



මුදල් කොමිෂන් සභාව

(අන්දමුළු වෘත්තව 154 "අ" වෘත්තව යටතේ පිහිටුවන ලදී.)

நிதி ஆணைக்குழு

(அரசியலமைப்பின் 154 "அ" க்கும் உறுப்பினரின் கீழ் தாபிக்கப்பட்டது.)

FINANCE COMMISSION

(Established under Article 154 "R" of the Constitution)

03, සරණ මාවත, රාජකීරිය, ශ්‍රී ලංකාව.
இல. 03, சரண மாவத்தை, ராஜகிரியா, இலங்கை.
03, Sarana Mawatha, Rajagiriya, Sri Lanka.

මගේ අංකය }
எனது இல. }
My No. }

FC/PRP/08/01/2021

ඔබේ අංකය }
உமது இல. }
Your No. }

දිනය } 2021.09.21
திகதி }
Date }

His Excellency Gotabaya Rajapaksa
President of the Democratic Socialist Republic of Sri Lanka
Presidential Secretariat
Colombo 01

Your Excellency,

In terms of Article 154R (4) of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Finance Commission is required to make recommendations as to "the principles on which such funds are granted annually by the Government for the use of Provinces, should be apportioned between the various Provinces".

Accordingly, I am pleased to submit the recommendations of the Finance Commission in respect of the apportionment of the funds to be allocated from the Annual Budget for the use of the Provincial Councils during the year 2022.

Yours faithfully,

Sumith Abeysinghe
Chairman
Finance Commission

සභාපති }
தலைவர் }
Chairman }

{(+94)011 2866724

ලේකම් }
செயலாளர் }
Secretary }

{(+94)011 2866824

කාර්යාලය }
அலுவலகம் }
Office }

{(+94)011 2866747

ෆැක්ස් }
தொலைநகல் }
Fax }

{(+94)011 2866671

විද්‍යුත් තැපෑල }
மின்னஞ்சல் }
E-mail }

{(+94)011 2866679 } info@fincom.gov.lk



FINANCE COMMISSION

RECOMMENDATIONS TO H.E. THE PRESIDENT FOR THE YEAR 2022

*In terms of Article 154 R (4) of the Constitution of
the Democratic Socialist Republic of Sri Lanka*

September 2021

Contents

	<i>Page No.</i>
Contents	- i
List of Annexures	- ii
01. Introduction	- 01
02. Constitutional Directives, Policy Guidelines, and Other Matters Considered in Making Recommendations	- 03
03. National Budget and Government Grants to the Provincial Councils	- 06
04. Assessment of Capital and Recurrent Needs for Recommending Grants to the Provincial Councils	- 09
05. Recommendations on Apportionment of Government Grants Among Provincial Councils - 2022	- 17
06. Recommendations for Rational Allocation and Efficient Utilization of Resources at Provincial Level	- 20
Annexures	- 25

List of Annexures

- Annexure-01 : Provincial GDP and Provincial Share of National GDP (2015 – 2019)
- Annexure-02 : Statistical Highlights of Major Sectors and Service Delivery by National and Provincial Agencies in figures
- Annexure-03 : Provincial Capital Need Request, Recommendation, Budgetary Allocation and Imprest Released (2016 - 2020)
- Annexure-04 : Breakdown of the Assessed Provincial Total Recurrent Expenditure for 2022
- Annexure-05 : Request on Advance B Account for 2022
- Annexure-06 : Provincial Devolved Revenue Targets and Collections (2019- 2022)
- Annexure-07 : Social Assistance Allowance Paid to Patients by the Provincial Councils in 2021

CHAPTER 1

Introduction

1.1 Background

The Finance Commission was brought into being along with the establishment of the Provincial Councils by the 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka which was promulgated in 1987. In line with Articles 154A- 154Q of the Constitution relating to the establishment of the Provincial Councils, the Provincial Councils Act No. 42 of 1987 was enacted to create a broader governance framework for proper functioning of those entities. With the enactment of their own finance statutes and other statutes by the Provincial Councils on subjects devolved to them, now they have a comprehensive governance framework and an institutional set up which has been evolved during the last 34 years.

Provincial Councils are responsible for service delivery pertaining to devolved subjects referred to in List I of the Ninth Schedule to the Constitution as well as shared responsibilities on subjects referred to in List III of the same Schedule. Since their own revenue is now very meagre, the largest chunk of resources needed for the service delivery of Provincial Councils are met from the funds allocated by the National Budget based on the Recommendations of the Finance Commission.

1.2 Finance Commission and its Mandate

Article 154 R of the Constitution of the Democratic Socialist Republic of Sri Lanka provides the provisions for the establishment of the Finance Commission and spells out its functions. The mandate of the Finance Commission as specified in Articles 154 R (3), (4) and (5) of the Constitution is as follows.

Article 154 R (3) The Government shall, on the recommendation of, and in consultation with, the Commission, allocate from the Annual Budget, such funds as are adequate for the purpose of meeting the needs of the provinces.

Article 154 R (4) It shall be the duty of the Commission to make recommendations to the President as to;

- a) the principles on which such funds are granted, annually by the Government for the use of Provinces should be apportioned between the various Provinces; and
- b) any other matter referred to the Commission by the President relating to Provincial finance.

Article 154 R (5) The Commission shall formulate such principles with the objective of achieving balanced regional development in the country, and shall accordingly take into account-

- a) the population of each Province;
- b) the per capita income of each Province;
- c) the need, progressively, to reduce social and economic disparities; and
- d) the need, progressively, to reduce the differences between the per capita income of each Province and the highest per capita income among the Provinces.

1.3 The Tasks Performed by the Finance Commission

The main function of the Finance Commission is to make Recommendations to the Government on allocation of adequate funds from the Annual National Budget to meet the needs of the Provinces along with the principles pertaining to the apportionment of such funds between nine Provinces with the objective of achieving balanced regional development in the country in terms of the Constitutional provisions referred to in 1.2 above. In this process, taking into consideration the matters referred to in the Chapter 2 of this report, the Finance Commission

- i. provides Guidelines to the Provincial Councils on the preparation and submission of their needs of resources annually.
- ii. assesses the needs of the Provincial Councils after detailed discussions with Provincial Authorities
- iii. makes recommendations for allocation of funds required by the Provincial Councils from the National Budget and the apportionment of such funds between the Provinces.
- iv. issues Guidelines to the Provincial Councils on apportionment of funds allocated by the National Budget among various sectors within the Provincial Councils
- v. assists the Provincial Councils in formulating their Annual Development Plans to ensure the efficiency and effectiveness of use of funds.

The Recommendations made by the Finance Commission adhering to the Constitutional requirements referred to in 1.2 above and following the steps i, ii, and iii referred to above are explained in Chapters 4 and 5 of the report. In lieu of Policy Recommendations customarily submitted by the Commission to H.E. the President the present Commission has proposed in Chapter 6 of this report a number of measures aimed at enhancing the efficiency in allocation and utilization of resources at National and Provincial levels and also on removal of certain anomalies experienced by the Provincial Councils.

Upon the receipt of the Recommendations of the Finance Commission, H.E. the President submits those to the Cabinet of Ministers seeking approval to table the same in Parliament. Thereafter, as required under Article 154 R (7) of the Constitution H.E. the President causes those Recommendations to be laid before Parliament.

CHAPTER 2

Constitutional Directives and Policy Guidelines, and Other Matters Considered in Making Recommendations

The Finance Commission makes these Recommendations in a comprehensive manner with the assessment of the needs of the Provinces in consultation with the Provincial Authorities and officers of the Department of National Budget and Department of National Planning taking into consideration the following matters referred to in sub para 2.1 to 2.7 below.

2.1 Constitutional Directives (including the need for balanced regional development)

Cardinal Principles followed by the Finance Commission in making these Recommendations are the Constitutional Provisions referred to in 1.2 in Chapter 1 of this report.

2.2 National Policy Guidelines

In order to ensure that the Provincial Councils also adhere to the national policy priorities, the Finance Commission guided them in their need assessment in the first instance and in formulating their development plans subsequently giving due consideration to the following documents which spell out the policy priorities of the Government.

- ❖ The National Policy Framework of the Government, “Vistas of Prosperity and Splendor” which is a Home-grown development strategy aimed at achieving the fourfold outcome of a productive citizenry, a contented family, a disciplined and just society and a prosperous nation. The key policies prioritized in the framework have given due consideration to socio- economic, environmental and political dimensions.
- ❖ Gazette No. 2187/27 dated 09/08/2020 issued by the Presidential Secretariat where key priorities of main sectors are also outlined among other things.

