

BUDGETARY REFORM IN CEYLON : THE INTRODUCTION OF PROGRAMME BUDGETING

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In the government Budget for the year 1973 the estimates of expenditure conforming to Programme Budget classification¹ covered altogether nineteen ministries and seventy seven departments under them. There are now only four ministries and their departments (and the Heads of expenditure not falling within any ministry), which remain to be converted to the new budgetary classification.² The purpose and aims of this major re-organisation in Ceylon's budgetary procedure and practice are summed up as follows: "as part of the effort to improve the system of public fiscal administration reforms in budgetary classification aimed at more meaningful allocation of financial resources through a Programme Budgeting framework have been introduced... The Programme Budgeting format... seeks to present expenditure in terms which are more relevant to present day conditions. In its full development it will be concerned with the evaluation of administrative performance, the promotion of efficiency and economy in the use of resources through the application of sound management techniques, and the facilitation of the achievement of development goals".³ Government budgeting, like any other aspect of public administration, has to be adapted to meet the changing needs of fiscal administration. The role of the government budget has assumed greater significance in recent years in many developing countries largely due to the increasingly greater role assigned to public sector and development plans in economic and social development; and the traditional budgeting procedures and practices have been found to be ineffective and inadequate in many ways to cope with the additional tasks and responsibilities. This calls for basic reforms in concepts

1. Programme Budget classification was first introduced in last year's (1971-72) budget for only three Ministries—Education, Finance and Health—comprising seventeen departments. See, Programme Budgets for the Ministries of Education, Finance and Health (Extract from the Estimates of Revenue and Expenditure of the Government of Ceylon, October 1971 to December 1972) 1972.
2. It is expected that the four remaining Ministries—Defence and External Affairs; Irrigation, Power & Highways; Foreign & Internal Trade; Public Administration, Local Government and Home Affairs—will be converted to Programme Budget classification by next year.
3. Budget Speech, 1971-72, Minister of Finance, (1971), p. 37.

and procedures relating to government budgeting and fiscal administration. In this respect Programme Budget structure has a great deal to offer.

Traditional Budgeting vs Programme Budgeting: Some General Features

Traditional budgeting process in government generally embodies the following main characteristics: (i) budgets are organised in terms of executive departments and their sub-divisions, (ii) budgets usually cover a period of one year, and (iii) expenditure-budgets are input-oriented or control-oriented. The primary emphasis in the traditional budget-making process is on inputs or objects of expenditure—like personnel, materials, and other supplies—rather than on outputs or results achieved and/or the cost involved in relation to the end product or service arising from government outlays. While this emphasis on inputs or objects of expenditure serves well the objective of expenditure control, it provides little information on “what a government is actually doing and what it gets for the money spent”.⁴ The main focus of the traditional budgetary process is on matters such as expenditure authorisation, observance of appropriation limits by departments and their sub-divisions and financial accountability (to the legislature). Such considerations are, no doubt, important and necessary in government budgeting. However, it is increasingly recognised that as the government budget grows in size and complexity this type of expenditure-budgeting with input-orientation and/or control-orientation prepared and presented annually cannot properly be geared to meet the requirements of effective planning and management in budget making and budget implementation. Given the increasingly significant role of the government budget and its complexities in the present day context, the basis for the allocation of public funds, the linkage between the functionally-oriented spending plans and the goals or objectives and the evaluation of performance and effectiveness in public spending become matters of most vital importance. Programme Budgeting, in contrast to the traditional budgeting structure, provides a more systematic and rational approach for decision making in matters relating to the allocation of funds and for the evaluation of performance and results associated with the numerous and varied spending activities of the government.

