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நிதி ஆணைக்குழு

Finance Commission

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2024 වර්ෂය සඳහා

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இலங்கை ஜனநாயக சோசலிசக் குடியரசின் அரசியலமைப்பின் உறுப்புரை 154R (4) பிரகாரம்

கௌரவ ஜனாதிபதிக்கு 2024 ஆம் ஆண்டிற்காக சமர்ப்பிக்கப்பட்ட பரிந்துரைகள்

RECOMMENDATIONS SUBMITTED TO THE HON. PRESIDENT

In terms of Article 154R (4) of the Constitution of the

Democratic Socialist Republic of Sri Lanka

for the year 2024

2023 ඔක්තෝබර්

ஒக்ரோபர 2023

October 2023

මුදල් කොමිෂන් සභාව
(ආණ්ඩුක්‍රම ව්‍යවස්ථාවේ 154 "ඊ" ව්‍යවස්ථාව යටතේ පිහිටුවන ලදී.)
நிதி ஆணைக்குழு
(அரசியலமைப்பின் 154 "ண" ஆம் உறுப்புரையின் கீழ் தாபிக்கப்பட்டது)
FINANCE COMMISSION
(Established under Article 154 "R" of the Constitution)

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

මගේ අංකය / எனது இல. / My No.: FC/PSR/08/01/2023
ඔබේ අංකය / உமது இல. / Your No.:
දිනය / திகதி / Date: 2023.10.31

Honourable Ranil Wickramasinghe,
President of the Democratic Socialist Republic of Sri Lanka,
Presidential Secretariat,
Colombo 01.

Honourable Sir,

I am pleased to submit herewith the recommendations of the Finance Commission for the year 2024 as required by Sub-article (4)(a) of Article 154R of the Constitution of the Democratic Socialist Republic of Sri Lanka. This report embodies the recommendations pertaining to the assessed funding requirements of Provincial Councils for the ensuing year and the principles on the apportionment of funds that will be allocated from the annual budget, among the Provincial Councils with the objective of achieving balanced regional development and also certain policy recommendations aimed at the rational allocation and effective use of resources at Provincial level.

Yours faithfully,

Sumith Abeysinghe
Chairman
Finance Commission

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FINANCE COMMISSION

RECOMMENDATIONS SUBMITTED TO THE HON. PRESIDENT

In terms of Article 154R (4) of the Constitution of the Democratic Socialist Republic of Sri Lanka
for the year 2024

October 2023

Contents

CHAPTER 1

Introduction

1.1 Background

The Finance Commission is pleased to submit its Annual Recommendations to the Hon. President as required under Article 154R (3) of the Constitution in respect to the assessed resource requirements and principles on which funds allocated by the Government for 2024 be apportioned between the Provinces. Some policy recommendations which focus on rational allocation, and effective and efficient utilization of resource aiming at balanced regional development in the country are also included in these recommendations.

In the process of preparation of these recommendations, the Capital and Recurrent funds requested by the Provinces were reviewed with the Provincial Authorities and other relevant officers at the national level and agreed on the financial requirements of the Provinces. The recommendations pertaining to the apportionment of the recommended provisions among the Provincial Councils in a rational manner in line with the Constitutional mandate of the Commission are also submitted in this report.

The Finance Commission expects that adequate funds will be transferred by the Government as per the felt needs of the Provinces in order to discharge the responsibilities pertaining to subjects which were devolved to the Provincial Councils. Furthermore, due attention of the Government is sought on the policy recommendations given herewith in order to achieve higher socio-economic standards of the people while minimizing the regional disparities.

1.2 Mandate of the Finance Commission

The Finance Commission (FC) was established in 1987 under the provision of the Thirteenth Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka, to ensure that funds required for the development of Provinces are recommended objectively. Accordingly, as specified in Article 154R (3), (4) and (5) the mandate of the Finance Commission is as follows.

Article 154R (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 154R (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 154R (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.

Article 154R (7) of the Constitution requires that “The President shall cause every recommendation made by the Finance Commission under the above Article to be laid before Parliament and shall notify Parliament as to the action taken thereon”.

1.3 The Tasks Performed by the Finance Commission

The main function of the Finance Commission is to make Recommendations to the Government on the allocation of adequate funds from the Annual National Budget to meet the needs of the Provinces and also on the principles pertaining to the apportionment of such funds between nine Provinces with the objective of achieving balanced regional development in the country in line with the Constitutional provisions referred to in 1.2 above. In this process, the Finance Commission

i. provides Guidelines to the Provincial Councils on the preparation and submission of their needed resources annually.
ii. assesses the needs of the Provincial Councils after detailed discussions with Provincial Authorities
iii. submits recommendations to the Hon. President on the allocation of funds required by the Provincial Councils from the National Budget and on the apportionment of such funds between the Provinces.
iv. apportionment of the funds allocated by the National Budget among various sectors within the province upon the receipt of the approval of the Hon. President/ the Government.
v. issues guidelines pertaining to the formulation of Provincial Annual Development Plans with a view to improve the efficiency and effectiveness of use of funds.
vi. reviews the provincial development plans with the participation of relevant stakeholders and grants concurrence to the same.
vii. promotes national and provincial inter-sectoral coordination on development interventions.
viii. provides recommendations to the government on the management of the Provincial cadre.

CHAPTER 2

Devolution of Fiscal Powers to various levels of the Government in Sri Lanka

2.1. Thirteenth Amendment to the Constitution

With the enactment of the Thirteenth Amendment to the Constitution, three distinctive tiers of governance, i.e. the Government (the Centre), Provincial Councils and Local Government Authorities came into being in Sri Lanka. Accordingly, devolved governance was established by demarcating the areas of legislative, executive and financial authority to be exercised by the Provincial Councils. The subject content of powers between the Centre and the Provinces is specified in three Lists given in the Thirteenth Amendment, the Reserved List (powers of the Centre), the Provincial Councils List (power devolved to the Provincial Councils) and the Concurrent List (subjects of shared responsibilities).

Activities pertaining to the devolved subjects are implemented by the Provincial Councils with the funds transferred by the Government to the Provincial Councils as per the Constitutional arrangement.

The Provincial Council List also includes the sources of revenue to be collected by the Provincial Councils and these revenue sources refer to different types of taxes and fees are explained in Chapter 3 of this report. It is expected that the Provincial Councils utilize the revenues collected to meet the Provincial financial requirements. However, revenue collection is insignificant when the total financial requirement of the province is concerned. As a matter of practice the Treasury has been deducting the amount of estimated Provincial revenue from the estimated recurrent grant resulting in the Provincial Councils being deprived of using their Provincial revenue for development work.

2.2. Transferring Funds to Provinces and involvement of Finance Commission

The Constitution requires adequate funds to be provided to the Provincial Councils to meet the financial needs of the Provinces, and at the same time, such funds be apportioned amongst the Provinces with the objective of achieving balanced regional development. In this regard, the role of the Finance Commission is twofold.

i. Determine the fiscal needs of the Provinces based on the analysis of the needs submitted by the Provincial Councils giving due consideration to national policy directives, Sustainable Development Goals (SDGs) and National and Provincial priorities.

ii. Apportion such funds among the Provinces with the objective of achieving balanced regional development.

The apportionment of funds allocated in the above manner is expected to reduce inter and intra-provincial disparities. The followings are the types of funds recommended by the Finance Commission in the form of Grants to the Provincial Councils from the National Budget.

2.2.1 Block Grant

Block Grand is provided to meet the recurrent expenditure needs of the Provinces for the purpose of sustaining and improving the service delivery system of the Provincial Councils. The Personal Emoluments (PE) of provincial staff constitute the major portion of recurrent expenditure because the majority of the staff of the Education and Health sectors is in the Provincial setup. The Block Grant also includes transfers to Local Authorities, cost of maintenance of capital assets, social welfare expenditure, expenditure of travelling, supplies, contractual services, etc. The assessment of salaries and wages is confined to the cadre approved by the Department of Management Services (DMS).