2.3 Identification of Needs at Grassroots Level

The Vision of the Government and its recent announcements indicate reforms and restructuring in many areas aiming at better socio-economic performance in the country by identifying needs at grassroots level.

Accordingly, the following priorities have been identified.

- Taking measures to build a production economy protecting local farmers, local entrepreneurs and industrialists.
- Provision of drinking water to the people across the country.
- Maintaining of adequate facilities in schools and encouraging students to follow science and technical subjects. Also, importance is to be given to pre-schools, education reforms, skills development and technical education.
- Maintaining of adequate resources and facilities in rural hospitals and eliminate discrepancies in the delivery of free health care services and also preserving and promoting Ayurvedic and indigenous medical system.
- Rehabilitation the tanks and developing irrigation system across the country and make adequate water available during the cultivation.

- Creation of Job opportunities for youth to enable them to contribute productively in economic activities to the country promoting self-employment and entrepreneurship.
- Establishment of an agriculture-based modern economy.
- Development of urban and rural infrastructure facilities and housing.
- Adoption of a new approach based on technology in production sectors including methodical development of traditional industries.
- Establishment of an efficient, speedy and convenient service delivery to the public.

The Finance Commission took into consideration the above issues in the assessment of needs of the Provincial Councils and making its recommendations.

2.4 Other Government Policy Directives (Cabinet Decisions)

The Cabinet of Ministers has made certain observations and given certain directives in the past on the perusal of the Recommendations of the Finance Commission as well as the observations made by H.E. the President pursuant to submitting the same to the Cabinet.

The Commission took a serious note of these observations and directives, as well as certain decisions taken by the Cabinet from time to time in relation to certain devolved subjects as well as concurrent subjects referred to in the Constitution.

2.5 Dialogue with the Provincial Councils

The Finance Commission has been conducting continuous discussions throughout the year with the Provincial Authorities regarding their needs as well as issues and challenges faced by them. These discussions were helpful for the Commission to identify the issues of the Provincial Councils which should be urgently attended and also to find the solutions through the Recommendations submitted to H.E. the President.

The most critical issues identified through the discussions with the Provincial Councils which are needed to be addressed on a priority basis are included in our Recommendations at Chapter 6 “Recommendations for Rational Allocation and Efficient Utilization of Resources in Provincial level”.

2.6 Socio-economic Status of the Provinces

All Provinces contribute fairly to national economy with the possible and dominated sector activities (please see Annex-1). Implementation of various strategies and programmes, aiming at balanced regional development contributes towards narrowing regional disparities. However, the country still experiences disparities and income inequalities in significant levels among the Provinces, as well as areas which are lagging behind within the Provinces. It is noted that economic development and opportunities are unevenly spread and most of the economic activities take place within the Western Province making it as core region in the country.

The demographic and economic position and the endowment of resources in the Provinces show variation between and among the nine Provinces. The land extent including inland water bodies of these nine Provinces varies from 5.6 % to 15.9 % of total area of the country and the Provincial population varies from 1.1 million to 6.1 million (2019). Though the Western Province is geographically the smallest Province, it contains the largest portion of the population (28 %) in the country. The highest contribution to the GDP (39%) is also recorded from the Western Province and whereas, the Northern Province represents the lowest contribution (4.7%). Contribution of each of the balance four provinces i.e. Northern, North Central,

Uva and Eastern is less than 6 % to the national economy. The situation of those 4 provinces is more or less same in respect of poverty condition and other socio-economic indicators as shown in the following table.

Table - 01: Selected Physical, Demographic and Socio-Economic Indicators of Provinces

Provinces	Land Area 2019 (Sq.km.)	Mid-year Population 2019 (000)	Provincial GDP 2019 (Rs. Bn)	Median Monthly Per Capita Income 2016 (Rs. Per person per household)	Poverty Head Count Ratio 2016	All candidates qualified for universities -Science Stream 2020(%)	Persons per Medical officer 2019
Western	3,684	6,149	5,849	14,400	1.7	29.1	768
Central	5,674	2,766	1,719	9,890	5.4	10.8	1080
Southern	5,544	2,654	1,491	11,253	3.0	17.3	1291
Northern	8,884	1,143	711	8,434	7.7	5.8	1016
North Western	7,888	2,551	,1610	11,420	2.7	11.0	1488
North Central	10,472	1,377	816	11,248	3.3	4.5	1338
Uva	8,500	1,376	806	10,139	6.5	5.5	1517
Sabaragamuwa	4,968	2,058	1,145	9,711	6.7	9.5	1463
Eastern	9,996	1,729	866	8,261	7.3	6.5	1095
Sri Lanka	65,610	21,803	15,013	11,307	4.1	100.0	1070

Source: Central Bank of Sri Lanka, Department of Census and Statistics, Department of Examinations

Certain Information on major sectors and service delivery by National and Provincial agencies is attached as Annex -2.

2.7 Sustainable Development Goals and Sub-national Level Development Framework

Sri Lanka being a country which pursues egalitarian and welfare policies has achieved a commendable success in reaching many human development indicators which are embodied in the Sustainable Development Goals (SDGs). However, as a member of the international community which adopted the Global Agenda-2030 for Sustainable Development Sri Lanka has embodied virtually all elements of these goals in its development strategy which places people at the center of the development process. In our guidelines issued to the Provincial Councils, instructions were given to formulate their Medium-term Integrated Development Plan and Annual Development Programme of each Provincial Council incorporating National Policy Framework and the goals and targets of SDG framework.

CHAPTER 3

National Budget and Government Grants to the Provincial Councils

3.1 Constitutional Provisions on Fiscal Devolution

There are three distinctive tiers of governance in Sri Lanka, i.e., the Central Government, Provincial Councils and Local Government Authorities with the demarcation of the areas of legislative and executive to be exercised by each of them. It should be noted that the third tier of governance (the Local Government Authorities) comes under the purview of the Provincial Councils as a devolved subject. The subjects and functions of the Government (Centre) and the Provincial Councils have been specified in the Ninth Schedule to the Constitution in three lists as the Provincial Councils List (powers devolved to the Provincial Councils), the Reserved List (powers of the Centre), and the Concurrent List (subjects of shared responsibilities).

The public investment and service delivery at sub-national levels should be performed by the spending agencies of the Government, and also spending agencies of the Provincial Councils including Local Government according to the Constitutional arrangements and statutes of the Provincial Councils. The Provincial Councils are responsible for the implementation of activities in the Provincial Council List and have shared responsibilities under the Concurrent List.

In terms of public service delivery to the people, the subjects assigned to the Provincial Councils are extensive and those include Education, Health, Local Government, Provincial and Local Roads, Agriculture, Irrigation, Social Services, Probation and Childcare, Rural Development and Sports etc. The Provincial Council List also includes the sources of revenue to be collected by the Provincial Councils. However, those sources do not generate revenue at sufficient levels to fulfill the devolved responsibilities at all. Therefore, it is necessary to provide adequate funds to the Provincial Councils by the Treasury to fulfil these responsibilities.

3.2 Meeting the Expenditure Needs of the Provincial Councils

From the inception, the government had to provide funds to the Provincial Councils to meet their expenditure since their revenue generation from the sources devolved to them under the Constitution was not at all sufficient to meet their expenditure needs. Especially, after the abolition of the Nation Building Tax (NBT) in 2019, now this need is actually felt.

In addition to the Recurrent Needs for the delivery of services on devolved subjects as well as subjects in the Concurrent List including Health and Education, the Provincial Councils are also required to undertake development activities aiming the balanced regional development through Capital Grants received by them. However, the amount of funds received from the Treasury, for Capital Expenditure has been very much less than the amount recommended by the Finance Commission for that purpose as seen in the table at Annex-3. When look at the amount finally received by them in the form of imprest which is about 59 % of the budgetary allocation for the last 5 years. Presumably, in recognition of this situation, the previous

Commission in its Recommendations submitted to H.E. the President last year opined that at least 30% of the total Capital Expenditure be given to the Provincial Councils. When compared with some the other countries with similar level of devolution, even this percentage seems to be low.

Apart from the inadequacy of funds made available to the Provincial Councils, the Finance Commission observes that there are two other anomalies pertaining to this matter. The first one is that the Capital funds received by the Provincial Councils on selected devolved subjects are very much less than the amount received by the Line Ministries/ State Ministries for the same subjects. The second anomaly is that the Capital Expenditure as a ratio of Recurrent Expenditure of the Provincial Councils is very much less than the same ratio for the entire Government as seen in the table below.

