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நிதி ஆணைக்குழு
Finance Commission

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2026 වර්ෂය සඳහා

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இலங்கை ஜனநாயக சோசலிசக் குடியரசின் அரசியலமைப்பின்
154ண உறுப்புரையின் (4) (அ) உப பிரிவின் பிரகாரம்
2026 ஆம் ஆண்டிற்காக

கௌரவ ஜனாதிபதி அவர்களுக்கு சமர்ப்பிக்கப்படும் பரிந்துரைகள்

RECOMMENDATIONS SUBMITTED TO THE HON. PRESIDENT

In terms of Sub Article 4 (a) of Article 154R of the Constitution of the
Democratic Socialist Republic of Sri Lanka
for the year 2026

2025 ඔක්තෝබර්

2025 ஒக்டோபர்

October 2025



මුදල් කොමිෂන් සභාව

(ආණ්ඩුක්‍රම ව්‍යවස්ථාවේ 154 "ජ" වාරිකය යටතේ පිහිටුවන ලදී.)

நிதி ஆணைக்குழு

(ශ්‍රේෂ්ඨාගමනයේ 154 "ආ" ඡේදය යටතේ පිහිටුවනු ලබන)

FINANCE COMMISSION

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

03, සරණ මාවත, රාජගිරිය, ශ්‍රී ලංකාව.

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My No. }

FC/PSR/07/01/2026

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Your No. }

දිනය
திகதி
Date }

31.10.2025

Honourable Anura Kumara Dissanayaka

President of the Democratic Socialist Republic of Sri Lanka

Presidential Secretariat

Colombo 01.

Honourable Sir,

In accordance with Sub Article (4) (a) of Article 154R of the Constitution of the Democratic Socialist Republic of Sri Lanka, the recommendations of the Finance Commission on the principles to be followed in the apportionment of funds allocated from the National Budget for the year 2026 among Provinces aimed at achieving balanced regional development are presented in Chapter 4 of this Report. In addition, a few proposals that are considered appropriate for implementation by the Government in a manner complementary to the overall development strategy of the Government enabling the Provincial Councils to perform its functions more efficiently are included in Chapter 05.

The recommendations of the Finance Commission submitted to the Treasury on 14.08.2025 on the allocation of funds from the National Budget for the year 2026 to meet Provincial needs as required under Sub Article (3) of Article 154R of the Constitution are also embodied in Chapter 3 of this Report.

This Report is submitted for your kind attention.

Yours faithfully,

Sumith Abeysinghe

Chairman

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FINANCE COMMISSION

RECOMMENDATIONS SUBMITTED TO THE HON. PRESIDENT

In terms of Sub Article (4) (a) of Article 154R of the Constitution of
the Democratic Socialist Republic of Sri Lanka
for the year 2026

October 2025

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CHAPTER 1

Introduction

1.1 Background

This report which is submitted to the Hon. President as per Sub Article (4) (a) of Article 154R of the Constitution of the Democratic Socialist Republic of Sri Lanka, contains the principles for apportionment of funds among Provinces granted from the Annual Budget of the Government for the year 2026 for the use of Provinces. According to Sub Article (5) of Article 154R of the Constitution, those principles have been formulated with the objective of achieving balanced regional development in the country. Further, already submitted recommendations to the Government on adequate funds to meet the needs of Provinces are also contained in this report, as per Sub Article (3) of Article 154R of the Constitution in order to facilitate the allocation of funds for Provincial Councils by the Government. The Fifth (5) Chapter contains several recommendations on necessary interventions of the Government for efficient service delivery of devolved subjects and the effort of Provincial Councils on achieving the balanced regional development.

1.2 Establishment of the Finance Commission and its mandate

The Finance Commission has also been established with the introduction of Provincial Councils for the devolution of power by the 13th Amendment to the Constitution in 1987. Therein whole geographical area of the country was divided into nine Provinces to be administered by the Provincial Councils. In this context, the Finance Commission was established to facilitate that adequate funds are provided from the Annual Budget of the Government to meet the needs of Provinces and to ensure fair distribution of such funds among Provinces aiming to achieve balanced regional development through minimizing the regional disparities. Therein, the Finance Commission submits recommendations to the Government on adequate funds that are needed to meet the needs of Provinces; and also, the Government allocates such funds in consultation with the Commission.

Further, making recommendations to the President on principles of apportionment of such funds between the Provinces which are granted from the Annual Budget of the Government to fulfill the needs of the Provinces as above, with the objective of achieving balanced regional development minimizing the regional disparities is also constitutionally mandated to the Finance Commission. Moreover, it is a duty of the Finance Commission to submit recommendations to the President on any other matter relating to the provincial finance, referred to the Commission by the President.

The mandate of the Finance Commission provided by Sub-Article 154R (3), (4) and (5) of the Constitution are as follow;

Sub-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.

Sub-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 as 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

Sub-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,
- (d) the need, progressively, to reduce the difference between the per capita income of each province and the highest per capita income among the Provinces.

Further, Sub-Article 154R (7) of the Constitution provides 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

As outlined in the Sub-Article 154R (3), (4) and (5) of the Constitution, the mandate of the Finance Commission is to make recommendations to the Government on the requirement of adequate funds from the Annual Budget to meet the needs of the Provinces; and also to make recommendations to the President on the principles pertaining to the apportionment of such funds among nine Provinces with the objective of achieving balanced regional development in the country and also to submit recommendations on any other matter referred to the Commission by the President relating to Provincial Finance.

In this process, the Finance Commission;

- i. Issues Guidelines to the Provincial Councils on the estimation and submission of capital and recurrent needs of Provinces annually.
- ii. Assesses the recurrent and capital needs of Provinces after studying and detailed discussions with provincial authorities.
- iii. Submits recommendations to the Government on the requirement of adequate funds from the Annual Budget to meet the needs of the Provinces.
- iv. Submits recommendations to the Hon. President on the principles pertaining to the apportionment of such funds allocated by the Government for the needs of Provinces, between nine Provinces.
- v. Apportionment of the funds allocated by the Annual Budget between Provinces; and various sectors of the Provinces.

- vi. Issues Guidelines pertaining to the preparation of Provincial Annual Development Plans with a view to improve the efficiency and effectiveness of the use of funds.
- vii. Reviews the Provincial Annual Development Plans with the participation of all relevant stakeholders and grants concurrence for the implementation of same subject to amendments proposed as required.
- viii. Provides recommendations to the Government on the management of the provincial cadre.

CHAPTER 2

Financing the Provincial Expenditure

2.1 Financing the Expenditure within Framework of Devolution

With the introduction of the Provincial Councils System in 1987 by the 13th Amendment to the Constitution of Sri Lanka, the political and administrative structure of the country was substantially changed. Accordingly, three distinctive tiers of governance were established i.e. the Government (the Centre), Provincial Councils and Local Government Authorities. In conjunction with 13th Amendment to the Constitution, the Provincial Councils Act No. 42 of 1987 was enacted to facilitate the functioning of the Provincial Councils.

According to the 13th Amendment to the Constitution, devolved governance was established by demarcating the areas of legislative, executive and financial 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 9th Schedule of the 13th Amendment. Accordingly, the power devolved to the Provincial Councils are shown as the Provincial Council List, the powers vested in the Government as the Reserved List, and the subjects for which the Government and the Provincial Councils are jointly responsible are shown as the Concurrent List.

The Provincial Council List also includes the sources of revenue to be collected by the Provincial Councils. It is expected that the Provincial Councils utilize the revenues collected by them to meet the Provincial financial requirements. However, revenue collection is insignificant when the total financial requirement of the Province is concerned. Therefore, the Constitution has provided that adequate funds have to be allocated by the Annual Budget in order to deliver the services of Provincial Councils without disruption.

The Local Government system represents the third and lowest tier of governance in Sri Lanka, consisting of three distinct legal entities: Municipal Councils, Urban Councils, and Pradeshiya Sabhas. These entities were established under the Municipal Councils Ordinance No. 16 of 1947, the Urban Council Ordinance No. 61 of 1939, and the Pradeshiya Sabha Act No. 15 of 1987, respectively. Each Local Authority is empowered to create legislation and maintain a fund to support its operations. Their key responsibilities include providing essential local public services, such as the construction and maintenance of Local Government roads, community water supply, waste management, and various social services aimed at enhancing the well-being of residents.

Following the enactment of the 13th Amendment to the Constitution, the responsibility for supervising Local Governments was assigned to the respective Provincial Councils. Although Local Authorities have the power to initiate revenue-generating activities, many lack a sufficient revenue base to fully meet their financial needs. Consequently, the Government provides financial transfers to cover the entire cost of salaries of employees and allowances payable to the members of these entities. However, provision of such funds to the Municipal Councils was limited by the Government to 80% of such cost from 2024 onwards, and from 2025 as 60% while it was limited to 80% for Urban Councils and Pradeshiya Sabhas intending to encourage those entities to harness their revenue potential.

2.2. Role of the Finance Commission in the Apportionment of Funds to Provinces

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

i. Analyzing Provincial needs

The Finance Commission determines the fiscal needs of the Provinces based on the analysis of capital and recurrent needs submitted by the Provincial Councils giving due consideration to national policy directives, Sustainable Development Goals (SDGs) and National and Provincial priorities.

In this assessment of Provincial needs, the Commission is engaged in a comprehensive process which includes developing and updating formats, guidelines and instruction be issued to the Provinces and having comprehensive discussions with relevant Provincial and national level officials. Based on the facts and figures obtained throughout the process, the Commission prepares the total budgetary requirement for all Provinces negotiating with the General Treasury.

ii. Construction of a scientific methodology for the apportionment of such funds among the Provinces with the objective of achieving balanced regional development.

The Finance Commission formulates the principles for the apportionment of funds allocated from the national budget among the Provinces in a logical manner as discussed in detail in the Chapter 4 in this report. The aim of this exercise is to make sure that each Province receives their fair share of funds based on the socio economic status of the Province.

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 Grant 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 Block Grant, because the majority staff of the public service are in the provincial Education and Health sectors. The assessment of salaries and wages is confined to the cadre approved by the Department of Management Services (DMS) and funds required for this category are recommended after a comprehensive need assessment of cadre is carried out. Block Grant also includes transfers to Local Authorities, School Nutrition Programme, cost of maintenance of capital assets, social welfare expenditure, expenditure of travelling, supplies and contractual services.

2.2.2 Provincial Specific Development Grant (PSDG)

The Provincial Specific Development Grant (PSDG) is allocated to finance capital development activities, with particular emphasis on infrastructure projects under devolved subjects. Each year, Provincial Development Plans prepare based on the allocated PSDG, following the Guidelines issued by the Finance Commission. These Plans are reviewed and the concurrence is granted by

the Finance Commission, for implementation subject to necessary revisions arising during the consultations (during the in-depth review meetings) with Provincial Authorities and other stakeholders.

Provincial Development Plans should be consistent with the national policy framework and must be prepared taking into consideration the provincial needs and priorities identified within the Province's Medium-term Development Plan. To facilitate the implementation, monitoring, and evaluation of Annual Development Plans, a results-based monitoring and evaluation mechanism must be adopted for every investment included in the Plan. Performance indicators should be formulated to define measurable outputs and outcomes of each activity accordingly. (Letter dated 07.10.2025 embodying the Guidelines issued by the Finance Commission on preparation of Annual Development Plans 2026 is attached as Annex II).

A portion of the funds allocated to the Province as Provincial Specific Development Grants (between 5%-10%) will be set aside as a flexible fund. These funds shall be utilized for special, economically viable development projects that contribute to improve the economic status of the people by creating new jobs and generating income, and to fill critical development gaps for the Province which are not covered by the Annual Plans of each sector.

The budgetary allocations and the imprest released to the Provincial Councils by the Treasury under PSDG, for the duration from 2022 to 2024 and allocation for 2025 are given in Table 01 and the amounts of PSDG allocated for each sector for the years 2023, 2024 and 2025 are shown in Table 02 below.

Table 01: Budgetary Allocations and Imprest Released under Provincial Specific Development Grant (2022-2025)

(Rs. Mn.)