2.2.2. Provincial Specific Development Grant (PSDG)

This Grant is meant for financing capital nature development activities paying special attention to infrastructure development under the devolved subjects. A Provincial Development Plan is formulated for the allocated PSDG for the respective year as per the guidelines given by the Finance Commission and the consensus is given by the Finance Commission for implementation of the Plan subject to necessary revisions based on the discussions with Provincial Authorities. The Provincial Development Plans should be aligned with the National Policy Framework while addressing provincial needs and priorities identified in the Mid-term Development Plan. For each investment, measurable results (output, outcome) need to be identified in the form of pre-defined indicators to facilitate periodical monitoring and evaluation of achievements, adopting a Results-based Based Monitoring and Evaluation System.

The recommended allocations under **PSDG,** released amounts of imprest for the years 2021 and 2022 and allocation for 2023 are given in Table 01 below.

Table 01: Allocations and Release of Provincial Specific Development Grant (2021-2023)

(Rs. Mn.)

Province	2021		2022		2023
	Allocation	Released	Allocation	Released	Allocation
Western	1,256.10	690.86	836.00	418.00	1,261.00
Central	2,440.62	1,342.34	1,040.00	520.00	1,889.00
Southern	2,454.41	1,349.93	971.00	485.50	1,620.00
Northern	2,988.81	1,643.85	1,243.00	621.50	2,190.00
North Western	2,362.00	1,299.10	1,012.00	506.00	1,708.00
North Central	2,670.00	1,468.50	1,227.00	613.50	1,946.00
Uva	2,682.21	1,847.05	1,250.00	625.00	2,093.00
Sabaragamuwa	2,718.52	1,495.19	1,132.00	566.00	2,037.00
Eastern	2,719.25	1,495.59	1,400.00	700.00	2,156.00
Total	**22,291.92**	**12,632.38**	**10,111.00**	**5,055.50**	**16,900.00**

The amount of PSDG allocated for each sector for the years 2022 and 2023 is shown in Table 02 below.

Table 02: Sector Wise Allocation of Provincial Specific Development Grant (2022-2023)

(Rs. Mn.)

Sector	2023		2022	
	Amount	%	Amount	%
Social Infrastructure	**6,554.00**		**5,325.84**	
Education	2,620	15.5	2,461.62	24.34
Western Medicine	2,000	11.83	1,920.49	18.99
Indigenous Medicine	549	3.25	336.29	3.33
Sports	175	1.04	77.99	0.77
Probation and Childcare	494	2.92	281.14	2.78
Social Services	362	2.14	113.62	1.12
Cultural and Religious Affairs	98	0.58	32.65	0.32
Housing	154	0.91	56.1	0.55
Co-operative	51	0.3	13.23	0.13
Early Childhood Development	51	0.3	32.71	0.32
Economic Infrastructure	**8,991.00**		**4,282.79**	
Provincial Roads	2,951	17.46	1,759.70	17.4
Estate Infrastructure	159	0.94	15.66	0.15
Transport	182	1.08	82.93	0.82
Land	55	0.33	11.98	0.12
Agriculture	998	5.91	427.66	4.23
Livestock	679	4.02	291.59	2.88
Inland Fisheries	209	1.24	75.03	0.74
Irrigation	1,146	6.78	540.43	5.34
Rural Development	318	1.88	91.68	0.91
Small Industries	290	1.72	141.12	1.4
Rural Electrification	88	0.52	37.95	0.38
Tourism	283	1.67	107.81	1.07
Local Government	1,633	9.66	699.25	6.92
Total	15,545		9,608.63	
Projects under Flexible Amount	988	5.85	241.47	2.39
Grant for Villages with Special Needs	367	2.17	261.42	2.59
Grand Total	**16,900.00**		**10,111.52**	

2.2.3 Criteria Based Grant (CBG)

Criteria Based Grant (CBG) is also allocated to meet the Capital expenditure for the identified priorities of the Province which do not receive sufficient funds from PSDG. The objective of providing CBG is to improve socio-economic conditions in the Provinces in a manner that contributes towards reducing regional disparities. Although the Provincial Councils have the discretionary power to use CBG, the funds provided under this grant are required to be used adhering to the Guidelines given by the Finance Commission.

The recommended CBG allocations and imprest released from the year 2019-2023 are given in Table 03 below.

Table 03: Allocation and Release of Criteria Based Grant 2019-2023

(Rs. Mn.)

Province	2019		2020		2021		2022		2023
	Allocation	Release	Allocation	Release	Allocation	Release	Allocation	Release	Allocation
Western	254.00	150.00	101.40	101.40	392.00	215.60	80.00	44.80	223.00
Central	389.00	248.00	202.60	202.60	560.00	308.00	190.00	106.40	333.00
Southern	389.00	230.00	260.80	260.80	494.41	271.93	125.00	70.00	304.00
Northern	551.00	300.00	253.81	253.81	580.82	319.45	115.00	64.40	386.00
North Western	408.00	230.00	155.80	155.80	508.00	279.40	201.00	112.56	301.00
North Central	482.00	250.00	173.30	173.30	450.00	247.50	190.00	106.40	343.00
Uva	559.00	317.00	194.60	194.60	560.48	308.26	165.00	92.40	369.00
Sabaragamuwa	454.00	240.00	215.20	215.20	595.00	327.25	85.00	47.60	360.00
Eastern	514.00	255.00	194.40	194.40	511.31	281.22	180.00	100.80	381.00
Total	**4,000.00**	**2,220.00**	**1,751.91**	**1,751.91**	**4,652.02**	**2,558.61**	**1,331.00**	**745.36**	**3,000.00**

2.2.4 Revenue Performance Grant (RPG)

The Finance Commission wishes to propose allocating a development-oriented Revenue Performance Grant (RPG) to the Provincial Councils in order to encourage provincial revenue collection. If allocated the Provinces have discretionary power to use this grant for capital related development activities. However, no provisions have been made for this grant so far by the Treasury.

CHAPTER 3

Assessment of Capital and Recurrent Needs of Provinces for the Year 2024

3.1 Matters considered in the assessment of Provincial expenditure needs

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 relevant matters such as Cabinet decisions.
b) Critical development needs were identified through the interactions with Provincial Authorities most of which are identified in the Medium Term Development Plans of the Provinces.
c) The Capital and Recurrent Expenditure requirements submitted by the Provincial Councils seeking Government grants for the year 2024 and the nature of financial imprest released to the Provincial Councils for the year 2023 so far.
d) The Recommendations of the Finance Commission in the recent past and the observations of the Hon. President and the Cabinet decisions pertaining to those recommendations.
e) Socio-economic status of the Provinces.
f) The needs for equitable and balanced regional development.
g) The findings of consultative meetings conducted with stakeholders and findings of certain studies.

In view of the inadequacy of funds allocated to the Provincial Councils which are expected to assist the balanced regional development, the Finance Commission in recent years has recommended that the capital allocation to the Provincial Councils should be at least 20% of the total estimated capital investment in the National Budget. In allocating such grants, devolution framework, national policies announced by the Government as well as SDGs should be taken into consideration. Considering the limitations of providing budgetary allocations in the current economic downturn, project prioritization should be of utmost importance while avoiding duplications between the Line Ministries and the Provincial Councils. Accordingly, it is recommended as highlighted in this matter in the previous year too, to allocate funds directly to the Provincial Councils treating these entities as Special Spending Units and designating Chief Secretaries as Chief Accounting Officers.

3.2 Submission of Capital Expenditure Requirements of Provincial Councils for the Assessment of the Finance Commission

The Finance Commission issued Guidelines on 03rd of March 2023 to the Provincial Councils to identify the Capital Needs for the year 2024. Based on the Guidelines, the Provincial Councils have prepared their annual needs of Capital nature and submitted their Annual Capital Expenditure Requirements seeking Government Grants from the National Budget.

Based document for this exercise has been the comprehensive Medium-term Integrated Development Plan of each Provincial Council which reflects regional specific needs prepared in line with the Government Development Strategy and SDG Framework. The expenditure requirements for the 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 the ensuing year has been prepared for the purpose of implementing their development plans utilizing funds received from the National Budget in the form of Provincial Specific Development Grant (PSDG).