Table- 02: Allocation of Capital and Recurrent Expenditure at National and Provincial Levels for the year 2021

Rs. Billion		
Expenditure Item	National Agencies	Provincial Councils
Capital Expenditure	1095.01 (28.9%)	40.50 (11.4 %))
Recurrent Expenditure	2694.15 (71.1%)	314.00 (88.6 %)
Total	3789.16 (100%)	354.50 (100 %)

Even though there are some justifications for the high level of Recurrent Expenditure in the Provincial Councils as the number of public servants serving in the Education and Health sectors are high in the Provincial Councils compared to those in the Centre, this ratio has to be improved in favour of Capital Expenditure if the desired level of regional development is to be achieved.

3.3 Types of Government Grants to the Provincial Councils from the National Budget

The Finance Commission recommends the following Government Transfers in the form of Grants to the Provincial Councils under Recurrent and Capital Expenditure from the National Budget.

- a) **Block Grant (BG)** meets Recurrent Expenditure needs of the Provinces for the purpose of sustaining and improving the public service delivery. Personnel Emoluments based on approved cadre is the major component of the Recurrent Expenditure. The assessed Recurrent Needs of the Provincial Councils include the transfers to the Local Government Authorities and the expenditure on maintenance of capital assets. The largest chunk of the Recurrent Expenditure is met from the Block Grant as the amount of revenue collected on devolved revenue sources are very small.

- b) **Provincial Specific Development Grant (PSDG)** is for financing capital nature development Programmes with special attention to infrastructure and community development in various sectors under the devolved subjects. The financial provisions under PSDG are made for implementation of the Provincial Annual Development Plans under the guidance of the Finance Commission which is formulated by the Provincial Councils in a common integrated planning framework in line with the respective Medium-Term Development Plan.
- c) **Criteria Based Grant (CBG)** is also another form of grants recommended for the Provincial Councils for discretionary spending on development related activities within an agreed financing framework mainly on decentralized budget for the Provincial Councilors and also on small sectors which could not be accommodated under PSDG and also the development of infrastructure and capacity building of implementing agencies.
- d) **Revenue Performance Grant (RPG)** is recommended to the Provincial Councils in order to encourage them to improve their revenue performance. This is a development oriented small grant pivoted on annual incremental devolved revenue collections. The Provincial Councils have discretionary power to use this grant for capital related development Programmes.

CHAPTER 4

Assessment of Capital and Recurrent Needs for Recommending Grants to the Provincial Councils

The Finance Commission considered the followings in the Assessment of requirements for making its Recommendations for grants to the Provincial Councils from the National Budget.

- a) Constitutional Mandate, Policy Guidelines, and other matters referred to in Chapter 2 of this report.
- b) The total expenditure projection of the Government for the year 2022 (as shown in the printed Estimates for 2021)
- c) The Capital and Recurrent Expenditure requirements submitted by the Provincial Councils seeking Government grants for the year 2022
- d) Socio-economic status of the Provinces
- e) The needs for equitable and balanced regional development
- f) The Recommendations of the Finance Commission in the recent past and the observations of H.E. the President and the Cabinet decisions pertaining to these recommendations
- g) The findings of consultative meeting conducted with stakeholders and findings of certain studies

4.1 National Budget Projections and the Past Recommendations of the Commission

The Government Estimates 2021 has a clear direction and framework with five-year figures consisting of revised estimate for past two years, the estimate for current year and projection for next two years. Accordingly, the projected amounts of expenditure budget of the Government for the year 2022 are Rs. 2,789,707.1 million and Rs. 1,040,839.5 million for Recurrent and Capital Expenditure respectively.

The Finance Commission in recent years has recommended that the expenditure budget allocation to the Provincial Councils should be based on a sound service delivery system in the National Budget incorporating the dimensions of devolution framework as well as SDG framework. In addition, it was also recommended that the duplications in fund allocation between the Line Ministries and the Provincial Councils should be avoided in the devolved and concurrent subjects and funds should be allocated directly to the Provincial Councils treating these entities as Special Spending Units.

4.2 Expenditure Requirements of Provincial Councils and Assessment of Grants by the Finance Commission

The Finance Commission issues Guidelines to the Provincial Councils to identify the Recurrent and Capital Needs separately. Based on the Guidelines, the Provincial Councils prepare their annual needs of both Capital and Recurrent nature and submit their Annual Capital and Recurrent Expenditure Requirements seeking Government Grants from the National Budget.

Each Provincial Council has its own Medium-term Integrated Development Plan prepared in a comprehensive manner in line with the Government development strategy and SDG framework. The expenditure requirements for Annual Implementation Plan have been identified by taking into consideration the targets and timeframe of the medium-term plans for financing from different sources of funds. Accordingly, the Capital Expenditure requirement of the Provincial Councils for a particular year is prepared for the purpose of implementing their development plans utilizing funds received from the National Budget in the form of PSDG.

The Recurrent Expenditure Requirements of the Provincial Councils have been worked out by respective Provincial Councils taking into consideration the institutional and operational arrangements, approved cadre, maintenance of assets, transfers to Local Government Authorities and Statutory Bodies of the Province and other requirements of recurrent nature in a standard format. The expenditure requirements of each Provincial Council are reviewed and finalized by the Finance Commission in the consultation with Provincial Authorities and relevant authorities at national level. At the same time, the estimated devolved revenue collections of Provincial Councils are also prepared and reviewed. The total amount of Recurrent Grant is finalized by deducting the total assessed devolved revenue and the revenue transferred from the Government from the total assessed Recurrent Expenditure.

The Provincial Councils receive funds in the following forms for their service delivery and development activities.

- a) Bulk of the funds from the National Budget to meet the capital needs comes in the form of Provincial Specific Development Grant and the lesser amount in the form of Criteria Based Grant (This time a small amount has been recommended in the form of Revenue Performance Grant which also can be used for activities of capital nature).
- b) Funds requirements of the Provincial Councils for recurrent expenditure come in the form of Block Grant.
- c) Funds received from the Line Ministries when implementing their programmes/ Projects through the Provincial Councils.
- d) Allocation for implementation of provincial component of special projects which are financed by the donor agencies.

The requirements submitted by the Provincial Councils have been assessed by the Finance Commission for recommending the grants referred to in (a) and (b) above.

Provincial Medium-Term Development Plan and Capital Expenditure Requirements of Provincial Councils

To achieve the objective of balanced regional development by reducing regional disparities through harnessing development potential of the region, the Provincial Councils have formulated Medium-Term Development Plans for the respective Provinces. These plans follow a multi-sector integrated results-based approach. The sector and sub-sector performance targets with a timeframe to achieve the goals are well defined in the plans, together with tentative annual financial requirements.

In line with the National Policy Framework and development goals, the Medium-Term Integrated Development Plan of the Provinces and mandatory service delivery of the Provincial Councils, each Provincial Council has developed an Agency Results Framework (three year rolling plan), which incorporates the results framework for every sector under their purview in a standard structure. Based on this Agency Result Framework of the Provincial Councils, the annual provincial expenditure needs have been determined by the Provincial Councils for financing in the form of Government grants to the Provincial Councils from the National Budget and submitted to the Finance Commission.

4.3 Assessment of Expenditure Needs of the Provincial Councils for Government Grants

4.3.1 Assessment of Grants to the Provincial Councils - Capital

Assessment of needs for Capital requirement of the Provincial Councils for Capital Grants have been assessed based on the information provided by the Provincial Councils as per the formats given by the Finance

Commission after consultative meetings with the participation of respective Provincial Councils and the Departments of National Budget and National Planning. The following sectors are common for sectoral allocation within all the Provinces under PSDG and will be incorporated in the Provincial Annual Development Plan. Additional sectors also could be incorporated according to the specific needs of a particular Province with proper justifications.

- | | | |
|----------------------------------|-------------------------|--------------------|
| * Education | * Provincial Roads | * Land Development |
| * Western Medicine | * Estate Infrastructure | * Irrigation |
| * Indigenous Medicine | * Transport | * Agriculture |
| * Sports | * Housing | * Livestock |
| * Probation and Childcare | * Rural Electrification | * Inland Fisheries |
| * Social Services | * Local Government | * Small Industries |
| * Cultural and Religious Affairs | * Tourism | |
| * Co-operative Development | * Rural Development | |
| * Early Childhood Development | | |

While assessing the requirements of Capital Needs for programmes under the above sectors for the year 2022, a flexible amount to address the identified gaps in the Provincial Sector programme, funds for rehabilitation of assets, an amount to cater to the requirements of villages with special needs and an amount for transfers to the Local Governments for capital nature investments agreed by the Finance Commission have been earmarked for each Provincial Council under PSDG. In addition, the Criteria-Based Grant comprises the expenditure requirements of institutional infrastructure, Provincial Decentralized Budget programme, small sectors which are not included under PSDG and supplementary activities of the sector programmes.