<div> <div>Year</div> <div>Province</div> </div>	2022			2023			2024			2025
	Budgetary Allocation	Imprest Released	%	Budgetary Allocation	Imprest Released	%	Budgetary Allocation	Imprest Released	%	Budgetary Allocation
Western	836.00	418.00	50	1,261.00	641.65	51	1,685.00	1,179.50	70	5,894.00
Central	1,040.00	520.00	50	1,889.00	961.15	51	2,743.00	1,920.10	70	7,360.00
Southern	971.00	485.50	50	1,620.00	825.20	51	2,472.00	1,854.00	75	6,976.00
Northern	1,243.00	621.50	50	2,190.00	1,114.30	51	3,305.00	2,313.50	70	7,328.00
North Western	1,012.00	506.00	50	1,708.00	869.05	51	2,423.00	1,817.25	75	6,835.00
North Central	1,227.00	613.50	50	1,946.00	990.15	51	2,894.00	1,848.40	64	7,014.00
Uva	1,250.00	625.00	50	2,093.00	1,064.95	51	3,169.00	2,376.75	75	7,688.00
Sabaragamuwa	1,132.00	566.00	50	2,037.00	1,036.81	51	3,039.00	2,127.30	70	7,584.00
Eastern	1,400.00	700.00	50	2,156.00	1,097.05	51	3,270.00	2,452.50	75	7,321.00
Total	10,111.00	5,055.50	50	16,900.00	8,600.31	51	25,000.00	17,889.30	72	64,000.00

Source: Department of National Budget, Department of Treasury Operations

Table 02: Sectorwise Allocation of Provincial Specific Development Grant (2023-2025)**(Rs. Mn)**

Sector	2023		2024		2025	
	Allocation	%	Allocation	%	Allocation	%
Social Infrastructure	6,554	38.78	9,729	38.92	25,334	39.58
Education	2,620	15.50	3,890	15.56	9,101	14.22
Western Medicine	2,000	11.83	3,001	12.00	7,953	12.43
Indigenous Medicine	549	3.25	793	3.17	1,958	3.06
Sports	175	1.04	263	1.05	911	1.42
Probation and Childcare	494	2.92	710	2.84	2,063	3.22
Social Services	362	2.14	526	2.10	1,303	2.03
Cultural Affairs	98	0.58	149	0.60	521	0.81
Housing	154	0.91	222	0.89	722	1.13
Co-operative	51	0.30	83	0.33	293	0.46
Early Childhood Development	51	0.30	92	0.37	509	0.80
Economic Infrastructure	8,991	53.20	13,238	52.95	35,323	55.2
Provincial Roads	2,951	17.46	4,300	17.20	10,324	16.13
Estate Infrastructure	159	0.94	236	0.94	490	0.77
Transport	182	1.08	264	1.06	615	0.96
Land	55	0.33	80	0.32	315	0.49
Agriculture	998	5.91	1,479	5.92	4,438	6.93
Livestock	679	4.02	1,004	4.02	3,069	4.80
Inland Fisheries	209	1.24	309	1.24	773	1.21
Irrigation	1,146	6.78	1,697	6.79	4,280	6.69
Rural Development	318	1.88	463	1.85	1,200	1.88
Small Industries	290	1.72	424	1.70	1,433	2.24
Rural Electrification	88	0.52	135	0.54	614	0.96
Tourism	283	1.67	418	1.67	1,390	2.17
Local Government	1,633	9.66	2,429	9.72	6,382	9.97
Total	15,545	91.98	22,967	91.87	60,657	94.78
Projects under Flexible Amount	988	5.85	700	2.80	1,977	3.09
Grant for Special Development Projects	367	2.17	1,333	5.33	1,366	2.13
Grand Total	16,900	100.00	25,000	100.00	64,000	100.00

* Initial allocations are indicated here as per the budget estimate - 2025. In certain sectors, the initially allocated amounts were subsequently revised based on requests made by the provincial authorities.

2.2.3 Criteria Based Grant (CBG)

In addition to the 23 broadly identified subjects mentioned under 3.1 of this report for which the Provincial Specific Development Grants are given, the Criteria Based Grant is allocated for crosscutting projects or activities of two or more of these 23 subjects. Moreover, these grants can also be used for other priority needs identified after the approval of the Annual Development Plan prepared for Provincial Specific Development Grants, especially the needs identified from time to time by elected representatives.

This grant is received by the Provinces as a bulk amount without being divided among sectors, and the Provincial Councils have the discretionary power to use it on development activities to improve the socio-economic status of the people with the aim of regional development following the guidelines issued by the Finance Commission on the utilization of CBG.

The allocations and imprest released by the Treasury under CBG during the period from 2021 to 2024 and allocation for 2025 are given in Table 03.

Table 03: Budgetary Allocation and Imprest Released Under Criteria Based Grant (2021-2025)

Province	2021			2022			2023			2024			2025
	Budgetary Allocation	Imprest Released	%	Budgetary Allocation	Released	%	Budgetary Allocation	Released	%	Budgetary Allocation	Released	%	Budgetary Allocation
Western	392.00	215.60	55	80.00	44.80	56	223	111.50	50	371	259.70	70	585
Central	560.00	308.00	55	190.00	106.40	56	333	166.50	50	555	388.50	70	730
Southern	494.41	271.93	55	125.00	70.00	56	304	152.00	50	506	379.50	75	692
Northern	580.82	319.45	55	115.00	64.40	56	386	193.00	50	644	450.80	70	727
North Western	508.00	279.40	55	201.00	112.56	56	301	150.50	50	502	376.50	75	678
North Central	450.00	247.50	55	190.00	106.40	56	343	171.50	50	573	403.80	70	696
Uva	560.48	308.26	55	165.00	92.40	56	369	184.50	50	616	462.00	75	763
Sabaragamuwa	595.00	327.25	55	85.00	47.60	56	360	180.00	50	599	419.30	70	753
Eastern	511.31	281.22	55	180.00	100.80	56	381	190.50	50	634	475.50	75	726
Total	4,652.02	2,558.61	55	1,331.00	745.36	56	3,000	1,500.00	50	5,000	3,615.60	72	6,350

Source: Department of National Budget, Department of Treasury Operations

CHAPTER 3

Assessment of Capital and Recurrent Needs of Provinces for the Year 2026

3.1 Capital Expenditure Requirement - 2026

In fulfilling the Constitutional responsibility as required by Article 154R (3) of the Constitution, the Finance Commission has identified the Capital Needs of the Provincial Councils for the year 2026 on the basis of information furnished by the Provincial Authorities in line with the Guidelines issued by the Finance Commission on 11th of February 2025, taking into consideration the following matters.

1. The “Prosperous Country - Beautiful Life” National Policy Framework approved by the Cabinet of Ministers 03.03.2025 and other policy guidelines
2. Constitutional Mandate of the Finance Commission
3. Treasury Circulars on Budget Formulation
4. The Capital Expenditure needs submitted by the Provincial Councils seeking Government grants for the ensuing year (2026)
5. Critical development needs identified through the interactions with Provincial Authorities, and prominent development needs identified through the Medium Term Development Plans of the Provinces.
6. The needs for equitable and balanced regional development.
7. Socio-economic status of the Provinces.
8. Sustainable Development Goals (SDGs) and Targets

Based on the Finance Commission’s Guidelines, the Provincial Councils have prepared their annual capital needs and submitted to the Finance Commission seeking Government Grants from the National Budget. Base document for preparation of capital fund requirement 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.

Accordingly, the Capital needs of the Provincial Councils for the ensuing year (2026) have been assessed for the purpose of implementing their development plans utilizing capital funds that will be received from the National Budget in the form of Provincial Specific Development Grant (PSDG) for the following sectors (devolved subjects).

- | | |
|-------------------------|--|
| ❖ Education | ❖ Cultural Affairs |
| ❖ Western Medicine | ❖ Co-operative Development |
| ❖ Indigenous Medicine | ❖ Early Childhood Development |
| ❖ Provincial Roads | ❖ Estate Infrastructure |
| ❖ Irrigation | ❖ Transport |
| ❖ Agriculture | ❖ Housing |
| ❖ Livestock Development | ❖ Rural Electrification (within the scope of |
| ❖ Inland Fisheries | item no. 34 of the Provincial List) |

- | | |
|---------------------------|---------------------|
| ❖ Small Industries | ❖ Local Government |
| ❖ Sports | ❖ Tourism |
| ❖ Probation and Childcare | ❖ Rural Development |
| ❖ Social Services | ❖ Land Development |

In addition, a flexible amount has been earmarked under PSDG to filling the gaps of development needs of the Provinces and for special development projects which are not covered in the Annual Development Plans (ADPs) of the above sectors.

3.2 Assessment of Capital Expenditure Needs for the Year 2026

The provincial sectoral capital expenditure needs were primarily identified by Chief Secretaries and other relevant Provincial Authorities based on the Medium Term Development Plans giving due attention to the matters referred to in the section 3.1 above and to the information gathered by Provincial officials from the public organizations and in consultation with the Hon. Governor and political authorities.

Harnessing the development potentials of the Provinces and the optimum utilization of private sector resources at the Provincial level through government investment in economic infrastructure and social infrastructure are pivotal needs. Thus, the creation of critical infrastructure and renovating existing physical infrastructure, completion of continuation works at regional level and the capacity development of institutions and beneficiaries are inclusive of the capital needs.

On the above basis, the assessed amount of the total Provincial Specific Development Grant (PSDG) amount for the year 2026 for all nine Provinces is Rs.132,000 Mn. In addition, the Commission has recommended an amount of Rs.15,000 Mn to be allocated from Annual Budget 2026 as Criteria Based Grant (CBG) for the Provincial Councils.

Recommended amount of PSDG	Rs. 132,000 Mn.
Recommended amount of CBG	Rs. <u>15,000 Mn.</u>
The Total Capital Requirement	Rs. <u>147,000 Mn.</u>

Until 2024, the provincial revenue target was set off entirely against the recurrent expenditure needs of the Provinces. However, with effect from 2025, the Finance Commission proposed that only 50% of the total revenue collected by Provinces be set off against recurrent expenditure, while the remaining 50% be set off against capital expenditure under the Provincial Specific Development Grant (PSDG). In the pursuit of this approach, the Finance Commission recommends that 50% of the provincial revenue target for 2026 be set off against capital expenditure as shown in Annex I of this report. This adjustment results in a recommended PSDG allocation of Rs. 114,647.5 million after setting off the revenue target. Section 4.1.2 of this report provides details on matching this amount with the Capital Expenditure (binding) ceilings imposed for the year 2026, under the Public Financial Management Act, No.44 of 2024.

3.3 Assessment of Block Grant for the Year 2026

Recurrent needs of the Provincial Councils have been assessed through scrutinizing the requests submitted by the Provinces as per the guidelines issued by the Finance Commission on 7th March 2025 followed by the budget discussions had with participation of provincial authorities and officials from the General Treasury.

The assessment of the recurrent needs for 2026 is based on the following parameters:

I. Personal Emoluments

The requirement of Personal Emoluments has been assessed based on the cadre approved by the Department of Management Services as at 31.03.2025 and the following categories as agreed in the Budget discussions.

- (i) The cadre approved for Provincial Councils and Local Government institutions as at 31.03.2025 by the Department of Management Services (DMS) is 459,015.

Table 04: The cadre approved for Provincial Council and Local Government institutions by the Department of Management Services as at 31.03.2025

Description	DMS Approved Cadre as at 31.03.2025	Existing Cadre (Excluding members & others)	Vacant Cadre	Budgeted Cadre
Provincial Councils	399,526	353,562	63,123	416,685
Local Government	59,489	44,794	12,607	57,401
Total Cadre	459,015	398,356	75,730	474,086

It is noted in some instances; the total cadre of the Provincial Councils and Local Authorities are higher than the approved cadre by the Department of Management Services. Allocation for Personal Emoluments has been recommended only for approved cadre and the cadre which is expected to be approved by the Department of Management Services.

- (ii) Following amounts have been estimated for 34,467 Staff grade and Technical posts to be recruited and attached to the Provincial Councils by the following line Ministries in the year 2026.

Ministry of Education	Rs. 30,188 Mn.
Ministry of Health and Mass Media	Rs. 5,827 Mn.
Department of Animal Production and Health	Rs. 297 Mn.
Department of Agriculture	Rs. 39 Mn.