The Capital fund requirements have been presented under the following sectors by all Provincial Councils and additional sectors could also be incorporated according to the specific needs of a particular Province with proper justifications

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

In addition to the above sectors, a flexible amount to meet the gaps in the above sectors and a grant for special development needs will be earmarked when apportioning the grants among various sector.

3.3 Assessment of Capital Expenditure Needs for the Year 2024

The Provincial Councils possess Provincial Five-Year Development Plans prepared comprehensively on a multi–sectoral integrated approach on which the provincial sectoral capital expenditure needs with medium term sectoral results framework were basically identified. Units of the Provincial Council possessing technical expertise are responsible for sectoral need assessment in consultation with the Hon. Governors, Chief Secretaries and other relevant Provincial Authorities. Further due attention has been paid to Sustainable Development Goals and Targets, Internal and intra–regional disparities, readiness in project implementation and their feasibility, Special Development Programmes which are being implemented by the Line Agencies, Guidance of the center by Guidelines and Circulars issued on capital investments, effect and impact of economic crisis and the pandemic situations and the need for optimum utilization of physical and human resources in the Provinces.

Optimum utilization of private sector resources at the sub-national level through government investment in economic infrastructure and social infrastructure is a pivotal need. Thus, the critical development needs of renovating physical infrastructure, completion of continuation work and institutional and beneficiary capacity development are inclusive of the assessed capital needs. Requested amounts for construction of new administrative buildings were excluded adhering to the Government policy on not commencing such projects.

On the above basis the assessed amount of the total Provincial Specific Development Grant (PSDG) amount for the year 2024 is Rs.139.575 billion. In the Recommendation of last year, the Finance Commission recommended setting off the Provincial Revenue collection with PSDG and providing the balance from the Annual Budget. That recommendation was approved by the Cabinet of Ministers and tabled in Parliament. As a matter of practice, the Treasury used to deduct the Provincial revenue from the Total Recurrent Need up to 2023. In the year 2024, it is proposed that 50% of Revenue be set off against PSDG and the balance (50%) be matched with the Total Recurrent Need. Accordingly, out of the recommended PSDG of Rs. 139.575 billion, Rs. 11.9 billion is to be set off.

As per this proposal, the amount of revenue to be set off defers from Provincial Council to Provincial Council taking into account the revenue target of each Provincial Council. Annex 01 shows that the revenue targets range from Rs. 1025 Million to Rs. 9200 Million and consequently, the proposed amounts of setting off the revenue for PSDG ranges from Rs. 1000 Million to Rs. 1750 Million. The Eastern Provincial Council where the least revenue target of Rs. 1025 Million has been fixed, will set off Rs. 1000 Million representing 97.56% and the Western Provincial Council will earn Rs. 9200 Million as revenue and set off 19.02% of that for PSDG amounting Rs. 1750 Million.

However, in order to reduce the full impact of this proposal on the recurrent expenditure, the Commission wishes to propose that for the year 2024 only 50% of the Provincial revenue be set off against the capital grant leaving the balance 50% to cover the recurrent expenditure. The Commission can ensure that any particular Province does not receive undue benefit on account of this proposal as the total flow of resources to Provincial Councils (total of capital grant transferred by the Treasury and the sum that will be available as a result of setting off of Provincial revenue against the capital grant) will be apportioned as per the Composite Index referred to in the Annexure 01. Accordingly, only the balance amount of the capital grant allocated by the budget will be transferred to the Provinces after deducting the amount set off against the Provincial revenue. It is also pertinent to mention that capital work which will be undertaken through the total sum available to the Provincial Councils will also be integrated into the Annual Development Plans which are prepared according to the Guidelines issued by the Finance Commission and implemented with its concurrence. The need to set off of revenue against the capital grant and thereby making some amount at the disposal of Provincial Councils was acutely felt in the year 2023 as the provincial authorities did not have any provision even to meet the cost of smaller activities of capital nature under the School Nutrition Programme.

In addition, the Commission also wishes to propose that a Criteria Based Grant (CBG) (please see 2.2.3 of the report) amounting to Rs. 15.0 billion and a Revenue Performance Grant amounting to Rs. 3.0 billion (please see 2.2.4 of the report) be allocated for the year 2024.

3.4 Assessment of Block Grant for the Year 2024

The recurrent needs of Provinces were assessed by scrutinizing the requests submitted by the Provinces as per the Guidelines issued by the Finance Commission on 27th of January 2023 followed by the budget discussions had with Provincial officials with the participation of officials from the General Treasury.

The assessment of the recurrent needs for 2024 is based on the following;

01. The total Provincial cadre as at 31.03.2023 approved by the Department of Management Services (DMS) was the basis for the assessment but it is noted in some instances the total cadre requested is greater than the approved cadre and also the cadre in some institutions of Provincial Councils is more than the DMS approved cadre. In our recommendation, we assess only the Personal Emoluments of cadre approved by the Department of Management Services (DMS) and those of Development Officers and Multi Tasks Development Assistants subject to DMS approval.

02. During the budget discussion with Provincial officials and Treasury officials, it was observed that there are procedural delays in obtaining DMS approval for the already deployed/attached cadre to Provincial Councils by the Line Ministries mainly in Health, Indigenous Medicine, Education etc. However, the Finance Commission is compelled to accept temporarily the attachment letters issued to Provincial Councils by the relevant ministries pending DMS approvals.

03. Allowances for members of Provincial Councils to be elected and personal emoluments of their personal staff as per the circulars issued by the Presidential Secretariat.

04. Impact on circulars and instructions issued by the Government from time to time.

05. Unemployed graduates recruited under the Government's top priority program were already made permanent subject to the DMS approval. Therefore, the funding requirement of the rest has been assessed as an excess cadre for whom posts are to be created in the Provincial public sector.

06. Funds for absorption of Multi Task Development Assistants (10,494) into the vacancies available and the rest has been assessed as excess cadre for whom posts are to be created in the Provincial public sector and the local authorities.

07. The requirement of the staff of Provincial schools which are to be upgraded as National Schools under 1000 School's Development Program were included under the Provincial Councils for the year 2024 as requested by the Ministry of Education and agreed upon.

08. The requirement of overtime and holiday pays for 2024 was assessed considering per head cost of living cadre and the actual expenditure pattern in the recent past (Provincial requests for overtime and holiday pays have been increased dramatically compared to previous year).

09. Assessed Transfers amounting to Rs. 35,891,141,000 to the Local Government Authorities for Salary Reimbursements for the approved cadre and the payment of Members Allowance also is shown under "Other Recurrent Expenditure" (ORE in Table 4).

10. The Commission adhered to its decision taken on 25/04/2018 and recommended provisions for payment of salaries only for the staff of three Provincial Authorities considering the importance of their assigned functions viz. the Provincial Road Development (PRDA), the Provincial Passenger Transport (PPTA) and the Early Childhood Development Authorities (ECDA).

11. General maintenance has been assessed separately (instead of including it under "Other Recurrent Expenditure" as customarily done prior to 2022) to ensure the availability of adequate funds for day to day maintenance requirements. Also considered assets maintenance on essential and critical needs for repairing and refurbishing provincial assets including Maintenance of Roads, Irrigation Infrastructure and Buildings and Structures particularly in the Education, Health, Irrigation, Agriculture and other sectors.

12. Outstanding salary arrears for Education, Health and other sectors amounting to Rs. 2,394,137,000.

13. ORE also consists of social welfare expenditure assessed for grants to Children's Homes, Elderly Homes and Households i.e. Cancer, Kidney, TB patients

14. Request made by the Provincial authorities for Contingency Funds amounting to Rs. 3,404,191,000 and Advance B Account funds amounting to Rs. 18,336,734,000 is also included in our recommendation.

Accordingly, the Provincial recurrent need for the year 2024 has been assessed as Rs. 514,604.854 million.