In Programme Budgeting the government (expenditure) budget is organised primarily on the basis of ‘programmes’ and their sub-divisions rather than in terms of administrative units and objects of expenditure as the traditional budgets are usually organised. Programme Budget approach, which places considerable emphasis on the planning and management aspects in budgeting, is designed to organise the budget in terms of functions, programmes

4. *A Manual for Programme and Performance Budgeting*, (United Nations, New York 1965), p. 1.

and projects or activities related to specified goals or objectives. Programme Budget structure generally embodies three principal inter-related characteristics, which have been summarised as follows:⁵ (i) it involves the drawing up of meaningful programmes and operational sub-divisions designed to carry out the function or functions associated with a government agency or department, showing clearly the work objectives or goals wherever possible; (ii) the system of government accounting and financial procedures are suitably adapted so as to conform with the type of budget classification in terms of programmes and their sub-divisions; and (iii) under each programme and its operational sub-divisions work measurement and work-performance data and other yardsticks are established for evaluation of performance and efficiency in relation the work operations directed towards specified goals. Formulated in terms of functionally-oriented programmes with specific purposes and emphasising the relationships between outputs or accomplishments and the inputs necessary to achieve them, Programme Budgeting structure also provides a suitable basis to measure or evaluate performance in physical (and financial) terms. Within this basic programme structure it is possible to incorporate more advanced and sophisticated techniques of budget analysis and planning conforming to what has come to be known as "Planning-Programming-Budgeting system" (PPBS), which has been adopted recently in some advanced countries, particularly the United States⁶ and Canada. Planning-Programming-Budgeting, which is an extended and more refined version of Programme Budgeting structure, seeks to integrate long-term planning of governmental activities, programming of specific activities and the budgeting process. The main characteristics of this system centre around the following principles (i) appraisals and comparisons of various government work-programmes in relation national goals or objectives, (ii) assessment of how given objectives can be achieved with minimum expenditure of resources and (iii) the projection of government plans over a longer time horizon (and the revision of objectives and programmes in the light of experience and changing situations).⁷ A key element in the

5. *A Manual*, op. cit., p. 2. In our discussion, what is termed 'performance budgeting'—the principal emphasis of which is on the use of management tools, such as, work measurement, unit cost, and other standards of performance analysis—is treated as part of Programme Budgeting.
6. Programme Budgeting has found its early and extensive application in the United States. Early efforts to introduce new budgetary techniques began with the first Hoover Commission (1949) which recommended that the budgetary structure of the Federal Government should be re-organised by the adoption of a budget based on "functions, activities and projects".—designated as 'Performance budgets'. The second Hoover Commission (1955) re-emphasised its earlier recommendation and used the phrase 'programme budget', instead of the earlier one. The more advanced Planning-Programming-Budgeting system came to be first introduced in the Defence Department in 1961 and later in 1965, it was extended to cover all federal agencies. See, *Programme Budgeting: Programme Analysis and the Federal Budget*, David Novick (Ed.) Massachussets, 1965, and *The Planning-Programming-Budgeting System: Progress and Potentials, Report of the Sub-Committee on Economy in Government*, US (1967).
7. Arthur Smithies, Conceptual Framework for the Programme Budget, in *Programme Budgeting*, (Ed.) David Novick, op. cit., p. 26.

Planning-Programming-Budgeting system is the development of long-range planning and programme forecasts and the application of analytical or quantitative techniques (cost-benefit analysis', 'cost-utility analysis', 'cost-effectiveness analysis' and 'systems analysis' are the various names given to such quantitative techniques of analysis) to systematically examine alternative courses of action that might be proposed to achieve specified goals or objectives and to arrive at an appropriate 'mix' of programmes and projects given the available resources. It is obvious that the institution of a full scale Planning-Programming-Budgeting system would require a high degree of expertise at the executive level, a highly efficient administrative machinery and extensive application of refined quantitative techniques. To some extent these techniques are already in use in developing countries in the formulation of long-term or medium term plans, though not necessarily fully integrated with government budgeting.

Government Budgeting in Ceylon: Traditional Budgeting Process

Ceylon's traditional budgeting process is basically input-oriented and control-oriented. The annual estimates of expenditure are prepared, presented and authorised (by the legislature) in terms of standardised 'Votes' and 'Sub-heads'. The estimates of expenditure to be incurred during the financial year are prepared, subject to the overall priority allocation and control, in respect of each department under a particular ministry; and each department for the purposes of official appropriation represents a 'Head' of expenditure. Financial provision is authorised by the legislature in terms of Votes under each Head of expenditure. These Votes have been standardised into seven categories and they are listed below.