The Provincial Capital needs for each sector have been identified by sector agencies and compiled into the Annual Capital Needs of the respective Provincial Councils for financing under Provincial Specific Development Grant (PSDG). In assessing the Capital Expenditure requirement, priority was given to funds needed for the completion of continuation works and new work items already prioritized in their Mid-term Development Plan.

As per the Guidelines of the Finance Commission on Capital Need Assessment of the Provincial Councils, fund requirements for each Sector of the Provincial Councils have been identified by the sectoral agencies of the province considering the Medium-Term Sectoral Results Framework that has been updated annually taking into account the National Policy framework, development potentials of the region and priorities and finally submitted to the Finance Commission seeking sufficient funds for the ensuing year.

Pursuant to the assessment of the needs in consultation with the Provincial Authority, officers from the Department of National Budget and the Department of National Planning, the Commission wishes to recommend the amounts to be granted to the Provincial Councils under two options.

Option 01

Option 01 which has been already informed to the Treasury is presented taking in to consideration of the followings;

- i. The responsibility cast on the Commission by the Constitution to recommend “such funds as are adequate for the purpose of meeting the needs of the Provinces” which implies need of assessing

the resources required for the Provincial Councils irrespective of other considerations such as the fiscal constraints faced by the Government

- ii. Provincial Councils possess a well-developed planning framework on which those entities have developed 5-year Medium-term Plans and Annual Development Plans and therefore identification of needs has been done in a comprehensive manner taking into consideration the felt needs of each sector
- iii. Anticipating that the government will accept the Recommendations that at least 20% of Total Capital Expenditure of the Government be allocated to the Provincial Councils (The previous Commission opined that this percentage should be 30%)
- iv. The fact that only the fraction of funds recommended for the Provincial Councils annually were made available to them and therefore the existence of huge backlock of work the Provincial Councils have to complete
- v. The acutely felt need to provide adequate funds for rehabilitation of assets of Provincial Councils which were not maintained for the last two years since funds were not allocated for maintenance during the last two years
- vi. Need to provide resources to Provincial Authorities to undertake essential work of Capital nature (at present only the funds for the salaries of the employees and the government approved allowances are being provided by the government)
- vii. The escalation of prices of commodities including construction materials in compared to previous years

Accordingly, under this option, the Finance Commission wishes to recommend to following amounts:

i.	Provincial Specific Development Grant (PSDG)	-Rs. 200 Billion
ii.	Criteria Based Grants (CBG)	- Rs. 17 Billion
iii.	Revenue Performance Grant	-Rs. 3 Billion
	Total	- Rs. 220 Billion

It would be pertinent to mention that the above proposal does not entail an additional expenditure exceeding the total Capital Expenditure of the Government for the year. It only expects to channel funds on devolved subjects to the Provincial Councils which are currently being allocated to the Line Ministries and the State Ministries (some of which do not have an institutional capacity to implement projects at regional level).

Table – 03(a): Assessed Amount of Capital Grants to Provincial Councils for 2022 (Option 1)

Provincial Council	Assessed Amounts for 2022 (Rs. Mn.)			
	PSDG	CBG	RPG	Total
Western	14,840	1,261	223	16,324
Central	22,220	1,889	333	24,442
Southern	20,240	1,720	304	22,264
Northern	25,760	2,190	386	28,336
North Western	20,100	1,708	302	22,110
North Central	22,900	1,946	344	25,190
Uva	24,620	2,093	369	27,082
Sabaragamuwa	23,960	2,037	359	26,356
Eastern	25,360	2,156	380	27,896
Total	200,000	17,000	3,000	220,000

Option 02

The Finance Commission wishes to submit recommendation under this option considering the followings.

- i. It is very likely that the Government will continue the practice hitherto followed in allocating considerable amount of funds on devolved subjects and also on subjects in the Concurrent List to the Line Ministries / State Ministries, in the appropriation bill for the next year too (instead of channeling to the Provincial Councils)
- ii. Also the likelihood of allocating funds to the Line Ministries through budget proposals on devolved subjects
- iii. Due to the possible reduction of Total Capital Expenditure of the Government as a result of fund constraints, the available funds to the Provincial Councils (at the anticipated rate of 20%) will be lesser than expected
- iv. Possible restrictions on the construction of new buildings also as a result of fund constraints

Accordingly, on the second option the Finance Commission wishes to recommend the following amounts.

- i. Provincial Specific Development Grant (PSDG) - Rs. 90 Billion
- ii. Criteria Based Grants (CBG) - Rs. 7 Billion
- iii. Revenue Performance Grant (RPG) - Rs. 3 Billion
- Total - Rs. 100 Billion**

Table – 03 (b): Assessed amount of Capital Grants to the Provincial Councils – 2022 (Option 2)

Provincial Council	Assessed amounts for 2022 (Rs. Mn.)			
	PSDG	CBG	RPG	Total
Western	6,678	519.4	223	7,420.4
Central	9,999	777.7	333	11,109.7
Southern	9,108	708.4	304	10,120.4
Northern	11,592	901.6	386	12,879.6
North Western	9,045	703.5	302	10,050.5
North Central	10,305	801.5	344	11,450.5
Uva	11,079	861.7	369	12,309.7
Sabaragamuwa	10,782	838.6	359	11,979.6
Eastern	11,412	887.6	380	12,679.6
Total	90,000	7,000.0	3,000	100,000.0

The Finance Commission will issue a set of Guidelines to formulate the Annual Development Plans by the Provincial Councils for the Grants to be provided under PSDG enabling to maintain a uniform planning framework among nine Provincial Councils. As customarily done, after the consultative process with the participation of relevant stakeholders, the Commission grants its concurrence for Annual Development Plans prepared by the Provincial Councils.

4.3.2 Assessment of Grant to the Provincial Councils - Recurrent

Summary prepared by using the requests submitted by all Provincial Councils as recurrent expenditure worked out by them based on the guidelines issued by the Finance Commission is given below.

Table - 04: Requirement of Recurrent Expenditure Submitted by the Provincial Councils for 2022

Provincial Council	Approved Cadre as at 31/03/2021	Recurrent Expenditure Needs (Rs. Million)		
		Personal Emoluments	Other Recurrent Expenditure	Total Recurrent Expenditure
Western	63,922	50,084	35,359	85,443
Central	50,113	38,245	15,406	53,651
Southern	46,478	34,777	12,327	47,104
Northern	36,294	26,938	9,149	36,087
North Western	47,962	34,723	11,096	45,819
North Central	29,961	22,126	6,872	28,998
Uva	33,152	22,830	6,365	29,196
Sabaragamuwa	38,601	31,689	9,506	41,195
Eastern	37,668	29,062	8,938	38,000
Total	384,151	290,473	115,019	405,492

The Recurrent Needs submitted by Provincial Councils have been assessed by the Finance Commission through review discussions with the participation of respective Provincial Councils, the Department of National Budget and the Department of Management Services. The expenditure requirement on Personal Emoluments in the recurrent needs was assessed on the basis of total cadre approved by the Department

of Management Services to the Provincial Councils. This recurrent expenditure includes transfers of salaries and relevant allowances of Road Development Authority, Passenger Transport Authority and Early Childhood Development Authority of the Provincial Councils and also the transfers to the Local Authorities.

In addition, essential needs for other recurrent expenditure including maintenance cost and loans to public officers were considered during the assessment of recurrent needs of the Provincial Councils. Accordingly, the Recurrent Expenditure consists of the following components.

<p>Personal Emoluments</p> <ul style="list-style-type: none"> - Salaries and Wages - Overtime and Holiday Payments - Other Allowances 	<p>Other Recurrent Expenditure</p> <ul style="list-style-type: none"> - Travelling Expenses - Supplies - Maintenance Expenditure - Contractual Services - Transfers (Local Government Authorities, Provincial Road Development Authority, Provincial Passenger Transport Authority, Early Childhood Development Authority and other transfers) - Other recurrent expenditure
--	--

The Commission also wishes to recommend that the funds for maintenance of capital assets be allocated in order to avoid future cost of rehabilitation especially in view of the fact that the funds for this purpose were not available during the last two years (Please see the Recommendation 5 (a) of the Chapter 6). The budgetary provisions required for the implementation of that recommendation is given in column 5 of Annex-4.