Table-04: Assessed Recurrent Needs for 2024

(Rs. 000)

Province	DMS approved cadre of the Province as at 31.03.2023	Personal Emolument	Provincial Share of PE	Other Recurrent Expenditure	Provincial Share of ORE	Total Recurrent Expenditure	Provincial Share of TRE
(1)	(2)	(3)	(4)	(5)	(6)	(7)= (3) + (5)	(8)
Western	64,761	63,041,413	16.83	25,781,840	22.17	88,823,253	19.06
Central	53,655	49,980,853	13.34	14,273,074	12.27	64,253,927	11.94
Southern	48,373	45,062,975	12.03	14,610,586	12.56	59,673,561	12.2
Northern	37,260	33,429,207	8.92	10,789,391	9.28	44,218,598	9.1
North Western	50,455	46,485,311	12.41	11,590,073	9.97	58,075,384	11.58
North Central	30,642	27,323,381	7.29	9,721,973	8.36	37,045,354	7.36
Uva	35,485	31,378,072	8.38	8,214,474	7.06	39,592,546	8.06
Sabaragamuwa	40,753	39,588,385	10.57	10,458,165	8.99	50,046,550	10.82
Eastern	39,724	38,288,963	10.22	10,845,794	9.33	49,134,757	9.88
Total	**401,108**	**374,578,559**	**100**	**116,285,370**	**100**	**490,863,929**	**100**
Add-	Request on Contingency Fund - 2024					3,404,191	
	Request on Advanced B Account - 2024					18,336,734	
	Recovery of Expenditure of the Central Provincial Council incurred in 2022					2,000,000	
	Assessed Total Recurrent Needs					**514,604,854**	

Note: ***Column 3 - Includes Personal Emoluments for Living cadre & Vacancies, Line Ministry attachments and salary arrears.***

Column 5 - Includes Local Government Transfers (LGT), Expenses for School Nutrition Program, PE for Provincial Authorities and Excludes Stamp Duty & Court Fines belonging to Local Government Authorities

3.5 Provincial Revenue

The 13th Amendment to the Constitution contains the revenue sources devolved to Provincial Councils in items 36.1 to 36.20 of list 1 of the Ninth Schedule.

The revenue of the Provincial Councils is comprised of two major components.

01. Revenue collection from sources devolved to Provincial Councils
02. Government revenue transfers

I) Revenue collection from sources devolved to Provincial Councils

Motor Vehicle Revenue License Fees, License tax on liquor, Stamp Duty and Court Fines are the main revenue sources of Provincial Councils. In these major sources, Stamp Duty and Court Fines have legally to be transferred to the Local Authorities.

After the abolition of the Business Turnover Tax (BTT) on 1ST January 2011 by the Fiscal Policy Circular No:01/2010, the Provincial Councils' revenue has lessened the base of coverage of the Provincial system and transferring Government revenue become important.

II) Government revenue transfers

The abolition of the Business turnover tax drastically reduced Provincial revenue. This reduction in revenue was supplemented by a special revenue-sharing system introduced by the National Budget through the Fiscal Policy Circular No:01/2010 issued by the Secretary to the Treasury on 29th December 2010. The revenue collected by the national authorities such as the Commissioner General of Inland Revenue, the Director General of Customs and the Commissioner General of Motor Traffic have to be transferred to the Provinces on the following basis with effect from 10 January 2011.

Accordingly, 100% of Stamp Duty, and 70% of Vehicle Registration Fees are transferred to the Provincial Councils. 33 1/3% of the Nation Building Tax (NBT) was also transferred to the until NBT was abolished in 2019.

After the introduction of Government revenue transferring mechanism, revenue receipts of the Provincial Councils were suddenly increased. Unfortunately, the abolition of NBT in 2019 again resulted in a significant decrease in Provincial revenue. As per the initiative of the Hon. President to increase the revenue of the country, there have been increases in Provincial revenues due to recent increases in motor vehicle revenue license fees. Accordingly, the rates of other revenue sources should be increased.

The Finance Commission sets the revenue targets for devolved revenue sources of the Provinces; Stamp duty, Court fines, Motor vehicle annual license fees, and Excise Duty and other income. The amounts to be transferred to the Provinces from the government revenue are decided as per the instruction in the Fiscal Policy Circular No: 01/2010. When ascertaining the Block Grant to the Provinces, the total amount of expected revenue from the provinces has been deducted by the Treasury from the recurrent (Block) grant as customarily done. The Commission examines the assessment of annual revenue collection submitted by the Provincial authorities along with their past performance of revenue collection to set the targets for the provincial revenue collection.

The forecasted revenue collection for 2024, including stamp duty and court fines, is Rs. **59,606** million. The forecasted revenue for 2024, excluding stamp duty and court fines which are transferred to the local authorities, is Rs **23,826** million. The revenue forecast made for 2024 under the devolved sources is given in Table – 05.

Table - 05 Revenue Target of the Provincial Councils in 2024

(Rs.000')

Province	License fee on Liquor	Motor vehicle revenue license Fees	Stamp Duty	Court Fines	*Others	Total (Excluding SD & CF)	Total (Including SD & CF)
Western	700,000	5,000,000	20,000,000	1,500,000	3,500,000	9,200,000	30,700,000
Central	370,000	1,300,000	2,000,000	135,000	700,000	2,370,000	4,505,000
Southern	130,000	1,536,200	2,800,000	600,000	940,000	2,606,200	6,006,200
Northern	30,000	560,000	1,300,000	400,000	750,000	1,340,000	3,040,000
North Western	120,000	1,800,000	2,700,000	425,000	1,300,000	3,220,000	6,345,000
North Central	55,000	750,000	220,000	550,000	650,000	1,455,000	2,225,000
Uva	90,000	600,000	450,000	250,000	400,000	1,090,000	1,790,000
Sabaragamuwa	90,000	980,000	1,100,000	300,000	450,000	1,520,000	2,920,000
Eastern	75,000	650,000	700,000	350,000	300,000	1,025,000	2,075,000
Total	**1,660,000**	**13,176,200**	**31,270,000**	**4,510,000**	**8,990,000**	**23,826,200**	**59,606,200**

Others include rents, interests, examination fees, sale of capital assets, betting tax etc.

The forecasted amount of Stamp Duty and Court Fines are required to be transferred to the Local Authorities from total revenue for 2024 is Rs. 35,780 million. The Provincial break-down of Stamp Duty and court fines to be transferred to Local Authorities is given in Table - 06.

Table - 06: Stamp Duty and Court Fines to be transferred to the Local Authorities for 2024

(Rs .000)

Province	Stamp Duty	Court Fines	Total	Provincial Share (%)
Western	20,000,000	1,500,000	21,500,000	60.09
Central	2,000,000	135,000	2,135,000	5.97
Southern	2,800,000	600,000	3,400,000	9.50
Northern	1,300,000	400,000	1,700,000	4.75
North Western	2,700,000	425,000	3,125,000	8.73
North Central	220,000	550,000	770,000	2.15
Uva	450,000	250,000	700,000	1.96
Sabaragamuwa	1,100,000	300,000	1,400,000	3.91
Eastern	700,000	350,000	1,050,000	2.93
Total	**31,270,000**	**4,510,000**	**35,780,000**	**100**

Even though, there were noticeable increase in the revenue pursuant to the introduction of the transfer mechanism, the abolition of NBT in 2019 resulted a significant decrease in Provincial revenue as shown in the table below.

Table 07: Provincial Expenditure and Revenue Receipts (2016 – 2022)

(Rs. Mn)

Year	Total Expenditure	Revenue collection excluding Stamp duty and Court fine	Government Revenue Transfers	*Total Revenue of the Province	Revenue as a % of Provincial Expenditure
1	**2**	**3**	**4**	**5=(3+4)**	**6=(5/4)**
2016	257,734	16,396	38,267	54,663	**21**
2017	264,158	17,425	42,491	59,916	**23**
2018	281,543	18,201	45,267	63,468	**23**
2019	303,740	18,928	47,070	65,998	**22**
2020	326,418	16,767	11,240	28,007	**9**
2021	342,023	18,012	10,500	28,512	**8**
2022	400,165	24,800	10,189	34,989	**9**

Note: *excluding stamp duty and court fines (which have to be transferred to Local Authorities)

If the decline of revenue continues in this way, the Government will be compelled to allocate more funds for the Provincial Councils. Therefore, it is important to make a concerted effort to collect all revenues which are devolved to the Provinces according to the Provincial List to the 13th Amendment to the Constitution by addressing the issues highlighted in the policy recommendation no. 07.