Vote 1— Personal emoluments and other allowances of staff.

Vote 2— Administrative charges—recurrent expenditure

Vote 3— Administrative charges—capital expenditure

Vote 4— Services provided by the department—recurrent expenditure

Vote 5— Services provided by the department—capital expenditure

Vote 6— Economic development—recurrent expenditure

Vote 7— Economic development—capital expenditure

The above is a very broad economic—functional⁸ classification. Votes 1, 2 and 3 cover administrative services; Votes 4 and 5 make provision for specialised services—including social services—provided by various government

8. Economic-functional classification combines the two types of expenditure classifications, namely, classification in terms of current outlays, transfer outlays and capital outlays, and classification in terms of functions performed or services undertaken such as, administration, defence, education, health and economic development. In the budget estimates the functional classification is in terms of very broad categories—Administration, Social services and Economic development; the division into capital and recurrent expenditure is incomplete and not very clear-cut. A more valuable and comprehensive economic—functional classification of government expenditure is regularly undertaken (outside the budget) by the Central Bank of Ceylon and published in its Annual Reports).

departments and Votes 6 and 7 provide for economic services and development expenditure incurred by the relevant departments engaged in such activities. The above classification also provides for capital expenditure (Votes 3, 5 and 7) and recurrent expenditure (Votes 1, 2, 4 and 6) separately. Each Vote is further divided into, and accounted for in terms of, numerous sub-heads, consisting of detailed cost-components. The number of sub-heads would vary depending on the activities of different departments. There are, however, many sub-heads common to all departments which cover the following categories: cadre and salaries; allowances; travelling and transport; stationery; office furniture and requisites; fuel, water, and electric current; rents and rates; maintenance of vehicles and other capital assets, etc. These and other sub-heads (and detailed 'items' under each) represent the inputs or objects of expenditure—personnel, materials and other supplies—for which financial provision is made under different Votes for each department to enable it to provide the services or undertake the various activities. The presentation of expenditure estimates and authorisation of financial provision on the basis of object-classification of expenditure constitute the outstanding feature of the traditional budget making process that existed for so long, and still exists, in Ceylon. Although the traditional budgeting process has served fairly well and met the relatively limited requirements of fiscal administration in the past, many of its disadvantages, especially in the context of a greater public sector involvement in the country's economic development, have been stressed more frequently in recent years. A major disadvantage of this type budget classification and presentation is that it gives no clear idea as to the objectives or purposes for which the authorised funds are to be spent or about the results to be achieved. Nor does this presentation reveal the cost of such outlays in relation to what is being accomplished. Broadly, the estimates show that a particular department is engaged in providing certain services, it employs staff at different levels and purchases materials and other supplies. The input-oriented budget does not provide a sound basis for budget planning and budget management because under this system no proper relationship could be established between the inputs of expenditure and the end-product or accomplishments arising out of many government spending activities. Whatever information available on various departments as to what they are doing and seeking to achieve in terms of outlays and results is largely outside the budget and is mostly post-budget information.

The Change-over to Programme Budgeting in Ceylon

The change-over from conventional budgeting procedures to Programme Budgeting would basically involve three important tasks. The initial task would be the one associated with the re-grouping of functions and operations of the departments or agencies into meaningful and identifiable programmes to evolve a purpose-oriented or objective-oriented programme structure for the whole budget. In the case of most operations (of a department) it should be possible