The Commission has considered the request made by the Provincial Councils to provide reasonable allocations for the payments of public servants' loans as the demand has been increased and Provincial public officers cannot access to eligible government loan schemes due to insufficient funds in Provincial revolving fund. Therefore, a sum of Rs. 18.33 billion has been included in the recommendations for providing loans for the Provincial public servants in the year 2022 (please see the Annex-5).

Requirement of adequate fund allocation for social assistance to diseased, differently abled persons, indigent, elderly persons and deprived children has also been included under Other Recurrent Expenditure. However, the Finance Commission of the view that a fair amount be paid for the above target groups at uniform rates which should be applicable across the Provinces. However, the extra funds such amounts need to be paid have not been incorporated in assessed figures as our need assessment was done on existing scenario. Therefore, the Finance Commission wishes to recommend that additional provision be granted over and above the assessed amounts referred to in column 7 of Annex-4.

Provincial Revenue Sources

i) Transfer of Government Revenue

Pursuant to the introduction of Nation Building Tax (NBT) in 2011, Secretary to the Treasury by the Fiscal Policy Circular No. 01/2010 has introduced a mechanism to transfer the revenue collected by the Government from the following sources to the Provincial Councils.

- a) 33 1/3% of the Nation Building Tax (NBT)- (with effect from 01st December 2019, the Government decided to abolish the NBT)
- b) 100% of Stamp Duty
- c) 70% of Vehicle Registration Fees

ii) Revenue Collection from Sources devolved to the Provincial Councils

Although there are 20 devolved revenue sources comprising of tax revenue and non-tax revenue that are listed in 36.01 to 36.20 in the Ninth Schedule of the Thirteenth Amendment to the Constitution, the main sources of Provincial revenue at present include only Motor Vehicle License Fees, licensing fees on liquor sales outlets as the stamp Duty and Court Fines collected by the Provinces are transferred to the Local Authorities.

Revenue Estimates for the Year 2022

In the assessment of grant for Recurrent Expenditure, the estimated revenue of the Provincial Councils including

- i) devolved revenue targets of the Provincial Councils and
- ii) estimated transfers of Government revenue to the Provincial Councils

should be taken into consideration. The details of Provincial devolved revenue targets and collections (2019-2022) are given in the Annex- 6. It should be noted that after the abolition of Nation Building Tax (NBT) in 2019 now the amount of revenue transferred from the Government has become less important. The transfer of Government Revenue to the Provincial Councils has to be estimated by the Department of Fiscal Policy and such amounts have not been taken into consideration in this assessment, as that Department has not yet made available these estimates to the Finance Commission. Therefore, the assessment of Block Grant to the Provincial Councils was done by deducting only the estimated devolved revenue of the Provincial Councils from the total amount of assessed Provincial Recurrent Expenditure as shown in the table 5 which is given below.

Table – 05: Assessed Amount for Recurrent Grant to Provincial Councils for 2022

Provincial Councils	Recurrent Expenditure in Rs. Mn.		
	Assessed Recurrent Needs	Devolved Revenue Target	Block Grant (After deducting the devolved revenue)
Western	70,697	6,475	64,222
Central	47,025	2,065	44,960
Southern	43,196	1,762	41,434
Northern	32,743	1,095	31,648
North Western	42,185	2,482	39,703
North Central	26,545	1,267	25,278
Uva	28,668	999	27,669
Sabaragamuwa	37,306	1,377	35,929
Eastern	34,865	847	34,018
Total	363,231	18,369	344,861

Note: The expected transfers of revenue from the Treasury has not been deducted from the Assessed Recurrent Needs.

CHAPTER 5

Recommendations on Apportionment of Government Grants Among Provincial Councils - 2022

5.1 Recommendations and Apportionment of Capital Grants

Following the forgoing Need Assessment process and making Recommendations of funds for the Provincial Councils based on the criteria referred to in previous chapters and also taking into consideration the need for alleviating social and economic disparities among the Provinces, the Commission also has to make Recommendations on apportionment of such funds among various Provinces as required by Article 154 R (4) of the Constitution. To facilitate this process, the Finance Commission in collaboration with the Department of Census and Statistics developed a statistical formula adopting a multivariate statistical technique called “Factor Analysis” for the apportionment of Capital funds among the Provinces in a rational manner. The following Provincial level variables have been incorporated to construct the index.

- Mid-Year Population of the Province
- The Land Area of the Provinces
- Provincial Gross Domestic Product
- Number of Poor Population of the Province
- Median per capita income of the Province
- No. of Persons per Medical Officer in the Province
- Percentage of candidates qualified for universities in Science Stream in the Province

Provincial data were obtained on the above mentioned variables from the Department of Census and Statistics, Central Bank of Sri Lanka and Department of Examination. In order to construct a Composite Index, a Multivariate Statistical technique called Factor Analysis (FA) was used. Accordingly, the Commission recommends that the percentages shown in the Table 6 were used for the apportionment of Capital Fund among the Provinces, which were calculated using the Composite Index.

Table-06: Composite Index values and Percentages of each Province for Capital fund allocation

Province	Composite Index Value	Percentage Value of CI value
Western	0.67633	7.42
Central	1.01174	11.11
Southern	0.92192	10.12
Northern	1.17369	12.88
North Western	0.91576	10.05
North Central	1.04349	11.45
Uva	1.12125	12.31
Sabaragamuwa	1.09137	11.98
Eastern	1.15499	12.68
		100.00

5.2 Recommendations and Apportionment of Recurrent Grant

The grant for Needs of Recurrent nature to the Provincial Councils totally depends on the assessed final amount of Recurrent Expenditure requirements and the estimated revenue of respective Provincial Councils. The expenditure requirements and the devolved revenue targets of the Provincial Councils were assessed by the Finance Commission through review discussions with the participation of respective Provincial authorities and the officials of the Department of National Budget.

The Finance Commission recommends the Recurrent Grant to the Provincial Councils as the total amount of the assessed Recurrent Expenditure minus expected devolved revenue of those entities. The estimated transfers of Government revenue to the Provincial Councils which is a small component of total estimated revenue of Provincial Councils has not been included in revenue estimates shown in the 4th column in table 5 as these figures are not yet made available by the Department of Fiscal Policy.

Therefore, the Finance Commission recommends Recurrent grant to the Provincial Councils by deducting only the estimated devolved revenue from the total assessed amount of Recurrent Expenditure of the respective Provincial Councils.

5.3 Recommendation of Grants to Provincial Councils from the National Budget

The Capital and Recurrent Expenditure requirements of the Provincial Councils for the service delivery and its functions have been assessed by the Finance Commission in a consultative process with relevant stakeholders.

The total anticipated Capital Expenditure of the Government for the year 2022 (as shown in the printed Budget Estimates for the year 2021), assessed expenditure requirements of the Provincial Councils for service delivery, disparities among various provinces, the past Policy Recommendations approved for implementation and the outcomes from consultative meetings had with the Provincial Councils were taken in to serious consideration in making these Recommendations.

Finally, the Commission makes recommendations on apportionment of Government Capital and Recurrent grants among the Provincial Councils following the two options referred to in Chapter 4 of the Report.