Total Personal Emoluments for Line Ministry Attachments Rs. 36,351 Mn

- (iii) Funds have been estimated for Graduates who have been confirmed in the service based policy decision by the Government (even though these cadre positions have not yet been approved by the DMS).

- (iv) Salaries for employees who have been made permanent on government decisions without approved cadre positions and the staff who are yet to be confirmed as per Management Services Circulars No. 25/2014 and 29/2019 have been estimated.
- (v) Transfers to the Local Government Authorities for salary reimbursement for the approved cadre and for the payment of allowances for members have been calculated as Rs. 34,930 Mn. Salary reimbursements to Local Government Authorities have been prepared on the assumption of deducting 40% for Municipal Councils and 20% for Urban Councils and Pradeshiya Sabhas for the year 2026 as proposed in the budget proposals in the year 2024.

When assessing the cost of personal emoluments of the Local Authorities, it was ascertained that 6,678 out of the total of 8,435 of casual employees who were made permanent in terms of the Cabinet Decision dated 20.06.2024 are shown as employees whose salary cost is to be borne by the Local Authority out of their revenue. These facts have been verified through queries. Accordingly, this includes personal emoluments for employees who are entitled for salary reimbursement from the Central Government.

- (vi) The approved cadre in three Provincial Statutory bodies i.e. the Provincial Road Development Authority (PRDA), the Provincial Passenger Transport Authority (PPTA) and the Early Childhood Development Authority (ECDA) have been considered based on the importance of activities for the payment of salaries by the General Treasury based on a previous decision of the Finance Commission taken on 25.04.2018. The expenditure for staff of other statutory bodies should be met from the earnings of those respective bodies.
- (vii) The requirement of salaries and wages, has been assessed based on the salary revision proposed by the Public Administration Circular No.10/2025 while the per head cost, have been considered for overtime and holiday payments.
- (viii) Outstanding salary arrears for Education sector have been adjusted by scrutinizing the provincial requests after verification of facts.
- (ix) Allowances for members of the Provincial Councils to be elected and personal emoluments of their personal staff have been estimated as per the circulars issued by the Presidential Secretariat.

II. Other Recurrent Expenditure:

- (i) School Nutrition Programme

According to the request made by the letter No. ED/16/02/02/03/2025 dated 20.06.2025 by the Secretary to the Ministry of Education, estimated amount of Rs.33,516 Mn (Considering that total number of 1,523,436 students in 9,099 schools for 200 school days at daily cost per meal Rs.110) for both Provincial and National Schools as Budget Estimates for School Meal Programme 2026, has been included. (Administrative costs of this project implemented by the Provincial Councils has not been included here. It is expected that those expenditure will be provided by the (Line) Ministry of Education as per a prior agreement).

(ii) Maintenance Expenditure

Need of general maintenance and assets maintenance have been assessed separately and Rs. 27,517 Mn has been estimated to ensure adequate funds for day to day requirements under general maintenance while repairing and refurbishing of provincial assets including maintenance of roads, irrigation, building and structures particularly in the Education, Health, Agriculture and other sectors.

(iii) Other Expenditure for Social Welfare

Estimated cost of grants for children with special needs and elderly care institutions, as well as assistance for patients suffering from illnesses such as kidney diseases, tuberculosis and cancer, etc., according to the proposals made by the Ministry of Health from time to time, have been included under Other Recurrent Expenditure.

(iv) Requests made by the Provincial Authorities for contingency fund amounting Rs. 2602 Mn included in our recommendation.

(v) Needs for Advanced B Account for the year 2026; Rs. 8810 Mn has been included with the objective of removing an anomaly experienced by the employees of Provincial Councils as against those of the Central government.

Table 05: Provincewise Assessed Recurrent Needs for 2026

(Rs. Mn)							
Province	DMS approved cadre of the Province as at 31.03.2025	Personal Emolument (PE)	Provincial Share of PE %	Other Recurrent Expenditure (ORE)	Provincial Share of ORE %	Total Recurrent Expenditure (TRE)	Provincial Share of TRE %
(1)	(2)	(3)	(4)	(5)	(6)	(7) = (3) + (5)	(8)
Western	87,837	104,848.85	18.08	19,061.25	18.83	123,910.10	18.20
Central	61,565	76,963.22	13.27	11,835.20	11.69	88,798.42	13.04
Southern	54,384	69,227.05	11.94	11,757.15	11.61	80,984.20	11.89
Northern	41,351	49,925.23	8.61	8,940.58	8.83	58,865.81	8.64
North Western	55,211	70,688.15	12.19	11,191.60	11.06	81,879.75	12.02
North Central	32,938	42,364.52	7.31	9,333.88	9.22	51,698.40	7.59
Uva	38,573	46,934.38	8.10	8,009.72	7.91	54,944.10	8.07
Sabaragamuwa	43,010	58,833.11	10.15	10,595.54	10.47	69,428.65	10.20
Eastern	44,146	59,992.98	10.35	10,502.01	10.37	70,494.99	10.35
Total	459,015	579,777.48	100.00	101,226.94	100.00	681,004.42	100.00

Add -	Assessed Contingency Fund - 2026	2,602.00
	Assessed Advanced B Account - 2026	8,810.00
Assessed Total Recurrent Needs		692,416.42

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

Column 5 - Includes Expenses for School Nutrition Program, Maintenance Expenses, Supplies and Contractual Services. (this excludes Stamp Duty & Court Fines which have to be transferred to Local Authorities.)

Accordingly, the Provincial Recurrent Need for the year 2026 is Rs. 692,416 Mn.

3.4 Commission's recommendations and binding expenditure limits decided by the Government

As required under Article 154R (3) of the Constitution, the Finance Commission systematically assessed the provincial needs as described above and forwarded its recommendations to the General Treasury on 14th of August 2025 regarding the essential capital and recurrent expenditures for the nine Provincial Councils. However, in accordance with the provisions of the Public Finance Management Act, No. 44 of 2024, the total allocations proposed for distribution among the nine Provinces amount to Rs. 77,000 million as capital grants and Rs. 533,000 million as recurrent grants. The Appropriation Bill presented for the year 2026 also includes similar provisions. Accordingly, the Finance Commission has distributed the above capital allocations among the Provinces based on the recommended percentages and has informed the Chief Secretaries of the respective Provinces. Although, due to the shortfall in the provision (binding) made overall on recurrent expenditure, compared to the recommended amount it is anticipated that the issues highlighted under Paragraph 4.3 of Chapter 4 of this report will have to be faced in the future.

3.5 Provincial Revenue

The revenue of the Provincial Councils is mainly received under the following two categories.

I. Government revenue transfers

After the major source of devolved revenue viz the Business Turnover Tax (BTT) was abolished and it was supplemented by a special revenue sharing system through the Fiscal Policy Circular No. 01/2010 issued by the General Treasury, which was introduced to transfer the collected revenue to the Provincial Councils according to the following percentages.

- a) 33 1/3% of the Nation Building Tax (NBT)
- b) 100% of Stamp Duty
- c) 70% of Vehicle Registration Fees

The amounts to be transferred to the Provinces from the Government revenue are decided as per the instruction in the aforesaid Fiscal Policy Circular. After the introduction of Government revenue transferring mechanism, revenue receipts of the Provincial Councils were increased although, the abolition of NBT in 2019 again resulted a significant decrease in Provincial revenue.

II. Revenue collection from devolved sources

Devolved revenue sources were made 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 include Stamp Duty, Motor Vehicle License Fees, License fees on Liquor and Court Fines. The Stamp Duty and Court Fines have to be transferred to Local Authorities in accordance with the law.

The Finance Commission sets the revenue targets for the ensuing year for devolved revenue sources of the Provinces (Stamp duty, Court fines, Motor vehicle annual license fees, License fees on Liquor and other income) during the need assessment process. 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 provincial revenue collection for the year 2026, including Stamp Duties and Court Fines, amounts to Rs. 81,610 million. Out of this, the amount available for use by the Provincial Councils for 2026, excluding Stamp Duties and Court Fines, is Rs. 34,705 million. This is because Stamp Duties and Court Fines have to be transferred to the Local Authorities. The revenue forecast prepared for the year 2026, under the revenue sources assigned to the Provincial Councils, are shown in Table 06.

Table 06: Revenue Targets of the Provincial Councils in 2026

(Rs. Mn)							
Province	License fees on Liquor	Motor vehicle revenue license Fees	Stamp Duty (SD)	Court Fines (CF)	Others	Total (Excluding SD & CF)	Total (Including SD & CF)
Western	800	5,600	24,000	2,100	7,500	13,900	40,000
Central	400	1,450	2,500	170	900	2,750	5,420
Southern	155	1,850	5,400	925	1,420	3,425	9,750
Northern	40	700	2,100	500	960	1,700	4,300
North Western	180	2,100	3,400	490	2,300	4,580	8,470
North Central	70	920	320	750	1,761	2,751	3,821
Uva	120	700	700	300	700	1,520	2,520
Sabaragamuwa	125	1,250	1,500	400	1,400	2,775	4,675
Eastern	94	805	900	450	405	1,304	2,654
Total	1,984	15,375	40,820	6,085	17,346	34,705	81,610

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

The forecasted amount of Rs. 46,905 Mn from Stamp Duties and Court Fines needs to be transferred to the Local Authorities out of the total revenue for 2026. Table 07 provides the breakdown of Stamp Duties and Court Fines to be transferred to the Local Authorities for each Province.

Table 07: Stamp Duty and Court Fines to be Transferred to the Local Authorities for 2026

(Rs.Mn)

Province	Stamp Duty	Court Fines	Total	Provincial Share (%)
Western	24,000	2,100	26,100	55.64
Central	2,500	170	2,670	5.69
Southern	5,400	925	6,325	13.48
Northern	2,100	500	2,600	5.54
North Western	3,400	490	3,890	8.29
North Central	320	750	1,070	2.28
Uva	700	300	1,000	2.13
Sabaragamuwa	1,500	400	1,900	4.05
Eastern	900	450	1,350	2.88
Total	40,820	6,085	46,905	100.00

The Table 08 below shows the provincial revenue as percentage (%) of expenditure for last 06 years.

Table 08: Provincial Expenditure and Revenue Receipts (2019 - 2024)

(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 = (5/2)
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
2023	431,014	34,752	11,737	46,489	11
2024	474,677	33,243	16,060	49,303	10

Note: *Excluding Stamp Duty and Court Fines (which have to be transferred to Local Authorities)

It should also be noted that the Secretary to the President, in a letter dated 2020.02.19 advised that Provincial Councils and Local Government Authorities should not revise taxes, until their tax structures are reviewed. According to the information given by Provincial Authorities income of the Provinces is sufficient only for covering approximately 6% of their expenditure of the Provinces except the Western Province. Therefore, harnessing the full potential of revenue capacity of Provincial Councils and Local Government Authorities is a prioritized requirement.

Tax rates of the some revenue sources had been decided long ago and hence those rates have to be amended to suit the present context. The provincial Councils suffer revenue loss due to non amending the rates and non receipt of due revenue from Line Ministries.

Table 09 below shows the comparison between revenue targets and revenue collection over the last 05 years.