to group them under identifiable work-programmes. Programme formulation would also involve the drawing up of the operational components or sub-divisions, known as 'projects' or 'activities'.⁹ The other important and more or less simultaneous operation is that of integrating the system of accounting and financial procedures with the new budgetary classification in terms of programmes and their sub-divisions. Once the programme classification (together with their sub-divisions) and the accounting and financial procedures are integrated and harmonised, the next important job would be to evolve appropriate physical measurement data to evaluate performance or efficiency in various operations of the agencies or departments. This is perhaps the most difficult and complicated task in Programme Budgeting. The physical measures of performance can be of various types depending on the nature of work or service undertaken by different departments. The evaluation of performance might involve the measurement of physical output or end product, the volume of work-load and how it is accomplished, unit cost in relation to inputs and outputs, etc. The UN Manual identifies the following measures or indicators of performance at different levels:¹⁰ (i) productivity ratios that relate total resource use to the end product or service at the programme level; (ii) unit cost information that relates work completed to the cost of inputs used in carrying it out; (iii) work-measurement ratios that establish relationships between work completed and employment utilisation for the completion of the work, and (iv) work-load information that identifies the volume of work accomplished or to be accomplished. For each of these above categories appropriate units of measurement should be developed wherever possible to evaluate efficiency and performance at programme and project-levels. These measures are useful to evaluate performance under programmes and their sub-divisions within the department and for comparisons between similar types of operations in several departments. In addition to the physical measures referred to above techniques of cost-benefit analysis can also be used to evaluate the effectiveness of resource use in maximising benefits.

In the formulation of Programme Budgets for the relevant ministries and departments in Ceylon, the traditional budgetary classification has been re-designed on the basis of a three-tier structure consisting of 'programmes' 'projects' or 'activities' and 'objects'. Each programme is made to cover a group of functions or activities of a department which are undertaken for the purpose of accomplishing a major purpose or objective. Each department could have, and indeed it has, several programmes depending on the nature and scope of functions involved. Each programme has been sub-divided, into its com-

9. Projects or activities as sub-divisions of a programme are sometimes treated differently; the former are treated as part of investment programme for the purpose of producing capital goods and the latter are taken to mean a sub-division of programme devoted to the production of goods or services of current use. This distinction, however, is ignored here.

10. *A Manual*, op. cit., p. 94.

ponents, known as projects at the operational level, which will contribute to the accomplishment of the purpose or purposes associated with a programme. Each project is further sub-divided into relevant objects or the cost components, which identify the various inputs required for the work operations at the project level. The cost-components consist of various items and these have classified into twenty standardised categories.¹¹ The object-classification is still retained, but it is now a secondary classification unlike in the traditional presentation and the objects or inputs are now tailored to each programme and its sub-divisions. The Programme Budget structure has been organised so as to embody the following pattern and principal characteristics:¹² (i) statement of main objectives, functions and general work programme of the department, (ii) department summary of expenditure by programme, listing the various programmes of the department, giving as well recurrent and capital expenditure separately and (iii) each programme is divided into (a) programme expenditure by project, showing the appropriate breakdown of the programme into its operational sub-divisions and the sources of finance, (b) employment summary showing the cadre assigned by the department for carrying out the total work effort of the programme and (c) project expenditure by object, showing for each project the expenditure in terms of objects or cost-components. Apart from the narrative account about functions, objectives and general work programmes of departments, in many cases the specific activities and operations falling under each project have also been enumerated. In the programme budget classification the terms such as 'Votes', 'Sub-heads' and 'Item' used in the traditional budget presentation are still retained for the purposes of appropriation requests (as a temporary measure) and are made to correspond to programmes, projects and objects respectively in the new classification.

To illustrate the Programme Budget structure that has been introduced the Dept. of Health (chosen quite arbitrarily) is taken up for detailed study.¹³ Of the total estimated expenditure for the Ministry of Health for the year 1973 (Rs. 282,526,262) the biggest share (Rs. 269,969,605) is allocated to the Dept. of Health. For budgeting purposes the functions and activities of the Dept. of Health are grouped under four programmes with their corresponding project sub-divisions. These programmes, which will cover the entire work to be under-

11. The standardised categories consist of the following: Salaries and wages; allowances and other compensation; travelling expenses; transportation of things; communication services; utility services; rents; other services; supplies and materials; repairs and maintenance of equipment; repairs and maintenance of structures, facilities and other capital assets; interest and dividends; grants subsidies and contributions; awards and indemnities; pensions, retirement benefits and gratuities; equipment outlay; loan re-payments and sinking fund contributions; land, land improvements; investment outlay; and loans outlay.
12. Explanatory Note on the Form of Estimates, 1973, Estimates of Revenue and Expenditure of the Government for the financial year 1st January 1973 to 31st December 1973, (Draft Estimates), Vol. 1, 1972, p. (i) (Financial year now corresponds to the calendar year).
13. All the relevant details on programme/project classifications and estimates are drawn from the Estimates of Revenue and Expenditure, op. cit., Vol. II, pp. S7-S11.