Table – 07(a): Recommended Amounts of Capital and Recurrent Grants to Provincial Councils for 2022 under option 1

Provincial Council	Capital				%	Recurrent	%	Total	
	PSDG	CBG	RPG	Total		BG		Amount	%
Western	14,840	1,261	223	16,324	7.42	64,222	18.62	80,546	14.26
Central	22,220	1,889	333	24,442	11.11	44,960	13.04	69,402	12.29
Southern	20,240	1,720	304	22,264	10.12	41,434	12.01	63,698	11.28
Northern	25,760	2,190	386	28,336	12.88	31,648	9.18	59,984	10.62
North Western	20,100	1,708	302	22,110	10.05	39,703	11.51	61,813	10.94
North Central	22,900	1,946	344	25,190	11.45	25,278	7.33	50,468	8.93
Uva	24,620	2,093	369	27,082	12.31	27,669	8.02	54,751	9.69
Sabaragamuwa	23,960	2,037	359	26,356	11.98	35,929	10.42	62,285	11.03
Eastern	25,360	2,156	380	27,896	12.68	34,018	9.86	61,914	10.96
Total	200,000	17,000	3,000	220,000	100.00	344,861	100	564,861	100.00

Table – 07(b): Recommended Amounts of Capital and Recurrent Grants to Provincial Councils for 2022 under option 2

Rs. Mn

Provincial Council	Capital				%	Recurrent	%	Total	
	PSDG	CBG	RPG	Total		BG		Amount	%
Western	6,678	519.4	223	7420.4	7.42	64,222	18.62	71,642.4	16.10
Central	9,999	777.7	333	11,109.7	11.11	44,960	13.04	56,069.7	12.60
Southern	9,108	708.4	304	10,120.4	10.12	41,434	12.01	51,554.4	11.59
Northern	11,592	901.6	386	12,879.6	12.88	31,648	9.18	44,527.6	10.01
North Western	9,045	703.5	302	10,050.5	10.05	39,703	11.51	49,753.5	11.18
North Central	10,305	801.5	344	11,450.5	11.45	25,278	7.33	36,728.5	8.26
Uva	11,079	861.7	369	12,309.7	12.31	27,669	8.02	39,978.7	8.99
Sabaragamuwa	10,782	838.6	359	11,979.6	11.98	35,929	10.42	47,908.6	10.77
Eastern	11,412	887.6	380	12,679.6	12.68	34,018	9.86	46,697.6	10.50
Total	90,000	7,000	3,000	100,000	100.00	344,861	100.00	444,861	100.00

CHAPTER 6

Recommendations for Rational Allocation and Efficient Utilization of Resources at Provincial level

In the backdrop of unprecedented fiscal constraints experienced by the Government at present due to the Covid-19 pandemic, there is an acutely felt need of finding ways and means of deriving the maximum benefits out of very limited funds available for public investment. Therefore, with a view to

- facilitate the rational allocation of the resources between National and Provincial levels,
- emphasize the need of allocating sufficient amount of resources to the acutely felt areas/sectors in the Provinces,
- highlight certain anomalies experienced by the Provincial Councils vis a vis National Level Agencies, which need rectifications,

the Commission also wishes to submit the following recommendations in addition to the forgoing recommendations submitted in terms of the Constitutional requirements.

01. Providing adequate funds to Provincial Councils: Even though the Finance Commission is fully aware of the fiscal constraints experienced by the Government due to the Covid-19 pandemic, it wishes to make this recommendation as there is a possibility of providing some more funds to the Provincial Councils without being an extra burden to the Treasury. This is because every year the Line Ministries receive substantial amount of funds for certain activities of “devolved” nature which should have been received by the Provincial Councils in terms of the Constitutional Provisions. The Commission expects that at least a part of these amounts earmarked for such “devolved” nature activities be channelled to the Provincial Councils in future through the annual grant. The Commission also wishes to bring to the notice of the Government that the Provincial Councils are also aggrieved by the fact that not only the amount of funds allocated to them is very much less than the amount recommended by the Finance Commission but also the amount finally received in the form of imprest is also very much less than the approved allocation (as shown in the column 6 of the table at Annex-3). In the recommendations submitted to H.E. the President last year, the previous Commission opined that at least 30 % of the total Capital Expenditure of the government be allocated to the Provincial Councils. However, in cognizant of the fact that the Line Ministries/State Ministries have to invest heavily on National Programmes as well as on major development projects for the benefit of the entire country or a larger geographical area, the present Commission wishes to propose at least 20 % of the total Capital Budget be allocated to the Provincial Councils in the form of direct grants in future.

02. Consultation between the Provincial Councils and Line Ministries in identifying projects/activities to be implemented in Districts/Regions: During the discussions we had with the Provincial Authorities it was pointed out that there were certain instances where the projects/activities proposed by the line Ministries to be implemented in the provinces were not either actually felt needs of the Province or the locations decided by the Line Ministries were not really the most suitable locations. Therefore, the Commission wishes to request H.E. the President to issue a directive to all Line Ministries to obtain the views of the Provincial Councils in planning and implementation of such projects/programmes in the Provinces.

03. Identifying in advance the amount to be allocated under each devolved subject on Provincial and District basis: It will be useful if the amount to be provided by the Line Ministries and the State Ministries to each Province and District on devolved and concurrent subjects can be communicated to the Provincial Councils well in advance. Then the Provincial Councils will be in a better position to allocate rationally the limited funds they receive in order to address the regional specific felt needs of the Province. Non availability of the above mentioned information on Provincial and District basis has been identified as a problem faced by the Provincial Authorities in allocating funds on projects and programmes with a view to achieve the balanced regional development expected from those entities.

04. Getting the Provincial Councils more and more involved in the implementation of national development programmes and projects in Provinces and Districts: When compared with human resources available in regional/ district/ provincial sub offices of the Line Ministries/State Ministries, Departments and other Agencies in the Centre, the Provincial Councils have a well-established institutional setup which was evolved during the last 34 years. There is a huge potential of using them more and more in implementation of government programmes and projects instead of either expanding the sub-national level offices of those (Central) government Agencies or having project offices in the Provinces/Districts for implementation of their projects and programmes. While immensely appreciating the recent effort taken by the Government to make use of the institutional setup and human resources of the Provincial Councils in the implementation of government development programmes, the Commission wishes to recommend that those resources of the Provincial Councils be used more and more especially in the implementation of provincial components of special projects and national programmes on devolved and concurrent subjects implemented by the Line Ministries/ State Ministries.

05. Ensuring the availability of funds for certain activities in allocating funds for Provincial Councils:

- a) Providing funds for maintenance: Despite the strong justification given by the Finance Commission in the recent past, the Provincial Councils were not allocated funds for maintenance of capital assets during the last two years. This inevitably will result in the increase in expenditure for rehabilitation of capital assets in near future. In view of the importance of avoiding such costs by attending to the repairs during the current year, the Commission wishes to recommend that the availability of Rs. 13.3 billion (referred to in column 5 of Annex-4) for regular maintenance during the year be ensured by treating it as a high priority.
- b) Disadvantageous position faced by the small sectors within the province: The Annex-3 shows that the amounts requested by the Provincial Councils, the amounts recommended by the Finance Commission after careful need assessment, the amounts allocated by the Treasury and finally the amounts released to the Provincial Councils during the last 5 years which is in the region of 59 % of the budgetary allocation. Under this situation, if the practice of apportioning the Capital Grants given to the Provincial Councils among its major sectors in the printed Budget Estimates is to be continued, then the ability of

the Provincial Councils to allocate at least the bare minimum of Capital Funds for other devolved subjects will be very limited. The Commission expects that this situation be rectified.

- c) Social assistance to diseased, indigent/ needy segments of the society: By virtue of powers delegated to the Provincial Councils, the above activity is their sole responsibility. However, as shown in the table at Annex-7 the amounts paid to this category of persons are awfully inadequate and the amounts paid to people of similar categories are different from one Province to the other. It would be pertinent to mention that the Secretary to the Ministry of Health has recommended the payment of Rs. 5000 per month for each Tuberculosis (TB) patient during their treatment period. Therefore, taking all these into consideration with a view to address this situation, the Finance Commission wishes to propose that specific amounts (at the rate of highest amount paid at present to a particular category of patients by any of the Provincial Councils) be fixed by the government and funds be provided accordingly so that equal amounts can be paid to each category of beneficiaries across the Provinces.
- d) Grants to Local Authorities: Special Capital grant under the Provincial Specific Development Grant (PSDG) should be provided to Local Government Authorities as they are engaged in a considerable volume of work at community level.

06. Adoption of common and integrated planning mechanism in both National and Provincial levels: In specifying the responsibilities of the Finance Commission, in Article 154 R (5) of the Constitution the emphasis has been given for the need of formulating principles for allocation of resources with the objective of achieving “balanced regional development”. This Commission believes that this objective cannot be achieved only through the Provincial Council system primarily due to the fact that funds received by those entities are inadequate when compared to the resources available to the Line Ministries (even for the subjects of devolved nature) as stated in the Recommendation 1 above. Secondly, the agencies in the Centre (Line Ministries and State Ministries) have the responsibility of implementation of projects and programmes for the benefit of the entire country or larger geographical areas and therefore this influences heavily in the regional development. Therefore, there is a need for infusing the dimensions of regional development into the planning process of the Line Ministries/ State ministries. Hence, in working towards achieving “balanced regional development”, it is necessary to adopt a common and integrated planning mechanism focusing on this dimension and establishing a close collaboration among the agencies responsible for allocation of resources in the Centre (i.e. the Department of National Budget and the Department of National Planning) with Line Ministries/ State Ministries and also with the Provincial Councils which possess a well-developed planning mechanism. It is also suggested that when allocating funds by the Line Ministries for projects and programmes in provinces/ districts some ratios worked out in consultation with the Finance Commission and the Department of National Planning using certain criteria based on regional inequality be used so that regions which are lagging behind receive a fair share under these programmes.

