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நிதி ஆணைக்குழு

Finance Commission

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2025 වර්ෂය සඳහා

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இலங்கை ஜனநாயக சோசலிசக் குடியரசின் அரசியலமைப்பின்
உறுப்புரை 154ண (4) பிரகாரம்
2025 ஆம் ஆண்டிற்காக

கௌரவ ஜனாதிபதி அவர்களுக்கு சமர்ப்பிக்கப்படும் பரிந்துரைகள்

RECOMMENDATIONS SUBMITTED TO THE HON. PRESIDENT

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

Democratic Socialist Republic of Sri Lanka

for the year 2025

2024 දෙසැම්බර්

டிசம்பர் 2024

December 2024

මුදල් කොමිෂන් සභාව

(ආණ්ඩුක්‍රම ව්‍යවස්ථාවේ 154 "ඊ" ව්‍යවස්ථාව යටතේ පිහිටුවන ලදී.)

நிதி ஆணைக்குழு

(அரசியலமைப்பின் 154 "ண" ஆம் உறுப்புரையின் கீழ் தாபிக்கப்பட்டது)

FINANCE COMMISSION

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

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

මගේ අංකය / எனது இல. / My No. } FC/PSR/10/01/2024

ඔබේ අංකය / உமது இல. / Your No. }

දිනය / திகதி / Date } 30.12.2024

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 recommendation of the Finance Commission on the principles to be followed in the apportionment of funds allocated from the National Budget for the year 2025 among Provincial Councils aimed at achieving balanced regional development are presented in Chapter 4 of this Report. In addition, a few complementary proposals that would positively influence the overall development strategy of the government and some recommendations concerning specific groups that deserve special attention in the government effort in socio-economic upliftment of the people are included in Chapter 5.

In accordance with Sub Article (3) of Article 154R of the Constitution, recommendations submitted to the Treasury regarding the allocation of funds from the National budget for the year 2025 to meet Provincial needs are also embodied in Chapter 3 of this Report.

This Report is submitted for your kind attention.

Yours faithfully,

Sumith Abeysinghe
Chairman
Finance Commission

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FINANCE COMMISSION

RECOMMENDATIONS SUBMITTED TO THE HON. PRESIDENT

In terms of Article 154R (4) of the Constitution of the
Democratic Socialist Republic of Sri Lanka
for the year 2025

December 2024

Contents

CHAPTER 1

Introduction

1.1 Background

This report presents the Recommendations of the Finance Commission for the year 2025, submitted to the Hon. President as per Article 154R (4) of the Constitution. The details with respect to recommended requirements of resources by the Finance Commission for both recurrent and capital expenditure for the nine Provincial Councils for the year 2025 are provided in this document. It also outlines the principles on which funds allocated from the National Budget to the Provinces are apportioned among Provinces, as required by sub Article 154R (4) (a) of the Constitution in order to ensure that financial resources are allocated in a manner that promotes balanced regional development while addressing the diverse needs of the Provinces.

The Finance Commission has also formulated some policy recommendations aiming at enhancing the efficiency and effectiveness in the utilisation of resources especially in the Provinces and in the country general. These recommendations emphasize the need for adequate funds be transferred to the subnational level by the Government, based on the careful assessment of needs of the Provinces, to improve socio-economic standards of people while minimizing regional disparities.

1.2 Establishment of the Finance Commission and its Constitutional Mandate

The 13th Amendment to the Constitution of the Democratic Socialist Republic of Sri Lanka provided for the establishment of the Provincial Councils and the Finance Commission in 1987. The Finance Commission's key function is to enable resource transfers to the Provinces from the Centre and to assist in the uninterrupted service delivery of the Provincial entities. Accordingly, its primary objective is to make recommendations on the financial resources requirement and apportionment of funds allocated from the National Budget among nine Provinces to minimise disparities among different regions of the country.

Accordingly, the mandate of the Finance Commission has been specified in Article 154R (3), (4) and (5) of the Constitution as follows;

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

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

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

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

a) the population of each Province;
b) the per capita income of each Province;
c) the need, progressively, to reduce social and economic disparities; and

d) the need, progressively, to reduce the differences between the per capita income of each Province and the highest per capita income among the Provinces.