Table 09: Provincial Devolved Revenue Targets and Collection (2019-2024)

Province	(Rs.Mn)																	
	2019			2020			2021			2022			2023			2024		
	Target	Collection	%	Target	Collection	%	Target	Collection	%	Target	Collection	%	Target	Collection	%	Target	Collection	%
Western	26,385	21,987	83	26,750	19,521	73	25,400	28,285	111	23,175	35,295	152	27,806	37,607	135	30,700	38,808	126
Central	4,078	3,677	90	4,195	3,304	79	4,650	3,953	85	3,940	4,615	117	4,375	4,599	105	4,505	5,556	123
Southern	4,366	4,580	105	4,550	4,359	96	4,846	5,304	109	4,037	5,954	147	4,883	6,973	143	6,006	8,149	136
Northern	1,580	1,990	126	1,860	2,074	112	2,135	2,313	108	2,345	2,948	126	2,499	3,839	154	3,040	4,068	134
North Western	4,707	4,678	99	4,970	4,438	89	5,110	5,825	114	5,252	7,012	134	5,340	9,143	171	6,345	8,116	128
North Central	1,541	1,691	110	1,826	1,904	104	1,951	1,888	97	1,812	2,180	120	1,955	2,914	149	2,225	3,402	153
Uva	1,495	1,389	93	1,605	1,416	88	1,640	1,604	98	1,629	1,760	108	1,500	2,032	135	1,790	2,491	139
Sabaragamuwa	2,195	2,720	124	2,275	2,350	103	2,500	2,508	100	2,477	2,810	113	2,535	4,046	160	2,920	4,545	156
Eastern	1,640	1,523	93	1,725	1,637	95	1,780	1,770	99	1,752	2,057	117	1,870	2,813	150	2,075	2,644	127
Total	47,987	44,235	92	49,756	41,003	82	50,012	53,450	107	46,419	64,631	139	52,763	73,966	140	59,606	77,778	130

Note: Revenue collection including Stamp Duty and Court Fines

In assessing the provincial revenue, the revenue transferred to Provincial Councils by the Government as estimated by the Department of Fiscal Policy has also taken in to consideration.

Table 10 below shows the targets for such revenue and actual amount transferred.

Table 10: Target and Transfer of the Revenue from Treasury (2021-2024)

Province	Rs.Mn											
	2021			2022			2023			2024		
	Target	Release	%	Target	Release	%	Target	Release	%	Target	Release	%
Western	6,720	5,001	74	6,720	4,734	70	6,000	5,680	95	7,608	7,669	101
Central	1,260	952	76	1,260	897	71	1,125	1,093	97	1,427	1,459	102
Southern	1,260	951	75	1,260	893	71	1,125	1,074	95	1,427	1,470	103
Northern	700	513	73	700	531	76	625	540	86	793	784	99
North Western	1,260	954	76	1,260	1,096	87	1,125	998	89	1,427	1,518	106
North Central	700	538	77	700	500	71	625	600	96	793	702	89
Uva	700	522	75	700	493	70	625	586	94	793	813	103
Sabaragamuwa	700	536	77	700	504	72	625	617	99	793	840	106
Eastern	700	533	76	700	539	77	625	549	88	793	805	102
Total	14,000	10,500	75	14,000	10,187	73	12,500	11,737	94	15,851	16,060	101

Source: The Department of Fiscal Policy and provincial revenue collection reports

Accordingly, in certain years, it will be seen that the full Provincial share has not been transferred to the Provincial Councils. Because of this, the Provincial share transferred in 2024 exceeds the target.

CHAPTER 4

Recommendation on Apportionment of Government Grants among Provincial Councils for the Year 2026

4.1 Recommendation on apportionment of Capital Grants among the provinces

As per Sub-Article (3) of the Article 154R of the Constitution, the Government shall allocate adequate funds from the annual budget for the purpose of meeting the Needs of the provinces, on the recommendation of and in consultation with the Finance Commission. To facilitate this process, Finance Commission has to make recommendations to the Government on funds to be allocated from the Annual Budget to the Provincial Councils.

Further, as per sub-Article 154R (4), the Finance Commission submits recommendations to the Hon. President as to the principles on which such funds are granted annually by the Government for the use of Provinces, should be apportioned between Provinces. Sub-Article 154R (5) of the Constitution provides that the above stated principles have to be formulated with the objective of achieving balanced regional development in the country by taking into account of the following aspects.

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

4.1.1. Methodology used for the apportionment Capital Funds among Provinces

In accordance with Article 154R (5) of the Constitution, to achieve balanced regional development as envisaged by the Constitution, an index for apportionment of funds has to be formulated using the aforementioned criteria as well as other criteria that are both meaningful and quantifiable. Accordingly, in preparing the index for 2026, the Finance Commission has decided to incorporate the aforementioned criteria (a) and (b), along with the following criteria (iii), (iv), (v), and (vi) to depict the aforesaid (c) and (d) criteria, in a quantifiable manner for each province.

- (i) Population ^a
- (ii) Median monthly household per capita income ^b
- (iii) Percentage of candidates qualified for universities in Science Stream ^c
- (iv) No. of poor population ^d
- (v) No. of persons per Medical Officer ^e
- (vi) Percentage of under 05 years age children with Wasting (Under nutrition) ^f

a,b,d - Department of Census and Statistics
e - Ministry of Health and Mass Media

c - Department of Examinations
f - Family Health Bureau

Based on data related to the above variables, a composite index for each province was developed using a multivariate statistical technique known as Factor Analysis, with the assistance of Dr. J.S.N.P. Dharmawardhana, Deputy Director of the Department of Census and Statistics on behalf of that Department. Given the significant disparities among Districts within each Province, the composite index was first calculated at the District level. The Provincial Composite Index was then derived by aggregating the District indices within each respective province. The most up-to-date data available were used for this calculation, sourced from the Department of Census and Statistics, the Family Health Bureau, the Department of Examinations, and the Ministry of Health. Among the said variables, those listed under (i), (iv), (v), and (vi) show a positive correlation with the composite index, while variables (ii) and (iii) exhibit a negative correlation. For instance, a higher median monthly household per capita income has a negative impact on the composite index. Accordingly, an increase in per capita income in a given province results in a lower percentage allocation of funds. Conversely, a higher population value has a positive impact on the Composite Index, meaning that Provinces with larger populations receive a higher share of allocated funds.

Using the statistical formula developed through the aforementioned methodology, the Finance Commission has recommended the percentage allocations of capital funds among provinces from the national budget for the year 2026. The percentages used for the apportionment of capital grants among provinces are presented in the Table 11 below.

Table 11: Percentage values as per the Composite Index used for apportionment of Capital Funds among Provinces for 2026

Province	Provincial Percentage values as per the Composite Index
Western	9.24
Central	11.43
Southern	10.97
Northern	11.46
North Western	10.89
North Central	11.28
Uva	11.89
Sabaragamuwa	11.55
Eastern	11.29
Total	100.00

Even though the formula worked out is a well thought out one for the objectives outlined in the Constitution, the usefulness of that formula has become very limited. This is primarily because the capital allocations received by Provincial Councils (apportioned to the provinces based on the above formula) are relatively small when compared to the capital provisions allocated to line ministries (amounting approximately 15% of the total capital expenditure). Furthermore, line ministries, which receive comparatively larger allocations, do not follow a formula similar to the one used by the Finance Commission for making public investments in different regions. Therefore, the Finance Commission recommended last year that line ministries be advised to

adopt a formula similar to the one used by the Commission (not necessarily the same formula) when allocating funds across different regions.

Nevertheless, using the percentage values mentioned above and based on the recommended amounts of funds outlined in Chapter 3 of this report, the Finance Commission has recommended the capital grant requirements for Provincial Councils for the year 2026, as presented in Table 12 below.

Table 12: Apportionment of Capital Funds Recommended for each Province as per the Percentage values of calculated for the Year 2026

Province	Recommended Capital Grants (Rs. Mn)		Total recommended capital grants (Rs. Mn)	Provincial percentage of capital grants (%)
	Provincial Specific Development Grants (PSDG)	Criteria Based Grants (CBG)		
Western	12,197	1,386	13,583	9.24
Central	15,088	1,715	16,803	11.43
Southern	14,480	1,645	16,125	10.97
Northern	15,127	1,719	16,846	11.46
North Western	14,375	1,633	16,008	10.89
North Central	14,889	1,692	16,581	11.28
Uva	15,695	1,784	17,479	11.89
Sabaragamuwa	15,246	1,733	16,979	11.55
Eastern	14,903	1,693	16,596	11.29
Total	132,000	15,000	147,000	100

Similar to the previous year, the Finance Commission recommends that a portion of the revenue estimated for the Provinces for the year 2026 be set off to meet the provincial capital expenditure requirements. Accordingly, it is recommended that 50% of the total estimated revenue target for 2026 be matched with capital expenditure and the recommended provincial capital allocations after adjustment with the revenue targets are presented in table 13 (If the setting off of revenue against the capital expenditure is allowed as proposed in section 3.2 of this report).

Table 13: Recommended Amounts of Capital Grants for the Year 2026 with the Adjustment of Revenue Targets for PSDG

Province	Recommended Capital Grants (Rs. Mn)		
	PSDG Amount after Revenue Adjustment	CBG	Total
Western	9,767.00	1,386.00	11,153.00
Central	12,977.00	1,715.00	14,692.00
Southern	12,415.00	1,645.00	14,060.00
Northern	13,564.00	1,719.00	15,283.00
North Western	12,142.00	1,633.00	13,775.00
North Central	12,835.00	1,692.00	14,527.00
Uva	14,197.00	1,784.00	15,981.00
Sabaragamuwa	13,151.00	1,733.00	14,884.00
Eastern	13,599.50	1,693.00	15,292.50
Total	114,647.50	15,000.00	129,647.50

Details of proposed setting off of revenue targets against estimated capital expenditure needs of each Province is given in the Annexure I of this report.

4.1.2 Recommendations of the Finance Commission and the Binding ceilings of expenditure decided by the government on Capital Grants of 2026

The Finance Commission, following a elaborated process, recommended the capital requirements for Provincial Councils for the year 2026 in accordance with the provisions of Sub-Article 154R (3) of the Constitution. However, under the Medium-Term Fiscal Framework for 2025–2030 and in line with the provisions of the Public Financial Management Act, the binding ceiling for capital grants to Provincial Councils for 2026 has been set at Rs. 77 billion by the Treasury (This amount has been allocated across Provincial Councils based on the proportions recommended by the Commission and embodied in the Appropriation Bill for 2026). Although this binding ceiling represents only around 52% of the amount recommended by the Commission, it is relatively higher compared to the budgetary allocations of the previous years. (For instance, during the period from 2019 to 2024, the actual budgetary allocations averaged only around 26% of the amounts recommended by the Commission). In this backdrop, the Commission has advised Provincial Chief Secretaries to prepare their annual development plans for 2026 based on the above-mentioned binding ceilings.

4.1.3 Planning in advanced on Capital expenditure for the year 2026

In each of the previous years, the funds allocated to Provincial Councils through the National budget were communicated only after the passage of the Appropriation Act for the respective year by Parliament, along with the guidelines issued by the Finance Commission for the preparation of annual development plans. Based on these guidelines, the annual development plans prepared by the Provincial Authorities were submitted to the Finance Commission.

Following the procedure outlined in Section 2.2 of the Chapter 2 of this report, the Commission reviewed the plans and conveys its concurrence together with proposed amendments to the Provincial Authorities by the month of March. Under this arrangement, the time remaining in the year to implement the Annual Development Plan, (excluding continuation activities), is approximately nine months. (Although Line Ministries do not follow a similar procedure, they used to issue instructions to District Secretariats/ District offices during the same period to implement development projects using the allocations provided through the budget proposals).

In the past, it was difficult to inform the Chief Secretaries in advance on the allocation limits of the ensuing year with certainty until the Appropriation Act is approved by the Parliament as the amount that will be allocated to the Provincial Councils out of the amount recommended by the Finance Commission has been uncertain. However, for the year 2026, the amount to be allocated to each public institution including the Provincial Councils has been decided by the government in terms of Section 15 of the Public Financial Management Act based on the limits fixed in the Medium Term Fiscal Framework of the government for 2025 - 2030 and those amounts have been included in the Annual Appropriation bill for the year 2026. Therefore, it is now possible to inform the Provincial Councils with certainty of the amounts to be allocated to each Provincial Council for the year 2026, subject to approval of the Parliament. Accordingly, the expectation of the Commission was to expedite the planning process of the Provincial Councils by making those institutions aware of respective annual Capital grants well in advance. At the meeting chaired by the Hon. President held on 11.09.2025 at the Presidential Secretariat to discuss on the Provincial Budget, Chairman of the Finance Commission indicated that the Finance Commission would make arrangements as stated above.

Therefore, the expected amount of funds be allocated to the Provincial Councils for the year 2026 from the Annual Budget was apportioned between the Provincial Councils according to the percentages recommended by the Commission as explained in the paragraph 4.1.1 above. The Chief Secretaries were informed by letter dated 07.10.2025 to prepare the Annual Development Plan for the year 2026 based on said allocation following the Guidelines embodied therein.