Furthermore, many revenue sources are charged at outdated rates without amending for a long time as highlighted in our policy recommendation no. 12 for the year 2023. This situation leads to revenue losses to the Provincial Councils and also some revenues are not transferred properly by the Line Ministries to the Provincial Councils.

A comparison of the revenue collection vis a-vis the targets is shown below.

Table-08: Provincial Devolved Revenue Targets and Collection (2018-2022)

Rs. (Mn)

Provinces	2018			2019			2020			2021			2022		
	Targets	Collections	%	Targets	Collections	%	Targets	Collections	%	Targets	Collections	%	Targets	Collections	%
Western	23,725	25,449	107	26,385	21,987	83	26,750	19,521	73	25,400	28,285	111	23,175	35,295	152
Central	3,492	3,860	111	4,078	3,677	90	4,195	3,304	79	4,650	3,953	85	3,940	4,615	117
Southern	4,010	4,379	109	4,366	4,580	105	4,550	4,359	96	4,846	5,304	109	4,037	5,954	147
Northern	1,220	1,784	146	1,580	1,990	126	1,860	2,074	112	2,135	2,313	108	2,345	2,948	126
North Western	4,340	4,417	102	4,707	4,678	99	4,970	4,438	89	5,110	5,825	114	5,252	7,012	134
North Central	1,490	1,674	112	1,541	1,691	110	1,826	1,904	104	1,951	1,888	97	1,812	2,180	120
Uva	1,570	1,472	94	1,495	1,389	93	1,605	1,416	88	1,640	1,604	98	1,629	1,760	108
Sabaragamuwa	2,245	1,734	77	2,195	2,720	124	2,275	2,350	103	2,500	2,508	100	2,477	2,810	113
Eastern	1,520	1,585	104	1,640	1,523	93	1,725	1,637	95	1,780	1,770	99	1,752	2,057	117
Total	**43,612**	**46,354**	106	**47,987**	**44,235**	92	**49,756**	**41,003**	82	**50,012**	**53,450**	107	**46,419**	**64,631**	139

Note: Revenue collection including stamp duty and court fines

The transfers of Government revenue to the Provincial Councils are estimated by the Department of Fiscal Policy and such amounts have been taken into consideration for the assessment. The table 09 below shows the target of the revenue and the release of the revenue. The table 09 below clearly shows that the Provincial share has not been transferred fully to the Provincial Councils.

Table-09: Target and Transfer of the revenue from Tresuary (2018-2022)

Rs. (Mn)

Provinces	2018			2019			2020			2021			2022		
	Targets	Realease	%	Targets	Realease	%	Targets	Realease	%	Targets	Realease	%	Targets	Realease	%
Western	26,400	21,659	82	30,624	22,936	75	30,624	4,916	16	6,720	5,001	74	6,720	4,734	**70**
Central	4,950	4,062	82	5,742	4,159	72	5,742	1,137	20	1,260	952	76	1,260	897	**71**
Southern	4,950	4,115	83	5,742	4,175	73	5,742	1,133	20	1,260	951	75	1,260	893	**71**
Northern	2,750	2,222	81	3,190	2,387	75	3,190	517	16	700	513	73	700	531	**76**
North Western	4,950	4,136	84	5,742	4,200	73	5,742	1,180	21	1,260	954	76	1,260	1,096	**87**
North Central	2,750	2,287	83	3,190	2,188	69	3,190	638	20	700	538	77	700	500	**71**
Uva	2,750	2,236	81	3,190	2,290	72	3,190	609	19	700	522	75	700	493	**70**
Sabaragamuwa	2,750	2,296	83	3,190	2,336	73	3,190	580	18	700	536	77	700	504	**72**
Eastern	2,750	2,254	82	3,190	2,399	75	3,190	530	17	700	533	76	700	539	**77**
Total	**55,000**	**45,267**	82	**63,800**	**47,070**	74	**63,800**	**11,240**	18	**14,000**	**10,500**	75	**14,000**	**10,187**	**73**

Source: Department of Fiscal Policy and Provincial Revenue Collection Reports

CHAPTER 4

Recommendation on Apportionment of Government Grants among Provincial Councils for the Year 2024

4.1 Recommendation on Apportionment of Capital Grants

As per Article 154R (4)(a) of the Constitution, the Finance Commission is required to make Recommendations on the apportionment of funds among the Provinces with the objective of achieving balanced regional development of the country. Thus, The Finance Commission in collaboration with the Department of Census and Statistics had developed a statistical formula adopting a multivariate statistical technique called "Factor Analysis" for the apportionment of capital funds between the Provinces in a rational manner incorporating the following Provincial level variables in line with the relevant Constitutional provisions and came up with a Composite Index for apportionment of capital funds among Provinces.

- Mid-Year Population of the Province
- The Land Area of the Province
- Provincial Gross Domestic Product
- Number of poor population of the Province
- Median per capita income of the Province
- No. of Persons per Medical Officer (allopathic doctor) in the Province
- Percentage of students qualified for university entrance in Science Stream in the Province

Provincial data were obtained on the above-mentioned variables from the Department of Census and Statistics, the Central Bank of Sri Lanka and the Department of Examinations and the previously formulated Composite Index was revised last year by using the latest available data. Eventhough, the latest survey on Income and Expenditure (which is conducted in every 4 years by the Department of Census and Statistics) has been conducted this year, results of which were not available at the time of preparation of this report. This posed the biggest problem in updating the Composite Index with most relevant data. However, the Commission believes that the relative positions of each Province on variable referred to above do not change much as the impact of recent economic downturn reflects almost equally in those Provinces. Also the subtle variation of the Composite Index will not have a noticeable impact on provincial resource allocation due to the fact that on an average about 13% of the capital provision has been given to the Provincial Councils on devolved subjects whereas, the bulk is given to the Line Ministries. This is the same reason why the Commission recommended last year that the Line Ministries should adopt an index that reflects regional /provincial disparities (similar to the Composite Index used by the Finance Commission. In this circumstances, the Commission wishes to recommend that the Composite index recommended for the current year be used in the apportionment of the capital grant in the ensuing year too (please see the table 10).

Table 10-: Selected Physical, Demographic and Socio-Economic Indicators of Provinces

Province	Land Area 2020 (Sq.km.)	Mid-year Population 2020 (000)	Provincial GDP 2020 (Rs. Bn)	Median Monthly Per Capita Income 2019 (Rs. Per one income receiver)	Number of Poor People -2019	Percentage of Students Qualified for University Entrance in Science Stream -2020	Persons per Medical officer 2019
Western	3,684	6,165	5694	35,171	342,200	29.1	768
Central	5,674	2,781	1692	25,067	503,500	10.8	1080
Southern	5,544	2,669	1518	26,267	327,100	17.3	1291
Northern	8,884	1,152	689	24,629	267,200	5.8	1016
North Western	7,888	2,563	1653	28,800	294,400	11.0	1488
North Central	10,472	1,386	876	26,323	144,900	4.5	1338
Uva	8,500	1,387	812	22,343	378,500	5.5	1517
Sabaragamuwa	4,968	2,070	1188	23,517	468,100	9.5	1463
Eastern	9,996	1,746	849	25,000	316,300	6.5	1095
Sri Lanka	**65,610**	**21,919**	**14973**	**28,465**	**3,042,300**	**100.0**	**1070**

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

The Commission recommends that the percentages shown in the Table 11 to be used for the apportionment of Capital Fund among the Provinces, which were calculated using the Composite Index.