taken by the Dept. of Health have been drawn up indicating the broad purposes or goals to be achieved. The programme classification with the relevant project sub-divisions (showing as well recurrent and capital expenditures separately) are listed below:

(1) Vote (Programme) 8: *Medical Services*

(recurrent expenditure)

- Sub-head (project) 1: Hospital services (general)
- Sub-head (project) 2: Hospital services (tuberculosis)
- Sub-head (project) 3: Assistance to private organisations and local authorities
- Sub-head (project) 4: Maintenance of buildings and facilities (capital expenditure)
- Sub-head (project) 101: Construction of permanent improvements
- Sub-head (project) 102: Purchase of equipment and vehicles
- Sub-head (project) 103: Improvement of co-operative hospitals

(2) Vote (Programme) 9: *Public Health Services*

(recurrent expenditure)

- Sub-head (project) 1: General preventive services and environmental sanitation
- Sub-head (project) 2: Family health
- Sub-head (project) 3: Health education
- Sub-head (project) 4: School health including school dental health
- Sub-head (project) 5: Quarantine
- Sub-head (project) 6: Eradication of malaria
- Sub-head (project) 7: Eradication of filariasis
- Sub-head (project) 8: Leprosy control
- Sub-head (project) 9: Venereal diseases control (capital expenditure)
- Sub-head (project) 101: Purchase of equipment and vehicles
- Sub-head (project) 102: Environmental sanitation and facilities

(3) Vote (Programme) 10: *Laboratory Research and Specialised Services*

(recurrent expenditure)

- Sub-head (project) 1: Laboratory services
- Sub-head (project) 2: Other diagnostic and ancillary services
- Sub-head (project) 3: Maintenance of equipment

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Sub-head (project) 4: Medical research studies, routine investigations and production of vaccines
(capital expenditure)

Sub-head (project) 101: Purchase of equipment and vehicles

(4) Vote (Programme) 11: General Administration and Staff Services

(recurrent expenditure)

Sub-head (project) 1: General administration

Sub-head (project) 2: Training and scholarships

Sub-head (project) 3: Transport services
(capital expenditure)

Sub-head (project) 101: Construction of permanent improvements

Sub-head (project) 102: Purchase of equipment and vehicles

The total estimated expenditure (Rs. 269,969,605) for the Dept. of Health has been allocated between the different programmes in the following manner:

Table 1
Dept. of Health (Head 155)

Dept. Summary of Expenditure by Programme
(Est. 1973, Rs.)

<i>Vote (Prog- ramme) No.</i>	<i>Vote (Programme)</i>	<i>Recurrent expenditure</i>	<i>Capital expenditure</i>	<i>Total</i>
8	Medical Services:	170,652,372	8,087,898	178,740,270
9	Public Health Services:	52,681,185	1,260,010	53,941,195
10	Laboratory Research and Specialised Services:	15,598,920	1,645,000	17,243,920
11	General Administration and Staff Services:	19,859,210	185,010	20,044,220

For one of the programmes listed above namely Medical Services—which expenditure-wise is the biggest item—the proposed outlays in terms of project sub-divisions with the relevant estimates are shown in the following table:

Table 2
Programme Expenditure by Project
Vote (Programme) 8: Medical Services

<i>Sub-head (project) No.</i>	<i>Sub-head (project)</i>	<i>(Est. 1973 Rs.)</i>
	<i>(recurrent Expenditure)</i>	
1	Hospital Services (general)	160,159,652
2	Hospital services (tuberculosis)	8,891,653
3	Assistance to private organisations and local authorities	1,268,557
4	Maintenance of buildings and facilities	332,510
	Total recurrent expenditure	170,652,372
	<i>(Capital expenditure)</i>	
101	Construction of permanent improvements	2,453,898
102	Purchase of equipment and vehicles	5,559,000
103	Improvement of co-operative hospitals	75,000
	Total capital expenditure	8,087,898
	Total expenditure	178,740,270