As emphasized by the Public Financial Management Act No. 44 of 2024, in order to obtain the maximum benefit from the public investments, instructions were given that it is compulsory to properly appraise all Projects/activities which are included in the Development Plan (as provided in the Provincial Financial Statutes) and also to incorporate a statement from the Chief Secretary to that effect.

Accordingly, the following table shows the amount of Capital Grants allocated for each Provincial Council (Each Provincial Council was informed separately, and a copy of the said Guidelines issued to the Western Provincial Council is attached herewith as Annexure II).

By the aforementioned Guidelines, Chief Secretaries have been instructed to submit the Annual Development Plans prepared by the Provincial Councils for the year 2026 to the Finance Commission before 15th of November 2025. It is also planned to grant concurrence of the Finance Commission for those Annual Development Plans before 31st of December, 2025 after reviewing the said Plans with the participation of all relevant stakeholders.

Table 14: Tentative Capital Grant allocations for Provincial Councils from the Budget 2026 (Provincial Specific Development Grant and Criteria Based Grant)

(Rs. Mn)

Province	Provincial Specific Development	Criteria Based Grant	Total
Western	6,403	600	7,003
Central	7,921	743	8,664
Southern	7,602	713	8,315
Northern	7,942	745	8,687
Northwestern	7,547	708	8,255
North Central	7,817	733	8,550
Uva	8,240	773	9,013
Sabaragamuwa	8,004	751	8,755
Eastern	7,824	734	8,558
Total	69,300	6,500	75,800

4.2 Recommendation of Block Grant to the Provincial Councils

The Block Grant provided for recurrent needs of the Provincial Councils totally depends on the estimated revenue of the respective Provincial Council, the revenue transferred from the Government to the Provincial Councils and the assessed final amount of Recurrent Expenditure requirements of the Provincial Councils.

In accordance with the guidelines issued on March 7, 2025 by the Finance Commission which emphasize the importance of prudent planning of recurrent expenditures, needs of the recurrent budget submitted by the Provincial Councils were reviewed. Following this review, the Commission organized a series of discussions with the participation of relevant provincial authorities, officials from the Department of National Budget, Department of Management Services to assess the recurrent expenditure needs and the devolved revenue targets of the provinces.

In the process of finalizing the Recurrent Grant for the Provinces, the Circulars recently issued by the line Ministries and the decisions taken at the provincial budget discussions were also considered.

4.3 Setting off Provincial Revenue with the Capital and Recurrent Expenditure

The general practice followed by the General Treasury in setting off of the provincial revenue against the Block Grant for Recurrent needs, is not the intention of the constitutional provisions in the establishment of the Provincial Councils and devolving certain revenue sources to the Provincial Councils.

Therefore, the Commission strongly recommended in 2023 and 2024 to set off the provincial devolved revenue against the provincial Capital Grant, to achieve a balanced development among the Provinces. Even though, these recommendations were accepted by the Hon. President and the Cabinet of Ministers, that was not implemented even in the year 2025. Excluding the stamp duty and court fines which have to be transferred to the Local Authorities, the estimated provincial revenue target is Rs. 34,704.5 Mn for the year 2026. However, the Finance Commission this time also recommends that instead of complete set off of the provincial revenue with the recurrent expenditure, to set off 50% with the Capital Grant and the remaining 50% with the Recurrent expenditure for the year 2026.

Since the flow of resources has been logically distributed among the Provincial Councils, the Finance Commission can assure that this proposal does not confer any special advantage to any Province. (since the total Capital Grant transferred by the Treasury and the provincial revenue which has been set off against that amount constitute the entire Capital Grant).

As per Sub-Article 154R (3) of the 13th Amendment to the Constitution, based on the assessment of adequate funds for the Provincial Councils, the Finance Commission recommended Rs. 692,416 Million to the Treasury, as the total provision for Recurrent expenditure of the Provincial Councils for the year 2026, by letter No. FC/RCA/GEN/06/01/2026 dated 2025.08.14.

However, as per the expenditure ceiling depicted in the Medium Term Fiscal Framework of 2026-2023, in line with the provisions of the Public Financial Management Act No. 44 of 2024, ceiling of the provisions allocated for recurrent expenditure for the Provincial Councils has been informed by the Secretary to the Treasury. Those binding ceilings have been embodied in the Appropriation Act for 2026 and accordingly, the Block Grant that will be allocated for Provinces from the Annual Budget is Rs. 533,000 Million.

However, the following issues may be arisen in future, due to the allocation of lower amount to the Provincial Councils than the amounts recommended by the Finance Commission through a proper assessment after setting off the estimated revenue in full.

- (i) Supplementary provisions will have to be provided for payment of salaries for new appointments within the approved cadre
- (ii) Supplementary provisions will have to be provided for the new appointments given at the National level and attached to the Provincial Councils
- (iii) Provisions will not be sufficient for overtime payments and holiday payments specially for the Health Sector
- (iv) There may be issues arisen due to difficulties in granting loan facilities for officers of the Provincial public service (the facility which is enjoyed by other public servants)
- (v) Non-availability of provisions for payment of salary arrears
- (vi) Non-availability of provisions for payment of water and electricity bills of the schools

- (vii) There may be issues arisen in making payments for the services required for maintaining of provincial institutions
- (viii). Difficulties may arise in carrying out maintenance activities of the buildings and constructions

The Finance Commission is of the view that it is appropriate to give due consideration to the aforementioned conditions that may arise during the daily service deliveries of the provincial public services and implementation of new development projects in the year 2026.

CHAPTER 5

Special Recommendations

This chapter includes several recommendations that are considered appropriate for implementation by the Government in a manner complementary to the overall development strategy of the government enabling the Provincial Council to perform its functions more effectively.

(1) Avoiding delays in implementation of projects in 2026 through planning ahead of time

According to the information available to us, only a relatively low percentage of the capital grants allocated to the Provincial Councils, as well as the budgetary provisions allocated to the line ministries for the year 2025, have been spent. A main factor that influenced this situation was that all these public institutions, including the Provincial Councils commenced their project planning for the year 2025 only after the passage of the Appropriation Bill for the year by Parliament, i.e., after 21st of March 2025. A common weakness that was observed even in the previous years was that these institutions, including the Provincial Councils, were unable to prepare their plans for the ensuing year well in advance. Since the amounts that would be allocated for the Provincial Councils (as well as for other spending agencies) for the ensuing year in the Appropriation bill are in the public domain in the fourth quarter of the current year, one solution would have been to prepare annual development plans using those figures. However, this was not possible in the past, as there was no assurance as to whether the amounts included in the Appropriation Bill would be approved by Parliament, which has full control over public finance. Therefore, there was a difficulty in using that information with certainty for the planning process.

However, as the Public Financial Management Act, No. 44 of 2024 is now in force for the year 2026 and the binding ceilings of expenditure decided by the Treasury in accordance with the Section 15 of the said Act, have been incorporated in the Appropriation Bill for the year 2026. Therefore, now it is possible to use the expenditure ceilings embodied in the said Act with certainty for the preparation of Plans for the year 2026 subject to the approval of Parliament.

Under the aforesaid special circumstances, The Finance Commission has apportioned the total funds already allocated (in the form of binding ceiling) to the Provincial Councils among those Provincial Councils based on the percentages recommended in the section 4.1.1 of this report and issued guidelines by letter dated 07th of October 2025 to the Chief Secretaries of the Provinces for preparation of the Annual Development Plans for the year 2026. Annual Development Plans prepared based on those guidelines have to be submitted to the Finance Commission prior to 15.11.2025. Those plans will be reviewed with the participation of all the stakeholders and it has been planned to grant concurrence of the Finance Commission for those plans latest by 31.12.2025. (Please refer to Section 4.1.2 of this report).

If the same procedure stated in the above could be applied for the Line Ministries, those Ministries will be able to plan the projects to be implemented in 2026 beforehand based on the binding ceilings for the ensuing year communicated to them by the Treasury by utilizing the allocations for the year 2026. The efforts taken by the Finance Commission in the past to avoid

occurrence of duplication by incorporating the projects to be implemented in each year by respective Line Ministries into the Annual Development Plan of the Provinces for the respective years, were unsuccessful as the most of the Line Ministries are not preparing their Annual Development Plans well in advanced. Therefore, if the approach proposed in this paragraph for the Provincial Councils for the year 2026, could also be applied to the Line Ministries, those projects which will be implemented by those Ministries can be properly incorporated in to the Provincial Development Plans. This would facilitate the efficient utilization of public investments by avoiding duplication. The special advantage that could be gained by the Line Ministries through this approach is that those Ministries will be able to utilize higher percentage of allocations for the respective year.

(2) Desirability of Implementing Programmes for the Development of Micro and Small-Scale livelihood development Enterprises in a uniform manner at National and Provincial Levels

The majority of the micro and small-scale livelihood development programmes relating to subjects devolved to Provincial Councils such as Agriculture and Livestock are being implemented on a cost-sharing basis, whereby the Provincial Council provides 50% of the project cost as an outright grant and the beneficiary contributes the remaining 50%. An analysis of data obtained from Provincial Council authorities indicates that these programmes have been mostly implemented under the Agriculture, Livestock, Fisheries, Small Industries, Rural Development, and Cooperative sectors. These programmes also aim to uplift rural livelihoods while introducing new technology and modern production methods and practices.

According to the data obtained from the Provincial Councils during the period of 2021-2025 approximately 30% of the budgetary allocations made under the provincial Specific Development Grant for the agriculture, livestock, and inland fisheries sectors have been directed to these projects. Similarly, in the sectors of rural development, small industries, and cooperative development, about 7%–10% of the total allocations have been assigned to these projects.

In the Agriculture sector, main activities include the provision of high-quality seeds and planting materials, construction of agro wells, providing power generators, construction of rain shelters, supplying Parachute Trays, distribution of agro-processing and packaging machinery, construction of protective fences, provision of air rifles for crop protection, provision of protected house cultivation materials, promotion of Good Agricultural Practices (GAP), providing water supply equipment etc. The Livestock Sector covers activities related to poultry, dairy cattle, rearing pigs, and goat farming. In addition, provision of fishing gear such as boats and nets for inland fishermen, assisting ornamental fish farming and providing machinery and equipment for small-scale industries and other self-employment activities are also supported through the same mechanism of 50% Government grant given as outright grant.

During review meetings on the Annual Development Plans (ADPs) of Provincial Councils, it transpired that although, these livelihood development programmes have been repetitively implemented in recent years whereas, the expected outcomes of these interventions have not been achieved. New technology has not been popularized as expected, and adoption of Good Agricultural Practices have been given up once direct government financial support ended.

The following issues were observed during these discussions:

- i. As the 50% contribution provided by the Provincial Council is an outright grant, many participants who do not have genuine interest, viable business plans, or the necessary technical capacity for the intended entrepreneurial activity joined primarily to obtain the grant (i.e. subsidy)
- ii. Some projects/activities failed to generate the expected income, even though, the beneficiaries had to invest their personal funds, resulting in the activities becoming economically remunerative for them.
- iii. Beneficiaries often disregarded the subsidy by the Government in their cost calculations, creating a false impression of profitability of the activity.
- iv. Since the Provincial Council's 50% contribution is subject to a pre-determined maximum limit, those with the potential to develop as entrepreneurs but unable to secure capital were forced to limit their activities to an unprofitable scale. However, if this financial assistance is provided as a loan, it would allow the beneficiary to cover even the full cost of the project/activity through the loan.

The total government contribution to projects implemented by the Provincial Councils over the past five years (2021–2025), under the 50% outright grant scheme, amounted to approximately Rs. 4,600 million. This indicates that the beneficiaries contributed an equal or greater amount to these projects. Since these projects did not achieve the expected outcomes, both the government's contribution and the beneficiaries' contributions were wasted.

Based on these findings, Provincial Authorities were advised that it would be appropriate to evaluate the success of similar programmes implemented during recent year before repeating in 2025 in a similar manner. Accordingly, a scientific ex- post evaluation conducted on backyard poultry farming projects implemented by the Sabaragamuwa Provincial Council confirmed the observations referred to above. In discussions, particularly concerning the Development Plan of 2025, Provincial Authorities were made aware of the suitability of providing government assistance as an interest-free/concessional loan to beneficiaries instead of an outright grant. As a result, nearly all Provincial Councils have commenced the implementation of interest-free/concessional loan schemes in 2025 instead of direct grants.