07. Streamlining the rate of the beneficiary contribution on financial assistance granted under livelihood development programmes/ projects: The Finance Commission has issued guidelines stipulating that a

particular beneficiary should bear at least 50% of the cost (lesser percentage for the special programmes) when granting assistance under the livelihood development programmes/ projects to ensure the commitment from the part of the beneficiary and also to enable to provide assistance to a larger number of beneficiaries out of the resources available for that project. However, the beneficiary contribution in similar programmes/ projects by the Line Ministries sometimes in the same geographical area is either less or zero. Therefore, the Commission wishes to propose that a uniform rate of beneficiary contribution be adopted for the Provincial Councils and for the Line Ministries in implementing such programmes.

08. Avoiding anomalies in allocation of administrative cost on Construction Projects: The Finance Commission has advised the Provincial Authorities to follow the Procurement Guidelines in allocating the administrative cost for construction projects implemented by them. However, certain Line Ministries have issued instructions to allocate administrative cost at higher rates on certain projects implemented by them in Provinces/Districts. In order to rectify this anomaly, the Finance Commission recommends that a uniform system in allocating administrative cost by the Provincial Councils and the Line Ministries be maintained.

09. Treating the public servants at Provincial level are also equally in obtaining of loans: Due to the increase in the basic salary scales of the public servants and especially the increase in provincial cadre of the Provincial Education and Health sectors, the Provincial Authorities have been compelled to make requests to allocate sufficient funds annually for their Advance Account for provincial public servants as the current revolving fund in the provinces are not sufficient to meet the demand. In particular, the revolving funds have been so limited that provincial public servants have to wait for a very longer period to obtain loans/ advances than their counterparts in the Government, much to the frustration of the provincial public servants specially the employees of education and health sectors as pointed out by certain governors of the provinces. Therefore, considering the continuous requests made by the respective Provincial Councils, the Finance Commission recommends that Rs. 18.33 billion be additionally allocated for this purpose as shown in the Annex-05.

10. Harnessing the synergies of both allopathy and indigenous systems of medicines in the health service delivery: At present the health care services are delivered under both these systems through separate institutional arrangements in both preventive and curative segments. If the services of both these systems can be delivered in an integrated manner, the outcome will be more effective to the public. Usefulness of having such collaboration between these two systems was felt very much during the present pandemic. Therefore, it is suggested that the possibility be explored in getting these two groups to have an integrated mechanism in their service delivery

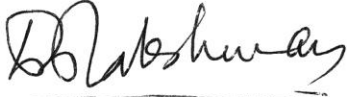
11. Classifying the Provincial Councils as Special Spending Units for budgetary Purposes: The present Commission also wishes to recommend that the above mentioned proposal submitted by the previous Commission last year which was also approved by H.E. the President and the Cabinet of Ministers be

implemented with effect from 2022. This will ensure the direct accountability of the Chief Secretaries to Parliament instead of the present practice of reporting through the Line Ministry, and will simplify the procedures of receiving funds by the Provincial Councils from the Treasury.

We submit these recommendations for your highest consideration.




Sumith Abeysinghe
Chairman




Deshamanya Prof. W. D. Laksman
Member (Ex-officio) and the Governor of the Central Bank of Sri Lanka



S. R. Attygalle
Member (Ex-officio) and the Secretary to the Treasury/Ministry of Finance



Sinnathamby Samithamby
Member (Appointed)



Razik Zarook
Member- (Appointed) and President's Counsel

Annexures

Provincial GDP and Provincial Share of National GDP (2015 – 2019)

Current Market Price		Rs. Mn.									
Provinces	2015		2016		2017		2018		2019		
	GDP	%	GDP	%	GDP	%	GDP	%	GDP	%	
Western	4,365,166	39.9	4,643,44	38.7	5,061,327	38.0	5,611,238	39.3	5,848,85	39.0	
Central	1,161,070	10.6	1,448,91	12.1	1,613,128	12.1	1,685,393	11.8	1,719,07	11.5	
Southern	1,105,453	10.1	1,203,32	10.0	1,332,555	10.0	1,446,749	10.1	1,490,53	9.9	
Northern	452,649	4.1	496,451	4.1	549,750	4.1	587,817	4.1	711,459	4.7	
North Western	1,162,834	10.6	1,297,33	10.8	1,455,091	10.9	1,490,768	10.4	1,609,56	10.7	
North Central	644,667	5.9	696,804	5.8	748,798	5.6	809,019	5.7	815,743	5.4	
Uva	609,781	5.6	617,033	5.1	772,204	5.8	795,990	5.6	806,391	5.4	
Sabaragamuwa	824,606	7.5	957,433	8.0	1,047,598	7.9	1,055,957	7.4	1,145,22	7.6	
Eastern	624,395	5.7	635,325	5.3	747,652	5.6	807,977	5.7	866,121	5.8	
Total	10,950,621	100.0	11,996,083	100.0	13,328,103	100.0	14,290,907	100.0	15,012,953	100.0	

Source: Annual Report 2020, Central Bank of Sri Lanka

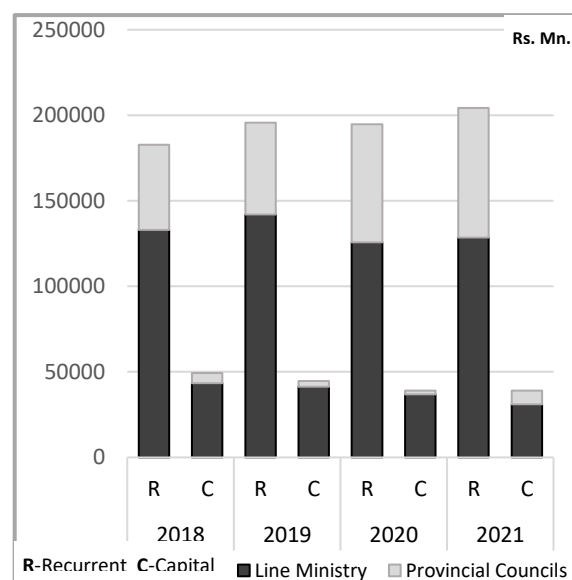
Highlights of Major Sectors and Service Delivery by National and Provincial Agencies in figures

a) Health Services

Table: A: No. of Hospitals with Beds strength (2020) and Recurrent and Capital Fund Allocation for Line Ministry and Provincial Health Ministries(2018-2021)

Hospitals	Line Ministry		Provincial Councils	
	Nos.	Beds	Nos.	Beds
National Hospitals	02	5,723	-	-
Teaching Hospitals	15	14,208	-	-
Specialized Hospitals	09	3,342	01	46
Provincial General Hospitals	02	3,970	-	-
District General Hospitals	11	7,952	09	4,872
Base Hospitals -Type A	04	1,339	24	7,256
Base Hospitals -Type B	03	718	50	7,675
Divisional Hospitals- Type A	01	228	75	6,108
Divisional Hospitals- Type B	01	54	138	7,535
Divisional Hospitals- Type C	01	59	258	6,032
Primary Medical Care Units	-	-	499	198
Total	49	37,593	1,054	39,722

Source: Ministry of Health



Source: Budget Estimates and Financial Statements of PCs

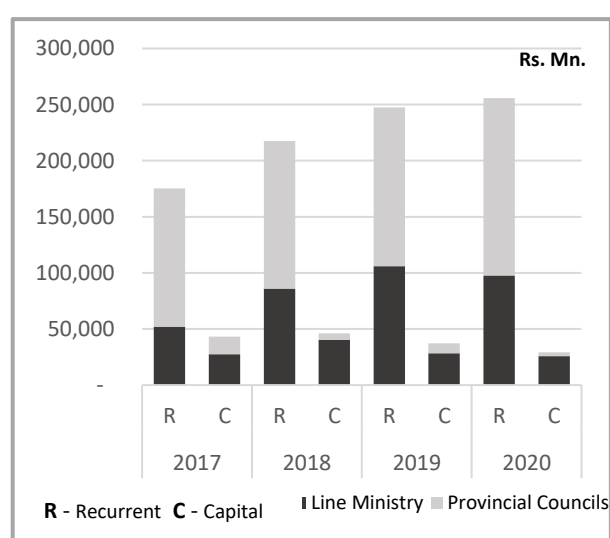
Note: Capital Allocation to PCs = PSDG+ HSDP

b) Education

Table B: No. of School and Students in National and Provincial Schools (2020) and the Recurrent and Capital Fund Allocation for Line Ministry and Provincial Councils (2017-2020)