Table 11-: Composite Index Values and Percentages of each Province for Capital Fund Allocation

Province	Composite Index (CI) 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

Accordingly, the Finance Commission recommends the following amounts as capital grants to the Provincial Councils for the year 2024.

Table-12: Recommended Amounts of Capital Grants to the Provincial Councils for the Year 2024

Provincial Council	Capital Grants (Rs. Million)				%
	PSDG	CBG	RPG	Total	
Western	8,606	1,113	849	10,568	7.26
Central	14,007	1,666	282	15,955	10.95
Southern	12,625	1,518	468	14,611	10.03
Northern	16,877	1,932	396	19,205	13.18
North Western	12,377	1,507	333	14,217	9.76
North Central	14,782	1,718	132	16,632	11.42
Uva	16,182	1,847	141	18,170	12.47
Sabaragamuwa	15,521	1,797	177	17,495	12.01
Eastern	16,698	1,902	222	18,822	12.92
Total	**127,675**	**15,000**	**3,000**	**145,675**	**100.00**

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 the officials of the Department of the National Planning and the Department of National Budget, the Commission will grant its concurrence for Annual Development Plans that will be prepared by the Provincial Councils.

4.2 Recommendation of Block Grant to the Provincial Councils

The grant for needs of recurrent nature to the Provincial Councils totally depends on the assessed final amount of Recurrent Expenditure requirements, the estimated revenue of the respective Provincial Council and the revenue transferred from the Treasury. 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, the officials of the Department of National Budget and the Department of Management Services.

The Finance Commission recommends the Block Grant for the Provincial Councils to fill the gap between the assessed recurrent expenditure and the 50% share of expected collection of devolved revenue of those entities (leaving 50% to set off against the capital provision). The estimated transfers of Government revenue to the Provincial Councils which is a small component of the total estimated revenue of the Provincial Councils has not been included in revenue estimates as these figures are not yet made available by the Department of Fiscal Policy.

Accordingly, the Recommended amount for Block Grant for the year 2024 by the Commission is given below.

Table 13: The Recommended Block Grant for 2024

(Rs. 000)

Province	** Assessed Total Recurrent Expenditure	Devolved Revenue Target after setting off against PSDG	Total Block Grant Recommended by FC (after the revenue adjustment)
(1)	(2)	(3)	(4)= (2) - (3)
Western	88,823,253	7,450,000	81,373,253
Central	64,253,927	870,000	63,383,927
Southern	59,673,561	1,106,200	58,567,361
Northern	44,218,598	240,000	43,978,598
North Western	58,075,384	1,570,000	56,505,384
North Central	37,045,354	255,000	36,790,354
Uva	39,592,546	90,000	39,502,546
Sabaragamuwa	50,046,550	320,000	49,726,550
Eastern	49,134,757	25,000	49,109,757
Total	**490,863,929**	**11,926,200**	**478,937,729**

Add-	Request on Contingency Fund - 2024	3,404,191
	Request on Advanced B Account - 2024	18,336,734
	Recovery of Expenditure of the Central Provincial Council incurred in 2022	2,000,000
	Assessed Total Block Grant	**502,678,654**

Note: ** provincial revenue (excluding stamp duty and court fines) that can be set off against the recurrent expenditure after adjustment against the capital expenditure as proposed in the paragraph 3.3

When determining the size of the block grant the Treasury has been throughout used to deduct the total revenue from the total estimated recurrent expenditure. Assuming that this practice is followed by the Treasury for the year 2024 despite the recommendation of the Finance Commission which was approved by the Cabinet of Ministers on 31.10.2022 the value of the block grant has to be estimated by deducting the 50% of the estimated amount of revenue from Rs. 514,604.854 million for the year 2024.

Parallel to the above recommendation, it is also proposed that Provincial Councils be allowed to use 50% of their anticipated revenue collection to meet the capital expenditure.

Accordingly, the total amount of grants (Capital and Recurrent) recommended by the Finance Commission for Provincial Councils for the year 2024 will be Rs. 648,353.654 million.

Observations & Recommendations:

1. Since we have recommended allocations for the total approved cadre, and also for posts of Development Officers recruited under the government flagship programme of recruiting unemployed graduates into the public service and also the posts in the primary level filled with the Multi-Purpose Development Taskforce. It is strongly recommended that the adequate provisions be included for these two categories eventhough those posts have not been approved by the Department of Management Services yet.

2. We observe that there is a crucial need to assess the cadre and redeploy them on an institutional basis adopting an acceptable and professional norm-based budgeting system.

3. Fund allocation to the following institutions which are essential for the smooth running of provincial functions are based on approval granted by the DMS.

   Provincial Road Development Authority
   Passenger Transport Authority
   Early Childhood Development Authority

   However, no Provincial Statutory Authority is expected to carry any excess cadre over and above the approved cadre even if they are paid out of their own revenue.

4. The Finance Commission has requested key Line Ministries (Health and Indigenous Medicine, Education, Agriculture) to forward us the financial requirements for the payments of personal emoluments of the centrally recruited cadre that will be attached to Provincial Councils. The Ministry of Education and the Ministry of Health & Indigenous Medicine have responded to this request and their financial commitments for 2024 have been considered in our assessment of recurrent needs.

   In the absence of response for financial requirements from other Ministries, we are not in a position to include their requirements in the recurrent need assessment for 2024.

5. The Provincial requests for assets maintenance amounting to Rs.29.8 billion has been assessed as Rs. 22 billion considering the pressing needs and nature of expenditure, in consultation with PCs.

6. In addition to the assessed amount of Rs. 63,383,927,000 for the Central Province for the year 2024; an amount of Rs. 2 billion, to meet expenditure incurred in 2022 (as already agreed by the Treasury) has to be added to the assessed Block Grant. Accordingly, the total amount to be allocated for the Central Province is Rs. 65,383,927,000.

CHAPTER 5

Policy Recommendations

In addition to the foregoing Recommendations on the requirement of funds for the Provincial Councils for the year 2024 and the apportionment of those funds among Provinces which are submitted to the Hon. President in compliance with the sub-Articles (4) and (5) of the Article 154R of the Constitution, the Commission wishes to submit a few policy Recommendations aimed at the rational allocation and efficient use of resources at Provincial level as follows:

01. A new approach to address the inadequacy of funds to the Provincial Councils:

Related previous recommendations;

(a). Providing adequate funds to the Provincial Councils (Recommendation No. 01 for the year 2022)

(b). Rational allocation of resources for Balanced Regional Development within the existing resource envelope (Recommendation No. 2 for the year 2023)

While highlighting the inadequacy of budgetary provisions made available for Provincial Councils in the past, the Commission stressed the fact that the budgetary allocation made to the Line Ministries on subjects which are devolved to the Provincial Councils are very much higher than the amount set apart on the same devolved subject for the Provincial Councils. While conceding the fact that Government is facing difficulties in allocating sufficient amount of funds to the Provincial Councils due to the unprecedented fiscal constraints experienced by the Government, the Commission came up with a pragmatic solution according to which those funds which are to be made available to the Line Ministries on devolved subjects can be diverted to the Provincial Councils without causing an extra burden on the total resource envelop of the Government. The Commission is pleased to note that some progress has been made by the Treasury in this regard through the Budget Call -2024 wherein, it has been stated in paragraph 4.1 (iv) as follows;

"provisions should not be included under Line Ministries or Departments for functions directly assigned to Provincial Councils. In order to avoid overlapping programs/projects carried out by Line Ministries and Departments at regional level with the Provincial Councils programs/projects, plans should be prepared in coordination with Provincial Councils".

If the Line Ministries strictly adhere to those instructions and the Treasury in turn restricts the allocating of funds on devolved subjects to the Line Ministries, then the Treasury will be able to allocate more resources to Provincial Councils within its total capital budget.