Under this model, beneficiaries are selected by Provincial Authorities with the assistance of Divisional Secretaries and field officers. Funds allocated by the Provincial Council are deposited with a selected state bank through which the Loan programme is implemented, and an agreed amount is provided to cover administrative costs of the bank. Loan repayments are credited to a revolving fund established for this purpose which is managed by the Provincial Council, ensuring the sustainability of the programme.

The effectiveness of this new approach, however, is being undermined by the simultaneous implementation of similar programmes by Line Ministries, (Central) Government Departments, and institutions such as the Mahaweli Authority, which continue to offer non-refundable financial assistance for the same target groups in the same locality and sectors. For examples;

- (i) The (Line) Ministry of Agriculture (under agriculture sector) provides up to Rs. 500,000 under a 50% Government contribution (given as an outright grant) contribution model for fruit cultivation, local root crops cultivation, cultivation in protected houses, mushroom production, and bee-keeping projects.
- (ii) The same Ministry (Livestock sector) direct grant-based programs are also implemented for poultry, dairy, and goat farming.
- (iii) The Ministry of Rural Development provides outright grants up to Rs. 200,000 for livelihood development projects.
- (iv) The Mahaweli Authority provides agricultural equipment on a 50% government contribution (outright grant).
- (v) The Samurdhi Development Programme also continues similar schemes.

It has been noted that the simultaneous implementation of grant-based and loan-based schemes by two different entities (by Central Government institutions and Provincial institutions) for identical beneficiaries within the same localities has created anomalies/ inconsistencies. Under such circumstances, it will be difficult to encourage public participation in the Provincial Council's interest-free/concessional loan programmes although it is more sustainable.

Therefore, to achieve sustainable development by maximizing the return on investment for the promotion of micro and small-scale economic activities for livelihood development and by encouraging beneficiaries to shift from a dependency mentality to an entrepreneurial mind-set, this matter requires a thorough review.

The Finance Commission therefore recommends that non-repayable (outright) financial assistance for livelihood development be confined to the following categories while it is more appropriate that all other financial assistance granted solely for commencing economic activities be provided to beneficiaries under interest free/ concessional loan schemes.

- (i) Persons with special needs;
- (ii) Persons reintegrating into society after being under probation;
- (iii) Persons who are unable to engage in normal economic activities due to chronic illnesses or disabilities;
- (iv) Single mothers; and
- (v) Youth who have undergone vocational training and are pursuing self - employment in that field (for initial capital).

Accordingly, both National and Provincial level institutions should adopt a uniform methodology in implementing such financial assistance programmes. Therefore, the Finance Commission proposes that, for all other micro-livelihood development and small-scale entrepreneurial development activities, government and provincial financial support should be provided as interest-free or concessional loans, ensuring accountability, efficiency, and long-term sustainability.

(3) Planning of the foreign funded projects on devolved subjects in a more appropriate manner

It can be seen that most of the foreign-funded projects related to devolved subjects are planned centrally, while the Line Ministries retaining the authority to implement the proposed projects (including the provincial components of the projects), without assigning required authority to the Provincial Councils. One reason for this situation until 2024 was that the Provincial Councils were not identified as special spending agencies while the Provincial Chief Secretaries were not designated as Chief Accounting officers. A significant shortcoming in the planning and execution of these projects in this manner was the failure to integrate those projects or activities funded by foreign financing into the provincial annual development plan. In certain instances, these projects or activities were not identified as high-priority projects as by the provincial council.

Since the Capital Grants received by the Provincial Councils as well as Local Authorities were meagre in the past, there was a tendency for authorities of the Provincial Councils and local authorities to accept funds from any source without thorough scrutiny. Many line ministries implemented foreign funded projects not through the provincial councils which possess Human Resources and Capacity to implement those projects but via project offices established by the line ministries. Often, provincial-level project offices were also established, and additional allowances were paid to provincial officers who were employed in these projects resulting higher administrative costs. After completion of the project, there was no one to properly hold the responsibility for the created assets or for the services to be provided under those projects. As a result of not getting the involvement of the Provincial Councils from the outset of the planning process, there was no robust plan on the required human resources for effective operation of these capital assets and on continuous delivery of services through proper maintenance of assets created by these projects.

As a result of drawing the attention of the authorities on those deficiencies, the “Primary Health Care Services Project (PHSP)” related to the Health Sector which was funded by the World Bank during 2004 - 2024 was implemented within the mechanism of the Provincial Councils without hindrance by providing the required funds directly to the Provincial Councils. However, the “Primary Healthcare Service Enhancing Project (PHSEP),” which was an extension of the PHSP Project, have been planned centrally as described in the first para above creating a large number of practical difficulties. Contract Management of a large number of small scale activities to be implemented in relation to the Provincial Component of the respective project have to be implemented by the Health Ministry itself at the national level while all the payments have to be made directly by the Line Ministry. Also, certain technical issues may arise when the payments are made by the line ministry for the assets which are not owned by the line Ministry. Under these circumstances, it can be observed that some activities of the respective project are not being properly implemented.

By properly understanding the aforesaid weaknesses, the project of “Strengthening Integrated Health Care and Governance for Universal Health Coverage Program 2025-2030” which is planned to be implemented in relation to the Health Sector under the funding from the Asian Development Bank, has been planned with proper coordination with the Provincial Councils from the inception of the project. Under the Provincial component of this project, implementation of the procurement activities (in line with the Procurement guidelines) have been assigned to the Provincial Council. A notable feature of this project is that, instead of funding being allocated via

the project mode, the project operates in Budget Support mode in which the funds are settled- off for the activities contained in the provincial plan. This approach can be observed as a methodology to make the foreign-aided project more effective.

Under the foreign funded projects directly implemented by line Ministries, certain activities and projects with relatively lower priority have been implemented in place of those with high priorities identified by the Provincial Councils. Most of those constructions were not usable or under- utilized. Although, certain such projects could have been constructed in a lower cost under local funding those have been implemented with a higher cost under the foreign funds (since, the project cost under donor funding includes the payments made to the foreign consultants who were employed under those activities). Therefore, it is recommended to instruct the relevant authorities to ensure the following aspects when planning the foreign funded projects related to the provincial Councils.

- i. To obtain full participation of the Provincial Councils when planning foreign funded projects which are having a provincial components and applying a less- complicated funding mode.
- ii. To avoid incorporation of certain small scale activities/projects such as construction of markets, rural roads, assembly halls, etc. under the foreign financing as those activities can be implemented under a lower cost by utilizing local funds.
- iii. To plan the foreign funded projects as much as possible in the budget support mode which is targeted towards planned activities in place of the project support mode in which the funding is directed to the project.
- iv. To allow Provincial councils to proceed with constructions and purchasing (under the approved procurement procedures) related to the provincial components of the project and those powers should not be centralized in the Line Ministry.

(4) Implementing the re-organizing the schools in rural areas and estate plantation areas as a pilot project

This Commission has emphasized in its Recommendations submitted to the Hon. President for the years of 2024 and 2025 on the desirability of conducting a proper study and amalgamating schools of less than 50 number of students located in rural areas and estate plantation areas with the nearby schools with comparatively more facilities, considering the fact that the students in those small schools do not receive quality education. Hon. President also has stated in several instances on the necessity of directing the students of those schools to the nearby other schools with more facilities.

With the intention of exploring the possibility of implementing the above proposal in a more appropriate manner, information was collected recently from the Provincial Councils. According to those details, there are 1541 number of schools throughout the country which are having less than 50 number of students. There are 45,659 number of total students studying in those schools and 8712 number of teachers serving in those schools. It may be observed that some of those schools are located in the areas where transportation is not an acute problem or mobility of

students is not restrained due to the presence of wild elephants, rugged terrain or lack of roads or rivers and waterways without bridges.

It was confirmed based on the information collected by us that there are large number of such small schools in the urban areas of the Colombo District where there are no transportation problems. Accordingly, there are such 24 schools located in Colombo District comprising 2 in the Colombo Zone, 8 in the Piliyandala zone, 5 in the Sri Jayawardenepura zone, 9 in the Homagama zone. There are 718 number of students and 147 number of teachers in those schools. Out of those schools, distance between the school of less than 50 number of students and the school located in the close proximity with more facilities in the Colombo zone is less than 1 kilometer. In respect of the Homagama zone, such distance is little bit higher compared to the Colombo zone. Although it is not appropriate to consider the distance between a certain small school and the school in the close proximity with more facilities as the only factor to implement this amalgamating programme, in respect of the small schools in the Colombo District, this has to be considered as a main factor. Information we collected in respect of the Colombo District reveals that most of such small schools in that District can be easily amalgamate with the nearby schools without causing difficulties to the students. Under such amalgamation programme, students can be motivated to obtain quality education by entering into the schools with more facilities by providing them a transport allowance based on the distance between the small school where those students are currently studying and the school for which those students are to be attached.

Assuming that the government has to pay such an allowance for 75% of such students in the Colombo District, that number would be approximately 540. If the monthly allowance payable to them is Rs. 5000 per student, then the total cost to be incurred for them for one month is Rs. 2.70 millions. That amount is less than the total monthly salary of 30 teachers. Since there are 147 teachers serving in such small schools in the Colombo District, the cost to be incurred for such incentive payment would be much lower compared to the cost of maintaining those schools. Also, according to our understanding, such allowance may be required only for the first year of implementing this programme as parents would willingly send their children to those new schools once they are convinced that children are receiving a quality education at those schools.

Therefore, we wish to propose that this project be implemented as a pilot project within the Colombo District by providing an incentive as explained above. Once this is implemented in Colombo District the practical issues of implementing this programme can be identified and based on those experiences, this programme can be successfully implemented in the other provinces.

(5) Obtaining Public Participation in the Monitoring of Projects

Projects implemented by government institutions using public funds must be subjected to continuous monitoring and supervision to ensure completion of those projects in accordance with the expected standards. In particular, construction and renovation of roads, bridges, and culverts, as well as construction works related to irrigation systems and buildings such as schools and hospitals which house essential public services etc. must undergo rigorous supervision to ensure adherence to proper quality standards. However, in the past there were reported instances where various such constructions were not completed according to the proper standards causing various difficulties to the public and resulted in significant waste of public funds. This situation was also brought to the attention of the Parliamentary Committee on Public Finance at its meeting held on 10.04.2025.

While continuous supervision by the responsible officers is the most appropriate method to prevent such situations and ensure the expected quality of construction it has become practically difficult to closely monitor every project implemented due to shortages of officers and facilities required for the task, as well as the large number of projects requiring continuous monitoring and supervision.

To address this challenge for one effective measure identified was that vigilance of people in the locality as well as peoples' representatives in the area considered to be over the construction very effective method to ensure the quality, in addition to the monitoring conducted by the relevant officers. Accordingly, the Finance Commission decided that it would be appropriate to instruct Provincial Chief Secretaries to adopt this approach on a experimental basis for projects and activities implemented under the Provincial Councils.

Accordingly, the Finance Commission, by the letter dated 05.05.2025, informed the Chief Secretaries to instruct the relevant officers to display the Bills of Quantities (BOQs) of construction projects implemented by various institutions coming under the Provincial Councils in locations near the project sites in a manner that those are easily readable and understandable to the public. They were also instructed to provide information requested by the public regarding those BOQs, in the following manner. Allowing any interested person to inspect the relevant BOQs at the work site.

- (i) Allowing any interested person to take photographs of the BOQs.
- (ii) Displaying the BOQs on a designated Provincial Council website, exhibit a laminated pamphlet at the entry point of the work site explaining how to access the website where BOQs can be viewed, and introduce a mechanism to provide BOQs to anyone requesting them at any time.

According to the information we received, these instructions are now being implemented across all Provinces. Reports published in national newspapers and feedback on social media indicate that this initiative has been well received by the general public.