Province	National School		Provincial School	
	Schools	Students	Schools	Students
Western	74	219,592	1,281	708,285
Central	54	89,133	1,464	448,840
Southern	67	156,262	1,040	361,135
Northern	22	28,538	963	194,795
North western	37	81,103	1,208	422,050
North central	15	33,725	800	264,006
Uva	36	50,994	860	236,829
Sabaragamuwa	28	71,198	1,091	318,359
Eastern	40	66,267	1,075	312,574
Total	373	796,812	9,782	3,266,873

Source: Department of Census and Statistics



c) Roads

Table C: Road Network - Length of Roads (km)-2019 and Budget Allocation (2014-2021)

Province	National Roads	Provincial Roads	Year	Fund Allocations to Provincial Councils for Road Sector under PSDG (Rs. Mn.)	
	A, B & Exp.	C & D		Provincial Departments	Local Government Authorities
Western	1,712	1,952	2014	1,979.0	887.0
Central	1,747	2,244	2015	2,234.0	1,001.0
Southern	1,609	1,630	2016	3,149.0	880.0
Northern	1,259	2,120	2017	1,754.0	478.0
North western	1,355	2,745	2018	3,670.0	612.0
North central	1,194	1,948	2019	3,706.0	1,040.0
Uva	1,164	2,371	2020	1383.0	809.0
Sabaragamuwa	1,225	2,623	2021	5,150.0	565.0
Eastern	1,171	1,121			
Total	12,436	18,754			

Source: Central Bank of Sri Lanka

d) Agriculture

Table D: Agriculture Sector and PSDG Allocation to Provincial Councils for 2021

Province	Agriculture Land Acres 2014	Employment in Sector 2019	No. of AI Offices	No. of Agricultural Operating Units-2017	PSDG Allocation 2021 Rs. Mn.		
					Agriculture	Livestock	Inland Fisheries
Western	458,360	5.2 %	56	243,094	75	55	5
Central	665,949	31.9 %	90	302,403	100	70	10
Southern	653,428	28.4 %	112	345,562	125	70	18
Northern	298,847	29.3 %	161	122,862	100	80	23
North western	928,422	27.1 %	46	382,150	105	70	28
North central	745,671	45.2 %	37	262,447	125	90	42
Uva	615,669	52.9 %	101	233,412	150	90	15
Sabaragamuwa	625,947	33.0 %	45	282,312	90	60	20
Eastern	411,038	29.5 %	123	137,101	200	125	25
Total	5,403,331	25.3 %	771	2,311,343	1,070	710	186

Sources: Department of Agrarian Services, Department of Census and Statistics

e) Local Government Services

Table E: Local Government Authorities and PSDG Allocations for their Service Delivery in 2021

Province	Municipal Councils	Urban Councils	Predeshiya Sabas	PSDG Allocations 2021 (Rs. Mn)
Western	07	14	28	114
Central	04	06	37	179
Southern	03	04	42	87
Northern	01	05	28	199
North Western	01	03	29	115
North Central	02	00	25	217
Uva	02	01	25	100
Sabaragamuwa	01	03	25	145
Eastern	03	05	37	146
Total	24	41	276	1,302

Provincial Capital Need Request, Recommendation, Budgetary Allocation & Imprest Released (2016 - 2020)

(Rs. Mn)

Year (1)	Amounts Requested by PCs (2)	Amounts Recommended by FC (3)	Budgetary Allocation (4)	Imprest Released (5)	Imprest released as a % of Budgetary Allocation (6)= 100*(5)/(4)
2020	102,137	99,000	15,376	12,756	82.96
2019	98,854	40,000	27,334	13,581	49.68
2018	82,588	57,000	25,788	16,148	62.61
2017	85,243	38,432	35,809	23,769	66.37
2016	62,385	56,000	33,061	15,537	46.99
Total	431,207	290,432	137,368	81,791	59.54

Source: Finance Commission, Dept. of National Budget

Breakdown of the Assessed Provincial Total Recurrent Expenditure for 2022

(Rs. '000)

Province	Total Personal Emoluments including Local Government Transfers	ORE							Total Recurrent Expenditure
		Other Recurrent Expenditure							
		Travelling	Supplies	Maintenance	Contractual Services	Transfers without LGT	Other Recurrent Expenditure	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9) = (3+4+5+6+7+8)	(10) = (2+9)
Western	62,142,581	463,310	1,454,120	2,300,000	2,667,516	1,668,153	1,540	8,554,639	70,697,220
Central	42,098,166	337,423	677,578	2,030,000	982,760	894,819	3,909	4,926,489	47,024,655
Southern	38,358,997	423,695	976,523	1,065,000	1,268,770	1,102,755	-	4,836,743	43,195,740
Northern	28,552,691	185,305	852,375	1,305,000	871,762	715,160	260,749	4,190,351	32,743,042
North Western	37,446,881	536,681	951,493	1,210,000	897,023	1,143,222	200	4,738,619	42,185,500
North Central	22,904,179	273,079	635,906	1,460,000	814,113	457,026	252	3,640,376	26,544,555
Uva	24,916,875	288,936	798,702	1,021,100	914,223	727,999	600	3,751,560	28,668,435
Sabaragamuwa	32,942,983	301,219	687,192	1,630,000	991,098	743,821	10,020	4,363,350	37,306,333
Eastern	30,889,661	241,153	757,756	1,310,000	1,007,262	649,715	9,485	3,975,371	34,865,032
Total	320,253,014	3,050,801	7,791,645	13,331,100	10,414,527	8,102,670	286,755	42,977,498	363,230,512

Request on Advanced B Account for 2022

(Rs. '000)

Province	Request on Advanced B Account
(1)	(2)
Western	3,654,450
Central	1,500,000
Southern	4,719,000
Northern	650,000
North Western	2,837,000
North Central	1,191,934
Uva	700,000
Sabaragamuwa	2,334,350
Eastern	750,000
Total	18,336,734

Provincial Devolved Revenue Targets and Collection (2019- 2022)

Rs. Mn.

Provinces	2019		2020		2021	2022
	Targets	Collections	Targets	Collections	Targets	Targets
Western	26,385	21,987	26,750	19,521	25,400	23,175
Central	4,078	3,677	4,195	3,304	4,650	3,940
Southern	4,366	4,580	4,550	4,359	4,846	4,037
Northern	1,580	1,990	1,860	2,074	2,135	2,345
North Western	4,707	4,678	4,970	4,438	5,110	5,252
North Central	1,541	1,691	1,826	1,904	1,951	1,812
Uva	1,495	1,389	1,605	1,416	1,640	1,629
Sabaragamuwa	2,195	2,720	2,275	2,350	2,900	2,477
Eastern	1,640	1,523	1,725	1,637	1,780	1,752
Total	47,987	44,235	49,756	41,005	50,412	46,419

Note: Provincial Devolved Revenue Targets and Collections are included Stamp duty and Court Fine

Social Assistance Allowance Paid to Patients by the Provincial Councils in 2021

(In Rupees)

Province	Cancer	CKD		Leprosy	Thalassemia	Tuberculosis ***	Special Disease Treatment
	Amount Paid per person	Amount Paid by the Government per person *	Amount Paid by Provinces per person**	Amount Paid per person	Amount Paid per person	Amount Paid per person for 6-7 Months	Amount Paid per person
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Western	1000	5000		1000	1000	3000	
Central	1000	5000	700	1000	1000	1000	
Southern	450-700	5000		450-700	700	450-700	
Northern	5000	5000	3000	5000	5000	5000	1500- 3000
North Western	1500	5000	2000	1000	1500	5000	500
North Central	1500	5000		3000	3000	3000	3000
Uva	3000	5000	3000	3000	3000	450-750	3000
Sabaragamuwa	250-500	5000		250-500	250-500	5000	
Eastern	250-500	5000	500	250-500	500	5000	

* Payment referred to in column no.(3) are being paid directly by the Government.

** Payment referred to in column no.(4) are being paid by the Provincial Councils to the CKD patients who are not receiving the payments directly from the government.

*** The Secretary to the Ministry of Health by his letter no. NPTCCD/SS/2018-Temp and dated 22.05.2021 has advised PCs to pay Rs.5000/= per month for a Tuberculosis patient. This directive has not been implemented yet by some Provincial Councils.