Finally, the various cost-components or objects of expenditure (limited to recurrent expenditure) of one of the projects, namely Hospital services (general)—under the programme Medical Services—are listed in the table below:

Table 3
Project Expenditure by Object

Sub-head (project) : Hospital services (general)
(recurrent expenditure)

<i>Item (object code)</i>	<i>(Est. 1973, Rs.)</i>
01 :	Salaries and wages : 96,390,532
02 :	Allowances and other compensation : 14,035,200
	Total personal emoluments : 110,425,732
03 :	Travelling expenses : 2,620,000
04 :	Transportation of things : 337,000
05 :	Communication services : 230,000
06 :	Utility services : 3,768,000
07 :	Rents : 392,840
08 :	Other services : 1,168,000
09 :	Supplies and materials : 37,662,580
10 :	Repairs and maintenance of equipment : 160,000
11 :	Repairs and maintenance of structures, facilities and other capital assets : 20,000
16 :	Equipment outlay : 3,375,000
	Total recurrent expenditure : 160,159,652

In the above programme budget classification for the Dept. of Health (giving only selected items) the proposed outlays are shown in terms of fairly specified work-programmes directed towards some common purpose or purposes. Although it would appear that the Dept. of Health will be engaged in more or less the same types of functions and activities as allowed for in the traditional budgetary framework there is, however, a fundamental difference in the basic approach to budget making in the programme budget structure. Basically it is designed to enable the particular department to plan out more systematically the work it undertakes or the service it provides and to execute them more efficiently. The grouping of the work and functions of the Dept. of Health under different programmes intended to accomplish major objectives, the division of the programmes into various projects which are the operational components of such programmes and linking the required objects of expenditure or inputs to the different projects should provide a sound basis for a better budget formulation and management. By relating the purposes and objectives with the different work programmes (and their sub-divisions) for which the allocations of funds are accordingly made and by providing on the same basis the relevant information on the costs of respective programmes, the programme budget structure can contribute effectively to the legislature's role in relation to the government budget. It also enables the legislature to exercise more effective control over government activities; and the question of expenditure control and review by the legislature acquires greater relevance and meaning in the programme budget framework. The executive branch, which is intimately associated with the formulation and execution of the budget, finds in the programme budget structure an appropriate mechanism for sound budgetary planning, for exercising effective control and supervision over the operations and activities of the government departments and for evaluating the efficiency of the performance of programmes by comparing costs and achievements wherever applicable.

The change-over from the conventional budgeting to Programme Budgeting, which may have to be spread over a number of years, will inevitably give rise to many problems during the early stages. What has been accomplished so far in Ceylon is confined largely to the first phase involving the restructuring of the expenditure budget to conform to the new budgetary classification. As more experience is gained in the actual operation of the new budgetary arrangements many refinements and improvements can and will have to be introduced. As it is, the programme budget structure reflects much of the traditional department-centred classifications; this is to some extent inevitable in the initial phase. In many cases the programme objectives or goals are stated in rather broad terms; they have to be more specific as far as possible. Programme classification should reflect the more clearly defined functional tasks and responsibilities in the conduct of government business. Many departments have programmes related to the same broad governmental function and in such cases there should be effective co-ordination in programme

formulation without, of course, endangering organisational responsibilities. It is also important that programme classification in relation to various agencies or departments should reflect more clearly the broad national goals in relation to various fields of governmental activities. As Programme Budgeting becomes more fully operational it would be useful and necessary to undertake on a systematic basis pre-budget evaluation of alternative ways of accomplishing departmental programmes and goals. Government budgeting in Ceylon is still too much of an annual affair. With the introduction of the new budgetary structure emphasis should be given to the planning of government activities over a longer time period into which the operational (annual) Programme Budgets can be integrated. This will no doubt take the budget much closer to the national development plans or programmes, their implementation and the achievement of their goals.