Considering the successful efforts made by Provincial Councils to facilitate access to Bills of Quantities (BOQs) and other construction-related information for beneficiaries, social activists, political representatives, and civil organizations, thereby encouraging the vigilance by the public in implementation of public participation in the of projects implemented with government funds, Finance Commission recommends that all government institutions be instructed to mandatorily facilitate public access to BOQs and basic information of construction projects implemented by them in an easily understandable manner.

(6) Staff requirements for taking care of children under probation

The care of orphaned children who are deprived of affection of parents' due to various reasons as well as juvenile offenders is carried out through various care centers functioning under the Probation Departments of the Provincial Councils. The 10th recommendation of the Chapter 05 of the report submitted by this Commission in the previous year embodied extensive information on the insufficiency of required human and physical resources for these centers which had arisen due to inability of authorities to attend to these needs due to lack of funds. A comprehensive package

of reliefs such as providing buildings and physical facilities required for those institutions, providing facilities related to transportation, facilitation of socializing those children when they reach the due age, etc. were provided from the Budget Proposals for the year 2025. We acknowledge with gratitude that the requirements outlined as (iii), (iv), (vi), (vii) and (viii) of our recommendations embodied in item 10 of chapter 05 have been fulfilled at a level beyond our expectations.

However, it can be observed that the issue outlined in the item (ii) of proposals, that is, the issue of inadequate staffing remains as a serious concern. In that proposal, we highlighted the fact that most of the tasks which have to be fulfilled by well-experienced officials such as Matrons are instead being performed by junior staff without having any such training. This situation is more detrimental for the well-being of these children. It has been revealed that the staff currently employing in these institutions are working under intense pressure while it is challenging to maintain these institutions with lot of vacant positions in the other categories of the staff. Over the past five years, the filling of vacancies in the public service has been suspended, and the uniform application of this policy across all sectors by the government has led to a substantial reduction in the staff of the Department of Probation. This situation has had a serious impact on child care centers and certified schools, resulting in a disruption of essential services provided for children under probation.

Under the current circumstances, the Probation Department, which performs a highly sensitive and essential service, is facing difficulties in fulfilling its responsibilities. As a result, the well-being of children who are under probation, aged ranging from infant of day old to those up to 18 years has significantly deteriorated. Shortage of staff had led to series of other issues such as confining young children in cramped space for the purpose of taking care of them, failing to maintain proper hygiene, being unable to meet their nutritional needs on time, inability to pay required attention to sick children, disruption of their education and training activities, and the inability to provide adequate protection. These issues have led to a state of insecurity.

Under these circumstances, a special programme has to be implemented to provide the essential number of staff to the Department of Probation. Therefore, the Commission recommends that relevant authorities be instructed to create required cadre positions and fill existing vacancies in the Provincial Department of Probation without waiting for the completion of the ongoing cadre review.

Annexure I

As proposed by the Finance Commission, Apportionment of the Recommended PSDG amounts among Provinces after 50% Revenue Target Adjustment - 2026

(Rs.Mn)

S.No	Province	Percentage value of Composite Index as per the Statistical Formula	Recommended Total Amount of PSDG	Revenue Target	Revenue Adjustment with PSDG	%	Revenue Adjustment with Block Grant	Recommended PSDG Amount after Revenue Adjustment
	1	2	3	4	5	6 = 5/4*100	7 = 4-5	8 = 3-5
1	Western	9.24	12,197.00	13,900.00	2,430.00	17.48	11,470.00	9,767.00
2	Central	11.43	15,088.00	2,750.00	2,111.00	76.76	639.00	12,977.00
3	Southern	10.97	14,480.00	3,425.00	2,065.00	60.29	1,360.00	12,415.00
4	Northern	11.46	15,127.00	1,700.00	1,563.00	91.94	137.00	13,564.00
5	North Western	10.89	14,375.00	4,580.00	2,233.00	48.76	2,347.00	12,142.00
6	North Central	11.28	14,889.00	2,751.00	2,054.00	74.66	697.00	12,835.00
7	Uva	11.89	15,695.00	1,520.00	1,498.00	98.55	22.00	14,197.00
8	Sabaragamuwa	11.55	15,246.00	2,775.00	2,095.00	75.49	680.00	13,151.00
9	Eastern	11.29	14,903.00	1,303.50	1,303.50	100	-	13,599.50
	Total	100.00	132,000.00	34,704.50	17,352.50	50.00	17,352.00	114,647.50



இதரல் ஹோமீஷன் கஹாவி

(ஹாஸ்டிபுலி வொல்க்டாவி 154 "ர" வொல்க்டாவி டப்தென் பிபிபுலிவ லுபி)

நிதி ஆணைக்குழு

(அரசியலமைப்பின் 154 "ஈ" ஆம் உறுப்புறையின் கீழ் தாபிக்கப்பட்டது)

FINANCE COMMISSION

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

03, ஈரண மாவத,
ராஜகிரிய, ஸ்ரீ லங்கா.

Annexure II

இல. 03, சரண மாவத்தை,
ராஜகிரிய, இலங்கை.

03, Sarana Mawatha,
Rajagiriya, Sri Lanka.

மீனே ஈஹி
எனது இல.
My No.

FC/PDP/01/01/2026

ஹிவீ ஈஹி
உமது இல.
Your No.

தீத
திகதி
Date

07.10.2025

Chief Secretary
Western Province

Guidelines for the Preparation of the Provincial Annual Development Plan-2026

01. Issuing of Guidelines for the year 2026 in Advance

The following guidelines are issued this year well in advance with the intention of expediting the planning process of the Provincial Annual Development Plan (ADP) for the ensuing year (2026). It is expected that this arrangement will help to avoid the possible delays experienced in the past in the preparation of the ADP by Provincial Councils, as the availability of funds was communicated in the past only after the passage of the Appropriation Bill for the following year.

02. Availability of Capital Grants for the Year 2026

Estimated budgetary provisions for all spending agencies, including the Provincial Councils, have been stated in the Appropriation Bill for the ensuing year, which was published in the Gazette dated 17.09.2025. These figures cannot be considered as final provisions until those are approved by Parliament, which has full control over public finance. Since the amounts specified in the Appropriation Bill for the year 2026 are based on the "binding ceiling" fixed in terms of Section 15 of the Public Financial Management Act No. 44 of 2024, it has become possible to communicate these figures this time with more certainty for the use in the preparation of the Annual Development Plan unlike in the past.

Therefore, based on the information available in the said Appropriation Bill, as well as the information obtained from the General Treasury, the tentative amounts of capital grants available for the year 2026 to your Province are as follows:

	Rs.mn
I. Provincial Specific Development Grant (PSDG)	6,403
II. Criteria Based Grant (CBG)	600
III. Foreign Funded Projects and Locally Funded Special Projects	997
IV. Total Capital Grant	<u>8,000</u>

Accordingly, you are kindly requested to prepare the ADP for PSDG based on the tentative amount of Rs.6,403million. The sectoral breakdown of the PSDG is attached as **Annex 1**.

Please note that these figures are provisional and may be subject to adjustment after the approval of the Appropriation Bill by Parliament.

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தலைவர்
Chairman

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செயலாளர்
Secretary

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கஹிவலு

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03. Overall Guidance

In the preparation of the Annual Development Plan, you are expected to be guided by the following matters.

- a. List of devolved subjects as specified in the Provincial List of the Ninth Schedule of the Constitution.
- b. The National Policy Framework “A Thriving Nation- A Beautiful Life” approved by the Cabinet on 03.03.2025
- c. National Budget Circular No. 02/2025 (Budget Call-2026) - Guidelines for the preparation of Annual Budget Estimate -2026 dated 30.06.2025 issued by the Secretary to the Treasury
- d. Sustainable Development Goals
- e. Critical development needs of the Province
- f. Medium Term Development Plan of your Province
- g. Intra-regional disparities including disadvantaged groups

04. Ensuring the Efficient Use of Funds through Proper Planning

In order to derive the maximum benefits from the limited funds made available to Provincial Councils, such funds must be used prudently as has been repeatedly stated in the past. The renewed emphasis on the need for the management of public funds efficiently, effectively, and economically while improving transparency and fiscal responsibility has been made through the enactment of the Public Financial Management Act No. 44 of 2024.

As provided under Section 62(1) of the said Act, Provincial Councils and Local Authorities are required to adhere to the principles of transparency and fiscal responsibility stipulated in the Act, subject to the provisions of the Constitution and other relevant written laws. The Finance Commission observes that the Provincial Financial Rules provide a very sound governance framework including planning methodology which are embodied in the said Act.

Therefore, you are urged to ensure the followings:

- I. Ensure proper functioning of Provincial Ministerial Planning Units referred to in the Provincial FR 4.2.4 and the Provincial Planning Committee referred to in Provincial FR 80.1, and also the Provincial Planning Department referred to in Provincial FR 79.3 and in Schedule 5 of the Provincial FR.
- II. All project proposals on development activities/projects that are expected to be included in the ADP of the Province must be appraised before being incorporated, in accordance with Provincial FR 4.2.2 and 4.2.3. With regard to the projects which are acceptable after the preliminary appraisal, action should be pursued as stipulated in the Provincial FR 4.2.3.
- III. Accordingly, all project proposals should undergo a preliminary appraisal by the Planning Division of each respective Provincial Ministry, as stipulated in Provincial FR 4.2.3 and further detailed appraisal by the Deputy Chief Secretary (Planning) as necessary taking also into consideration (V) below.
- IV. Ensure that appraisal of projects/activities is carried out taking into consideration as to whether the projects/activities:
 - a) are in line with Sri Lanka’s National Policy Framework approved by the Cabinet on 03.03.2025
 - b) adhere to the stipulations in the National Budget Circular No. 02/2025
 - c) are well within the Agenda 2030 on Sustainable Development Goals
 - d) reflect the felt needs of the region/district/Province
 - e) are the topmost priorities within the sector
 - f) derive maximum benefits to a larger number of people in the community
 - g) ensure value for money
 - h) can be commenced without delay in terms of the project preparedness
 - i) can be implemented in an integrated manner in order to harness the synergies of other sectors.

- V. In undertaking the detailed appraisal, the relevant planning authority can decide whether the cost-benefit analysis should be conducted in respect of projects/activities on small scale common assets such as rural roads, irrigation structures, service providing constructions, if (a) – (i) of (IV) above are satisfied.

05. General Guidelines

As previously mentioned, it is imperative to ensure the prudent and well-planned utilization of the limited budgetary allocations available especially for capital investments. Therefore, all Provinces should give priority on designing projects that directly contribute to the economic development and improvement of living conditions of the people in the Province through employment creations and income generations. Accordingly, the Finance Commission has directed me to request you to pay due attention to the following key areas as well in the preparation of the Provincial Annual Development Plan for the year 2026 in your Province.

5.1 Financial Governance

- i. Provincial Councils should adhere to the relevant rules, regulations, and circulars issued from time to time by the Government and to comply with the rules and regulations of respective Provincial Councils to ensure proper financial management at the sub-national level.
- ii. Provincial authorities are responsible for adopting government procurement procedures in the implementation of development plans. Therefore, you are requested to follow the common rules and regulations of the government to ensure uniformity between National and sub-national level expenditure management.

5.2 Strategic Planning and prioritization

- i. The Annual Development Plan has to be based on the Master Plans which need to be developed for major sectors recognizing the sectoral priorities spelt out in the National Policy Framework approved by the Cabinet on 03.03.2025 and those referred to in the guidelines sent to you last year by my letter no. FC/PDP/01/01/2025 dated 29.12.2024 to avoid haphazard development activities. (Please see 06 below)
- ii. Resource mapping exercises need to be carried out on a sectoral basis with a view to tapping regional/ locational advantages and diverting resources to the disadvantaged groups/ localities.
- iii. Before committing funds for projects, their feasibility, quality/standards and maintenance aspects and future cost should be given due consideration.
- iv. Based on logical need assessment, prioritization of projects is very important to optimal utilization of resources determining outcomes while promoting allocative efficiency of limited funds.
- v. In case, the completion of a project exceeding one year, it needs to be phased out properly indicating funding requirement for the ensuing years. In doing so, the success of previous stages should be properly reviewed before commencing the later stages of the project.
- vi. When creating common assets, due attention should be paid to lagging areas.