Another progressive step taken by the Treasury relating to the above Recommendation is that the allocation of budgetary provisions for the School Nutrition Program to the Provincial Councils in 2023, which was hitherto made under the Ministry of Education. It has been reported that this program is now functioning smoothly under the supervision of Chief Secretaries with the participation of other relevant stakeholders in the Province in addition to the Provincial Educational Authorities. Activities which can contribute towards the enhancement of the value of the meal by other Provincial units are also being explored by these Provincial Authorities. At the same time, the difficulties in getting the imprest on time for this has also been mitigated to a certain extent as the Chief Secretaries were able to utilize a certain components of Provincial revenue at their disposal for this purpose as a temporary measure pending the reimbursement from the Treasury (in most instances these are the Provincial revenue which has to be passed on to the Local Authorities).

The Commission strongly recommends that the proposal referred to in (b) above be pursued by the Treasury.

02. Improving the efficiency of allocation of resources:

Related previous recommendations;

(a). Adoption of common and integrated planning mechanism at both National and Provincial level (Policy Recommendation No. 6 for the year 2022)

(b). Setting up of powerful agency to be in charged with the rational allocation of resources both at National and Provincial level (Policy Recommendation No. 02 for the year 2023)

Commission in its Recommendation has emphasized repeatedly that the concept of Balanced Regional Development enshrined in Sub Articles (4) and (5) of Article 154R of the Constitution cannot be achieved by the Provincial Councils alone due to number of reasons. The first one being the inadequacy of Capital Grants to the Provincial Councils and the second one is the fact that the Line Ministries when allocating resources to various geographical regions they are not guided by any criterion that reflects the regional disparities (similar to the Composite Index formulated by the Finance Commission). The third factor is the non-availability of coherent sectoral policies within which Line Ministries as well as the Provincial Authorities should plan development activities. Therefore, in our Recommendation for the year 2023, we proposed that a powerful entity similar to the former Planning Commission of India be established to be in charge with the overall resource allocation and prioritization of projects. The same proposal has been put forward by a Sub Committee of National Council of Parliament (Sub-Committee on Identifying Priorities in Formulation of Short-, Medium- and Long-term National Policies). After detailed deliberations on this subject at a number of meetings with the participation of relevant stakeholders including senior public servants, the academia the Concept Paper and Terms of Reference were prepared. It was also recommended that an Act of Parliament similar to that of National Planning Council Act no. 58 of 1957 be enacted. The Finance Commission strongly recommends that the process be expedited for the best interest of the country to facilitate the formulation of coherent sector policies as well as moving towards the expeditious and Balanced Regional Development.

03. Getting the best use of Provincial setup in development activities and service delivery:

Related previous recommendations;

(a). Getting the Provincial Councils more and more involved in the implementation of National development programs/projects in Provinces and Districts which are implemented by the agencies in the Centre (Recommendation No. 4 for the year 2022) (b). Refraining from setting up of Project Offices in executing donor funded projects. (Recommendation No.4 for the year 2023)

Eventhough the Line Ministries and other agencies in the Centre are hesitant to adhere to these recommendations which were approved by the Cabinet twice, the Treasury has reiterated this by the following instructions embodied in the second paragraph of the section 4.1 (iv)of the Budget Call for 2024:

"Further, since an institutional system exists under the Provincial Councils with a substantial deployment of staff, the Provincial Council structure should be used whenever possible to deliver services of Line Ministries/ Departments/ Institutions with the agreement of Provincial Councils as much as possible".

The Commission also believes that the recent government decision to restrict the setting up of project offices for implementation of various donor funded projects is a positive step. The Commission strongly recommends a firm policy decision be taken by the Government in this regard so that relevant authorities at the time of negotiation can convince the development partners of the need for using the existing capable staff of the Provincial Councils who are being currently underutilized due to lack of funds for development work provided to the Provincial Councils, as much as possible in the implementation of projects by the Line Ministries which possess funds but facing difficulties in the implementation of projects due to non-availability of own staff at Provincial level.

04. Making Provincial Councils directly answerable to Parliament for budgetary operations:

Related previous recommendations

(a). treating Provincial Councils as Special Spending Units for budgetary purposes (Policy Recommendation no. 01 for the year 2021)

(b). classifying the Provincial Councils as Special Spending Units for budgetary purposes (Policy Recommendation no. 11 for the year 2022)

(c). making Chief Secretaries directly answerable to Parliament (Policy Recommendation no. 05 for the year 2023)

In the recent past the Commission has been recommending in several occasions that the Provincial Councils be classified as Special Spending Units for budgetary purposes and the Chief Secretaries be designated as Chief Accounting Officers taking into cognizance the special arrangements pertaining to the Provincial Finance as enshrined in the Constitution and also the same spelt out in Part III of Provincial Council Act no. 42 of 1987. The rationale for this proposal can be elucidated as follows:

- All other entities established by the Constitution except Provincial Councils are treated as Special Spending Agencies for budgetary purposes.

- Provincial financial administration can be brought under the direct supervision of Parliament as required under Article 148 of the Constitution.

- During the evolution of the Provincial Councils system in last 35 years it has proved that they have gained the required maturity on financial management (as witnessed by the fact that out of 15

Government Institutions which received gold medals from the Committee on Public Accounts for proper performance on financial management, in 2020, 12 institutes were from the Provincial setup).

- Special arrangements made in the Constitution to get an independent agency (i.e. the Finance Commission) to recommend the resources required by the Provincial Councils unlike for all other Spending Units

- The magnitude of the budgetary provisions managed by the Chief Secretary is fairly large and the Chief Secretary is also appointed by the Hon. President as in the case of Secretaries to the Line Ministries.

- Release of imprest to the Provincial Councils can be streamlined (unlike the District Secretariats, Provincial Councils do not receive the imprest on Recurrent Expenditure directly).

Therefore, it is again recommended that this proposal be favourably considered especially in view of the impending introduction of comprehensive governance framework at all levels of the Government by the proposed Public Financial Management Act.

05. Need to divert Provincial Revenue for Provincial development activities:

Related previous recommendation;

(a). Linking the revenue generation of provinces to the development objective of the devolution (Policy Recommendation no.07 for the year 2023).

The Commission strongly believes that the present practice of setting off of the Provincial Revenue against the recurrent grant (Block Grant) is not within the spirit of the intent of the Constitutional provision for the establishment of the Provincial Councils and granting powers to impose taxes (over and above the other taxes, proceeds of which accrue to the Government revenue) due to the following reasons.

(i.) the objective of the setting up of the Provincial Councils for "achieving balanced regional development in the country" as implied by the Sub Article (5) of the Article 154R of the Constitution. Sub Article (c) and (d) thereof amplify this further.

(ii.) Provincial taxes are to supplement the resources that will be allocated from the government budget for the balanced regional development and not to finance the services provided freely by the government throughout the country.

(iii.) Setting off of the provincial revenue against the recurrent expenditure discriminates a section of the society by subjecting them to "additional" taxes on the services they receive which is clearly seen in the case of Provincial education and Provincial health. Under the universal free education policy of the country, the entire cost of the National Schools is met from the government revenue to which the parents of the students of the Provincial schools also contribute through indirect taxes. Present practice of setting off the Provincial revenue leads to a situation where a part of the cost of maintaining the Provincial school is met from the provincial taxes which is meant for the development of the Provinces. It is more logical if Provincial taxes are used in the capital nature activities of Provincial schools which are in a disadvantageous positions vis a vis national schools rather than for using it for recurrent expenditure.

Therefore, the Commission strongly recommends that the proposal submitted last year to abandon this practice be given effect to and set off the revenue against the Capital grant so that provincial taxes are diverted towards balanced development of Provinces.

However, in order to reduce the full impact of this proposal on the recurrent expenditure, the Commission wishes to propose that for the year 2024 only 50% of the Provincial revenue be set off against the capital grant leaving the balance 50% to cover the recurrent expenditure. The Commission can ensure that any particular Province does not receive undue benefit on account of this proposal as the total flow of resources to Provincial Councils (total of capital grant transferred by the Treasury and the sum that will be available as a result of setting off of Provincial revenue against the capital grant) will be apportioned as per the Composite Index referred to in the Annexure 01. Accordingly, only the balance amount of capital grant will be transferred to the Provinces after deducting the amount set off against the Provincial revenue. The capital work which will be undertaken through the total sum available to the Provincial Councils will also be integrated in to the Annual Development Plans which are prepared according to the Guidelines issued by the Finance Commission and implemented with its concurrence. The need of setting off of revenue against the capital grant and thereby making some amount at the disposal of Provincial Councils was acutely felt in the year 2023 as the provincial authorities did not have any provision even to meet cost of smaller activities of capital nature under the School Nutrition Programme.