A great deal remains to be done in relation to performance analysis and evaluation in the programme budget structure that has been introduced. In this respect a significant start has already been made in the budget structure by providing for physical measurement of work and work performance at the project level through "project work measurement" on a highly selective basis for the departments in the ministries of Finance, Education and Health, where programme budget classification has been introduced a year earlier. The project work measurement schedule has been drawn up to furnish information and quantitative data,¹⁴ wherever possible, on the following items at the project level: (i) units of work measurement giving suitable units of physical measurement of the work involved at the level of project operations; the work units chosen will differ as between projects and within the same project depending on the nature of work operations; (ii) units of unfinished work at the beginning of the year and total work units on hand during the year; (iii) total work units accomplished (actual/estimated), giving information on total work units accomplished in the past year and total work units estimated to be realised during the current period; (iv) total man-years of employment engaged in direct project operations; (v) rate of production per man year which expresses the relationship between total work units accomplished (iii) and total man years of employment in direct project operations (iv), and (v) cost per unit of work which relates the total project expenditure to total work units accomplished. Such data given in terms of project work measurement are useful both at the budget preparation level and subsequently at the operational level to assess efficiency in work operations of particular projects. In many work operations at the project level the staff time utilised for purely administrative work can be considerable. The projects which involve purely administrative work under departmental programmes are named as "general administration". On this basis information on administrative cost is provided by way of "general

14. Programme Budget; Form of Submission, Annex-SA & 81, General Treasury, Ministry of Finance (unpublished) 1972, p. 64, 72 & 73.

administrative employment ratio" and "administrative expense per man year". General administrative employment ratio expresses the relationship between total man years of employment for the department (or ministry) and the total man years of employment engaged in general administrative work in the department concerned. Administrative expense per man-year shows the relationship between total expenditure of the project, general administration, and the total man years of employment for the department as a whole (or ministry). In the two schedules referred to above the quantitative information is given only in a limited number of cases; and it is expected that their coverage will be extended to most other projects. Gradually additional measures or indicators of performance will have to be introduced to evaluate efficiency at the programme or departmental level in the new budget system.

Although Programme Budgeting embraces both current and capital budgets of the government, the latter, no doubt, have special importance in the context of the country's development efforts. The approach to the government capital budget in Ceylon (under the conventional budgetary arrangements) has changed and become more rationalised to some extent in recent years. Since the mid-sixties and largely under influence of "project-oriented"¹⁵ annual development plans or programmes some significant improvements were effected with regard to both the technical and administrative aspects in planning; consequently the allocation of capital funds through the government budget came under close scrutiny, and a system of 'progress control' or evaluation in the execution of capital projects was also introduced in some key departments. In the preparation of the annual budgets the Ministry of Planning and Economic Affairs (and later the Ministry of Planning & Employment) was entrusted with a greater responsibility for the capital budget (and supporting outlays) of the government with a view to securing proper allocation of investment funds and better coordination between the government capital budget and development programmes. As the management of the country's foreign exchange resources began to assume greater importance, the proper co-ordination between the domestic budget, development programmes and the foreign exchange budget

15. Immediately after 1965 the government approach to planning was summed up in the following words: "It is not the immediate objective of the new planning organisation to devote all its energies at the initial stage towards the preparation of a macro economic plan..... Rather, the objective at present is to concentrate on the formulation of concrete programmes for the key sectors of the economy and the identification and preparation of specific projects suitable for early implementation and where relevant, for external financing. It is expected that the various elements of a comprehensive overall plan would emerge out of this work", quoted in Albert Waterston, *Recommendations on Economic Planning in Ceylon*, IBRD, Colombo, 1966, p. 1. During the late 'sixties important steps were taken to improve the functional classification of budgetary expenditure and to provide estimates of expenditure, particularly those involving developmental outlays, on the basis of programme/project classification. These efforts resulted also in an earlier attempt to formulate Programme Budgets (1969/70) for departments in a few Ministries. For such and other related developments during the 'sixties, see, R. M. Withana, *Introduction of Programme and Performance Budgeting in Ceylon*. (Academy of Administrative Studies, Colombo 1973).

