	Publicly accessible, extensive information
Approval	Enacted Budget	Appropriation Act, Approved Budget Estimates	Publicly accessible, extensive information
Approval	Citizens Budget	N/A	N/A
Execution	In-Year Reports	Mid-Year Fiscal Position Report (for 4 months), Fiscal Management Report (for 8 months) released by the MoF	Publicly accessible, limited information
Execution	Mid-Year Review	N/A	Not released to the public
Execution	Year-End Report	MoF Annual Report	Publicly accessible, extensive information
Oversight	Audit Report	Audit report done by the auditor general's department	Not released to the public, but the annual report of the auditor general's department containing some information is available online.

Note: The 2017 fiscal year was considered since the 2018 budget cycle has not ended as at the time of writing.

Endnotes

i. ADB, *Public Financial Management Systems – Sri Lanka, Key Elements from a Financial Management Perspective* (2018 March), 12.
ii. *Fiscal Management (Responsibility) Act, No. 3 of 2003.*
iii. National Budget Circulars, various years.
iv. Financial Regulations, 4.
v. ADB*, Public Financial Management Systems*, 14.
vi. Parliament of Sri Lanka, "Government Bills" (undated). Retrieved from: https://www.parliament.lk/how-parliament-works/government-bills.
vii. Priyanee Wijesekera, *Parliamentary Practice in Sri Lanka* (2002 July), 68.
viii. Ministry of Finance & Planning, *A Guide,* 38.
ix. FR 90 (1) & (3).
x. *National Budget Circular No. 03/2017* and *State Accounts Circular No: 263/2017*
xi. FR 65 (2).
xii. Priyanee Wijesekera, *Parliamentary Practice,* 71-72.
xiii. FR 133-34.
xiv. Constitution, Article 154.
xv. ADB*, Public Financial Management Systems*, 7.
xvi. Constitution, Article 154.
xvii. ADB*, Public Financial Management Systems*, 20.
xviii. Parliament, SO No. 121.
xix. Constitution, Article 150 (1)-(4).
xx. FR 78.
xi. Parliament, *How Parliament Works*.
xii. Priyanee Wijesekera, *Parliamentary Practice,* 70-71.
xiii. Parliament of Sri Lanka, *Order Paper of Parliament for Friday, December 21, 2018 at 10.30 am.* Retrieved from: https://www.parliament.lk/uploads/documents/orderpapers/1545302545020268.pdf.
xiv. EconomyNext, "Sri Lanka Budget on March 05, Vote on April 04" (2019 January 6). Retrieved from: https://economynext.com/Sri_Lanka_budget_on_March_05,_vote_on_April_04-3-13062.html.
xv. Key Informant Interviews.
xvi. Research Department One-Text Initiative, *National Budget Making & Fiscal Devolution in Sri Lanka*.
xvii. *Ibid.*
xviii. Research Department One-Text Initiative, *National Budget Making & Fiscal Devolution in Sri Lanka.*
xxix. Research Department One-Text Initiative, *National Budget Making & Fiscal Devolution in Sri Lanka*.
xxx. Key Informant Interviews.
xxxi. Research Department One-Text Initiative, *National Budget Making & Fiscal Devolution in Sri Lanka*.
xxxii. Key Informant Interviews.
xxxiii. Verité Research, *Online Proactive Disclosure under the RTI Act in Sri Lanka: A Monitoring Framework and Baseline Assessment* (2017 December). Available at: https://www.rti.gov.lk/images/publications/Online-Proactive-Disclosure-under-the-RTI-Act-in-Sri-Lanka_Final-Report.pdf
xxxiv International Budget Partnership (IBP), *Gide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options* (2016 August). Retrieved from: https://www.internationalbudget.org/wp-content/uploads/open-budget-survey-2017-guide-and-questionnaire-english.pdf.

LIST OF EXHIBITS

ABBREVIATIONS:

AGD:	Auditor General's Department
CM:	Chief Minister of Provincial Council
COPA:	Committee on Public Accounts
COPF:	Committee on Public Finance
COPE:	Committee on Public Enterprises
FC:	Finance Commission
FMRA Act:	Fiscal Management (Responsibility) Act, No. 3 of 2003
FR:	Financial Regulations of the Government of the Democratic Socialist Republic of Sri Lanka
IBP:	International Budget Partnership
ITMIS:	Integrated Treasury Management Information System
KPI:	Key Performance Indicators
MC:	Municipal Council
MoF:	Ministry of Finance
MP:	Member of Parliament
NBD:	National Budget Department
OBS:	Open Budget Survey
PC:	Provincial Council
PSDG:	Province Specific Development Grant
RTI Act:	Right to Information Act, No. 12 of 2016
SA:	Spending Agency
SE:	Supplementary Estimate
SO:	Standing Orders of Parliament
TOD:	Treasury Operations Department
UC:	Urban Council
VOA:	Vote on Account

සබඳතාව
கைகோர்ப்பு
EU-Sri Lanka Partnership

VERITÉ RESEARCH
Strategic Analysis for Asia

unicef
for every child
සෑම දරුවෙක් වෙනුවෙන්ම
ஒவ்வொரு சிறுவர்களுக்காகவும்