- vii. Integrated development approach should be adhered to as a policy within the Provincial Council by coordinating relevant government and non-governmental organizations to avoid duplications and overlapping of activities.
- viii. Paying due attention to cross-cutting subjects such as commercial and trading enterprises, environment, disaster prevention, women affairs and youth affair to incorporate them in all development sectors since they have to be addressed through an integrated manner.
- ix. Areas lagging behind in relation to socio economic indicators have to be identified and root causes of issues need to be addressed with fair distribution of funds for those areas with a view to minimize intra-regional disparities.
- x. The relevant projects need to be designed in alignment with the National Physical Plan of Sri Lanka.
- xi. Priority should be given to the development of physical infrastructure essential for the public.
- xii. Keeping an appropriate portion of funds in each sector is required to meet unexpected expenditures pertaining to provision of useful services. (e.g. urgent renovation, rehabilitation)
- xiii. Accordingly, the Provincial Annual Sectoral Plans should be prepared for the following 23 sectors as per the prescribed Forms 3, 3a which are used for the preparation of ADPs.

- | | |
|-----------------------------|--|
| 1. Education | 13. Cultural Affairs |
| 2. Western Medicine | 14. Co-operative Development |
| 3. Indigenous Medicine | 15. Early childhood Development |
| 4. Provincial Roads | 16. Estate Infrastructure |
| 5. Irrigation | 17. Transport |
| 6. Agriculture | 18. Housing |
| 7. Livestock Development | 19. Rural Electrification (within the scope of item no. 34 of the Provincial List) |
| 8. Inland Fisheries | 20. Local Government |
| 9. Small Industries | 21. Tourism |
| 10. Sports | 22. Rural Development |
| 11. Probation and Childcare | 23. Land Development |
| 12. Social Services | |

- xiv. In addition to the allocations for the above sectors under PSDG, an amount has been earmarked as the flexible allocation that can be used for special development projects, completion of already started special development projects and urgent requirement of development nature which are not anticipated in the original plans. If you intend to implement special development projects for the year 2026, relevant project proposals should be prepared for the identified development projects with information of relevant feasibility studies and submit to the Finance Commission for the concurrence. The Guidelines on preparation of special development projects will be issued in due course.

5.3. Inclusive Development and Social Equity

- i. Participation of beneficiaries especially the youth in the area should be ensured in the identification and implementation of projects/ activities giving opportunities for integrated planning, social auditing and transparency.
- ii. Paying due attention to SDG 5 (indicator 5.C.1), projects need to be identified to promote women's participation in the labor force through sufficient gender responsive budgeting and women's empowerment and leadership. Accordingly, at least 25% of allocation has to be made available for projects directly benefiting women from the projects implemented for Rural Economic Development within the government policy framework. Wherever applicable, Provincial Authorities need to maintain gender-disaggregated budget details for further analysis.
- iii. Provincial Authorities need to pay attention to the Multi-Sectoral Framework "National Action Plan for Disabled (NAPD) in Sri Lanka" for empowering differently-abled persons. Hence, a fair contribution has to be ensured to implement the NAPD paying special attention to improving the accessibility for people with disabilities adhering to Disabled Persons (Accessibility) Regulations, No.01 of 2006.

5.4. Climate Resilience and Sustainable Development

- i. Sri Lanka, as a Member State of the United Nations, adopted the Agenda 2030 for Sustainable Development, which comprises 17 Goals and 169 Targets. The adoption of the Agenda commits Sri Lanka to a universal, transformative, inclusive, and integrated framework of sustainable development with the overall pledge of "leaving no one behind". The Provincial Council should also adhere to the Agenda 2030 which constitute the overarching framework for an integrated approach to sustainable development.
- ii. At the Paris Climate Conference (COP21) in December 2015, 195 countries including Sri Lanka adopted the first-ever universal, legally binding global climate deal. Accordingly, the Provinces have to adopt the key elements of the Paris Agreement while paying attention to scaling up their efforts and support actions to reduce emissions, build resilience and decrease vulnerability to the adverse effects of climate change.
- iii. The Provincial Council is required to systematically identify expenditure components related to climate risk reduction, disaster response, mitigation, adaptation, and management of potential climate-related risks under its purview. Provincial ADPs shall therefore incorporate projects and activities that address these vulnerabilities, to minimize the impact of climate change and enhance community resilience.

5.5 Efficient Resource Management

- i. Allocations provided under PSDG and CBG, firstly should be utilized for the settlement of bills in hand if any. Therefore, the funds should be allocated to complete the activities already started in 2025 or before which have not been completed, in order that such assets created could be effectively utilized. Accordingly, the List of activities prepared in advance could be curtailed to meet such cost. Details of Bills in Hand and Continuations have to be submitted to the Finance Commission by 15.01.2026 as per the Form 4.

- ii. The Province needs to take every effort to complete the programs/ projects as planned out during the financial year of 2026.
- iii. Idled capital assets belonging to the Provincial Councils and Local Authorities have to be transformed into productive assets focusing promotion of local productions through relevant agreements preferably with the private sector. Possible ways and means have to be identified to use such assets without further investing government funds on them.
- iv. If possible, the financial contribution of the relevant stakeholders (e.g.: Local Authorities, NGOs, CBOs etc.) could be taken into account to reduce the burden on the government budget.
- v. In estimating the cost of infrastructure/ construction nature projects, the cost of all components which are required to generate desired output should be considered. Irrational “packaging” of the project/ activity to circumvent the limits imposed in the Procurement Guidelines should be avoided as it leads to the creation of incomplete assets leading to wastages of scarce resources.
- vi. Proper estimation of the project is the most important step in the process. The total budgetary requirement to complete the project during the entire project period should be indicated as the Total Estimated Cost (TEC), whereas, only the cost to be incurred during the year 1 should be shown under the current year budget.
- vii. The practice of providing government assistance in the form of concessionary loans in place of 50% outright grants given for income generating projects/ activities hitherto should be pursued vigorously. Therefore, you are requested to introduce an appropriate loan scheme in place of 50% government contribution given as a grant. However, if pilot projects are to be implemented to demonstrate a new technology or practices, Provincial Councils could bear a certain percentage of the cost to minimize the risk.
- viii. Outright grants may be confined to sectors such as Probation and childcare, Social Services which cater especially to vulnerable and marginalized groups in the society.
- ix. For economic infrastructure projects excluding those referred to in (v) of Section 4 above, cost-benefit analysis should be conducted while applying the cost-effective principle for social infrastructure projects

5.6 Monitoring and Evaluation

- i. A proper monitoring mechanism should be established to monitor the implementation and quality of the output of all projects/ activities implemented by the Provincial agencies as stipulated in the Provincial FR 5.5, 76.2.9 and 4.2.4(3). It is recommended to adopt a Management Information System (MIS) for the purpose of regular monitoring and upgrade the existing system to meet the present requirements as necessary.
- ii. Bill of Quantities and other basic information should be made available in an appropriate manner for the information of beneficiaries to ensure the active participation in the monitoring of relevant constructions/ rehabilitation as communicated to you by my letter No. FC/PDP/01/01/2025-II dated 05.05.2025.
- iii. The results and impacts of projects and activities should be evaluated to determine the extent to which their objectives have been achieved. The Province shall formulate an appropriate methodology for evaluation process.

- iv. Data and information related to the Development Plans and its progress need to be made available for relevant organizations to facilitate the development of policies, and designing of programs/ projects through relevant studies.

06. Application of the Guidelines of 2025 for 2026

All the matters referred to in the Section 4 (Sectoral Priorities) and onwards in the guidelines on the preparation of ADP-2025 issued by my letter number FC/PDP/01/01/2025 dated 29.12.2024 will remain in effect for the preparation of the Annual Development Plans for 2026 as well. Accordingly, Sectoral Priorities of each sector mentioned above, methodology of preparation of the Annual Development Plan, Provincial Planning Framework (including sector component, and sub components) and annexures referred in the last year guidelines will be effective for the purpose of ADP preparation for 2026. Therefore, you are required to adhere to those guidelines and include all the necessary information in your Provincial ADPs - 2026.

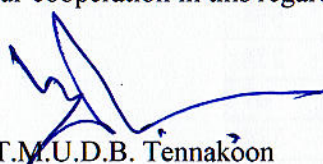
07. Deadline for submission of ADP

In order to facilitate the Provincial Councils to implement their Annual Development Plans from the beginning of the year 2026 without delay, the Finance Commission intends to conduct the ADP review meeting well in advance probably during first two weeks of December, 2025. Therefore, you are kindly requested

- (a) to prepare Annual Development Plan of your Province for the year 2026 and submit 2 hard copies as well as a soft copy (email: info@fincom.gov.lk) of the same to the Finance Commission Office on or before **15th of November 2025**.
- (b) to include an endorsement in the covering letter to the effect that the ADP has been prepared in accordance with the above guidelines.

08. These Guidelines are issued as per the directions given by the Finance Commission.

Your cooperation in this regard is highly appreciated.



A.T.M.U.D.B. Tennakoon
Secretary
Finance Commission

Copies:

- | | |
|--|-------------------------------|
| 1. Secretary to the President, Presidential Secretariat | - For information please |
| 2. Secretary to the Prime Minister, Prime Minister's Office | - For information please |
| 3. Secretary, Ministry of Finance, Planning & Economic Development | - For information please |
| 4. Secretary, Ministry of Public Administration, Provincial Councils and Local Government. | - For information please |
| 5. Auditor General, Department of Auditor General | - For information please |
| 6. Deputy Secretary to the Treasury, General Treasury | - For information please |
| 7. Director General, Department of National Budget | - For information please |
| 8. Director General, Department of National Planning | - For information please |
| 9. Deputy Chief Secretary (Planning), Western Province | - For necessary action please |
| 10. Deputy Chief Secretary (Finance), Western Province | - For necessary action please |
| 11. Assistant Auditor General, Western Province | - For information please |

The tentative amount of Provincial Capital Fund Allocation - 2026
Western Province

No.	Sector	Amount (Rs.Mn)
1	Social Infrastructure	3,017
1.1	Education	1,125
1.2	Western Medicine	1,100
1.3	Indigenous Medicine	213
1.4	Sports	73
1.5	Probation and Childcare	249
1.6	Social Services	131
1.7	Cultural Affairs	40
1.8	Housing	40
1.9	Co-operative	9
1.10	Early Childhood Development	37
2	Economic Infrastructure	3,075
2.1	Provincial Roads	1,277
2.2	Estate infrastructure	91
2.3	Transport	61
2.4	Land	10
2.5	Agriculture	304
2.6	Livestock	219
2.7	Inland Fisheries	37
2.8	Irrigation	255
2.9	Rural Development	76
2.10	Small Industries	91
2.11	Rural Electrification	12
2.12	Tourism	88
2.13	Local Government	554
	2.13.1.Local Authority Roads	274
	2.13.2.Community Water Supply	67
	2.13.3.Waste Management	134
	2.13.4.Other Services	79
	Sub Total	6,092
3	Projects under Flexible Amount & Special Development Projects	311
Total Provincial Specific Development Grant (PSDG)		6,403

We submit the foregoing recommendations for your highest consideration.

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சுமித் அபேசிங்ஹ

தலைவர்

Sumith Abeysinghe

Chairman

ආචාර්ය පී. නන්දලාල් වීරසිංහ

නිල බලයෙන් පත් වූ සාමාජික (ශ්‍රී ලංකා මහ බැංකුවේ අධිපති)

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)

ආචාර්ය හර්ෂණ සූරියප්පෙරුම

නිල බලයෙන් පත් වූ සාමාජික (මහා භාණ්ඩාගාරයේ ලේකම්)

கலாநிதி ஹர்ஷண சூரியப்பெரும

பதவி வழி அங்கத்தவர் (திறைசேரியின் செயலாளர்)

Dr. Harshana Suriyapperuma

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

එම්. වාමදේවන්

පත්කළ සාමාජික

எம்.வாமதேவன்

நியமன அங்கத்தவர்

M. Vamadevan

Member (Appointed)

ටී. නලීන් ඔසෙන්

පත්කළ සාමාජික

டீ.நலீன் ஒசென்

நியமன அங்கத்தவர்

T. Naleen Ossen

Member (Appointed)