In these circumstances, it is strongly recommended that the above recommendation which was accepted by the Hon. President and approved by the Cabinet of Ministers on 31.10.2022 be implemented subject to the modification proposed in the foregoing paragraph.

It would be pertinent to mention that this proposal does not entail any additional outlay to the Government.

06. The need to improve education facilities in the rural areas and plantation areas through re-organization of schools of less than 50 students:

According to the information gathered there are 1402 schools throughout the island with the number of students is less than 50. In some school number of students is below 10. There may be valid reasons for having these types of schools in view of the accessibility problems faced by the students mostly in uncongenial remote areas.

Issues that need to be focused on this matter are as follows.

- Similar small schools are also in the suburban areas in Colombo and in many areas where transportation is not an acute problem or mobility of students is not restrained due to the presence of wild elephant, rugged terrain or lack of roads.

- The presence of schools that can absorb the students of those small school with relatively a large number of students and more facilities/ teachers within the close proximity to these small schools, to which the students of those small schools can be absorbed easily.

- Even though the number of students is less, these small schools have to maintain classes from grade 1-5 or 1-10 in certain cases up to Advance Level and adequate number of teachers for each subject have to be deployed. As a result, number of teachers in certain schools is sometimes more than the number of students leading to very high cost per student.

- Despite this high-cost, these schools do not offer better learning environment to students when compared to the other relatively bigger school in the vicinity.

- Above situation in the smaller schools in the area is not acceptable in view of the acute shortage of teachers in the other schools in the rural areas.

- If majority of those small schools can be amalgamated to nearby schools, then a large number of teachers in those schools can be released to vacant positions in the other rural schools.

- It is believed that the resistance to reorganize these schools comes mainly from principals/head masters and teachers of the school who live in the vicinity and also from the local politicians.

The above facts clearly justify the need of re- organization of these schools to get the best use of the teachers serving in rural areas and to offer better learning environment for students at a comparatively lesser cost. Therefore, it is proposed a policy decision be taken by the Government to re- organize these schools in rational manner.

07. **Harnessing the potential of revenue generation of Provincial Councils and Local Government Authorities**:

Related previous recommendation;

(a) Removal of constraints in Provincial revenue mobilization (policy recommendation no. 12 for the year 2023)

At the time of promulgation of the 13th Amendment it was expected that the Provincial Councils will be able to generate a fair share of their capital needs through the revenue sources devolved to the Provincial Councils through the Provincial Council List (item 36.1 to 36.20). (In reality, instead of channeling these revenues for development work, it is being set off against the recurrent grant). As shown in the Chapter 03 of this report only a fraction of capital needs can be raised by the 8 Provincial Councils except the Western Provincial Council which can generate a fair share as the bulk of economic activities are concentrated there. Based on the discussions the Finance Commission had with Provincial authorities and also the findings of various studies pertaining to this subject it is very clear that the full potential of revenue generation in Provinces have not been harnessed.

In respect of Local Government Authorities whose entire salary bill is borne by the Government, the gap between the potential revenue and the realized revenue is also fairly large according to the information gathered by the Finance Commission. Non availability of a periodic valuation of property, lack of monitoring of the revenue (which the Finance Commission commenced in 2022) and the use of time-consuming manual methods which is cumbersome to the tax paying residents can be cited as main reasons for lackluster performance of the revenue collection by these entities.

Therefore, it is proposed that the following measures be adopted to overcome the constraints in the mobilization of revenue at the Provincial level and Local Government level.

(a) to instruct the relevant Line Ministries to update the rates of charges, levies and fees imposed under the various Acts coming under their purview, but devolved to the Provincial Councils in terms of the Provincial List

(b) to make necessary arrangements to remove the restrictions /limitations imposed by Parliament on taxes which are devolved to the Provincial Councils (by future amendments to the Constitution)

(c) to incentivize the Provincial administration to enhance the revenue collection by

- introducing the revenue performance grant recommended in Chapter 3 of this report

- by setting off (at least 50%) of Provincial revenue against the capital expenditure enabling Provincial authorities to use the earned revenue to meet development expenditure in the Province as proposed in the Chapter 3 of this report and the policy recommendation number 05 above

(d) to request the Hon. Minister under whose purview the Local Authorities come, to make necessary arrangements to introduce alternative valuation methods to the Local Authorities.

(e) to request the Department of External Resources to explore the possibilities of obtaining donor assistance to introduce IT based methods of collection to improve the efficiency of tax collection by the Provincial Councils/Local authorities.

We submit the foregoing recommendations for your highest consideration.

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சுமித் அபேசிங்ஹ

தலைவர்

Sumith Abeysinghe

Chairman

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கலாநிதி பி.நந்தலால் வீரசிங்ஹ

பதவி வழி அங்கத்தவர் (இலங்கை மத்திய வங்கி ஆளுநர்)

Dr. P. Nandalal Weerasinghe

Member (Ex-officio) (Governor of the Central Bank of Sri Lanka)

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கே.எம்.மஹிந்த சிறிவர்தன

பதவி வழி அங்கத்தவர் (திறைசேரியின் செயலாளர்)

K.M. Mahinda Siriwardana

Member (Ex-officio) (Secretary to the Treasury)

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எம்.வாமதேவன்

நியமன அங்கத்தவர்

M. Vamadevan

Member (Appointed)

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டீ.நலீன் ஒஸென்

நியமன அங்கத்தவர்

T. Naleen Ossen

Member (Appointed)

Annexure 01

Illustration on the apportionment of the recommended PSDG according to the Composite Index after the proposed adjustment of revenue

(Rs.Mn.)

Province	Composite Index as per the Statistical Formula	Recommended Total Amount of PSDG	Estimated Revenue Target	% of Recommended PSDG that can be met by the Estimated Revenue	Revenue set off against Recommended PSDG	% of Revenue set off against Recommended PSDG	Recommended PSDG Amount after Revenue set off *
1	**2**	**3**	**4**	**5 = (4/3)*100**	**6**	**7= (6/4)*100**	**8 = 3-6**
Western	0.67633 (7.42%)	10,356.00	9,200.00	88.84 %	1,750.00	19.02 %	8,606.00
Central	1.01174 (11.11%)	15,507.00	2,370.00	15.28 %	1,500.00	63.29 %	14,007.00
Southern	0.92192 (10.12%)	14,125.00	2,606.20	18.45 %	1,500.00	57.56 %	12,625.00
Northern	1.17369 (12.88%)	17,977.00	1,340.00	7.45 %	1,100.00	82.09 %	16,877.00
North Western	0.91576 (10.05%)	14,027.00	3,220.00	22.96 %	1,650.00	51.24 %	12,377.00
North Central	1.04349 (11.45%)	15,982.00	1,455.00	9.10 %	1,200.00	82.47 %	14,782.00
Uva	1.12125 (12.31%)	17,182.00	1,090.00	6.34 %	1,000.00	91.74 %	16,182.00
Sabaragamuwa	1.09137 (11.98%)	16,721.00	1,520.00	9.09 %	1,200.00	78.95 %	15,521.00
Eastern	1.15499 (12.68%)	17,698.00	1,025.00	5.79 %	1,000.00	97.56 %	16,698.00
Total	**100%**	**139,575.00**	**23,826.20**	**17.07 %**	**11,900.00**	**49.95 %**	**127,675.00**

***This shows the total PSDG amount recommended by the Finance Commission apportioned for the year 2024 after the adjustment of 50% of revenue, according to the Composite index referred to in the Column 2 of the table. In reality, the actual amount that each provincial council will get will be dependent upon the PSDG that will be made available in the National Budget (please see paragraph 3.3 of Chapter 3 and our policy recommendation no. 05).**