became all the more important. Nevertheless, the degree of integration between government budgeting and development plans or programmes still leaves a great deal to be desired. Programme Budgeting can perhaps provide the best remedy to correct this situation as it helps to achieve what is referred to as the "structural integration between the plan and the budget".¹⁶ Both development plans and Programme Budgets possess the same basic approach and concepts and employ more or less the same terminology. Programmes and objectives and their operational units (projects), physical inputs and results and the evaluation of performance in relation to costs involved, are all features common to both an operational development plan and Programme Budgeting. It has been observed quite rightly that "these similarities in form and operational orientation make Programme Budgeting particularly suited for plan implementation and evaluation of plan progress".¹⁷ In this connection, the planning of government activities within the framework of medium or long term overall development plan and the integration (within this framework) of the annual Programme Budgets and the operational development plan might provide the best arrangement. Where public expenditures to finance capital projects and supporting outlays constitute the hard core of an overall development programme, Programme Budgeting can be very useful. When development programmes and their implementation are hampered seriously by the deficiencies in budgetary process and arrangements in Ceylon, a properly developed and administered programme budget structure should be able to correct many of the deficiencies and contribute more effectively to the achievement of development goals.

Proper allocation of resources and efficiency in the management of resource use in government activities are two of the most important objectives that a government budget should seek to achieve. These tasks become more complex as the size of the government budget becomes larger and the scope of government activities becomes more diverse. Generally the allocative decisions involve two basic problems at two levels. Firstly, there is the question of allocating resources conforming to broad policy goals at the aggregate level; this involves questions about basic choices to be made—such as, for instance, how much of the total resources available should be devoted to education, health, economic development, etc. Such basic allocative decisions are usually based upon judgments governed by a number of considerations, including political, social and economic considerations. Budgetary techniques or quantitative techniques of analysis, however sophisticated they may be, can at best only provide the relevant information in a systematic manner for the authorities to make the decisions. Once such basic decisions about priorities at the broad policy level

16. Gamani Corea, *Planning and Budgeting, Proceedings of a Seminar on the Role of Audit in a Developing Country*, Ceylon Branch of the Commonwealth Parliamentary Association, (Colombo, 1966), p. 30.

17. *A Manual*, op. cit., p. 13.

are made then at the lower level the task of decision making (e.g. how best the resources allocated to, say, education can be distributed in order to achieve the desired goals) is rendered more effective by the kind of budgeting process, procedures and techniques in operation. This is where programme budgeting structure and techniques are particularly useful; at this level they not only provide a rational approach to decision making but help to secure the efficient use of resources. The type of programme budgeting structure envisaged in Ceylon is still a relatively "simple" one; but more sophisticated techniques and procedures can be introduced at a later stage. The success of the new budgetary arrangements and the advantages to be gained from them will depend, needless to say, on their effective implementation. Programme budgeting structure because of its complexity will require a more efficient executive machinery for both its formulation and implementation. The administrative organisation at all levels should be properly geared to programme-project implementation and evaluation of progress more systematically; the new budgetary arrangements will particularly require an efficient system of information and reporting that will provide reliable data to facilitate the evaluation of progress in relation to programme accomplishments. There is no doubt that the demands that will be made by the new budget system on the country's administrative machinery will be greater than those of the traditional budgetary arrangements. In view of the many technical and administrative problems involved in setting up a programme budget structure in Ceylon it would be desirable to adopt a selective and/or gradualist approach to this aspect of budgetary reform. To start with, it is advisable to bring under Programme Budgeting only certain areas of the government budget, either those that involve large outlays or those closely associated with economic development, so that all efforts can be concentrated on a few selected areas. Gradually it can be extended to cover other areas. However, the present policy seems to favour a more or less complete switch-over to Programme Budgeting within a period of two or three years. This will require during the initial phase itself considerable changes in both technical and organisational aspects so as to ensure a high degree of planning and management effort at all the key levels of budget-making and budget implementation.