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

1.3 The Tasks Performed by the Finance Commission

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

i. provides Guidelines to the Provincial Councils on the estimation and submission of their needed resources annually.

ii. assesses the needs of the Provincial Councils after detailed discussions with Provincial Authorities

iii. submits recommendations to the Hon. President on the allocation of funds required by the Provincial Councils from the National Budget and on the apportionment of such funds among the Provinces.

iv. apportionment of the funds allocated by the National Budget among various sectors within the Province.

v. issues guidelines pertaining to the formulation of Provincial Annual Development Plans with a view to improve the efficiency and effectiveness of use of funds.

vi. reviews the Provincial Development Plans with the participation of all relevant stakeholders and grants concurrence to the same.

vii. promotes national and provincial inter-sectoral coordination on development interventions.

viii. provides recommendations to the government on the management of the Provincial cadre.

CHAPTER 2

Devolution of Fiscal Powers to Various Sub National Levels in Sri Lanka

2.1 Legal and Administrative Framework of Devolution

With the introduction of the Provincial Council 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, i.e. the Government (the Centre), Provincial Councils and Local Government Authorities came into being in the Sri Lankan administrative organisation. In conjunction with 13th Amendment to the Constitution, the Provincial Council 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 authority to be exercised by the Provincial Councils. The subject content of powers between the Centre and the Provinces is specified in three Lists given in the 9th Schedule of the 13th Amendment, the Provincial Councils List (power devolved to the Provincial Councils), the Reserved List (powers of the Centre) and the Concurrent List (subjects of shared responsibilities).

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 General Treasury has to transfer the balanced amount required by the Provincial Councils for their uninterrupted service delivery pertaining to the devolved subjects.

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. Provision of such funds to the Municipal Councils was limited to 80% of such cost from 2024 onwards compelling 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 fund 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 which is 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 recurrent expenditure because the majority of the staff of the Education and Health sectors is in the Provincial setup. 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 by the Commission after a comprehensive need assessment of cadre is carried out. Block Grant also includes transfers to Local Authorities, cost of maintenance of capital assets, social welfare expenditure, expenditure of travelling, supplies and contractual services.

2.2.2. Provincial Specific Development Grant (PSDG)

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

Part of the PSDG is allocated for Special Development Projects to be identified based on the guidelines provided by the Finance Commission aiming regional development and a flexible fund is allocated to fill the gaps in the development needs of the sectoral plans.

The budgetary allocations and the imprest released to the Provincial Councils by the Treasury under PSDG, for the duration from 2021 to 2023 and allocation for 2024 are given in Table 01 and the amounts of PSDG allocated for each sector for the years 2022, 2023 and 2024 are shown in Table 02 below.

Table 01: Budgetary Allocations and Imprest Released of Provincial Specific Development Grant (2021-2024)

(Rs. Mn.)

Year / Province	2021			2022			2023			2024
	Allocation	**Released**	**%**	**Allocation**	**Released**	**%**	**Allocation**	**Released**	**%**	**Allocation**
Western	1,256.10	690.86	55	836.00	418.00	50	1,261.00	641.65	51	1,685.00
Central	2,440.62	1,342.34	55	1,040.00	520.00	50	1,889.00	961.15	51	2,743.00
Southern	2,454.41	1,349.93	55	971.00	485.50	50	1,620.00	825.20	51	2,472.00
Northern	2,988.81	1,643.85	55	1,243.00	621.50	50	2,190.00	1,114.30	51	3,305.00
North Western	2,362.00	1,299.10	55	1,012.00	506.00	50	1,708.00	869.05	51	2,423.00
North Central	2,670.00	1,468.50	55	1,227.00	613.50	50	1,946.00	990.15	51	2,894.00
Uva	2,682.21	1,847.05	69	1,250.00	625.00	50	2,093.00	1,064.95	51	3,169.00
Sabaragamuwa	2,718.52	1,495.19	55	1,132.00	566.00	50	2,037.00	1,036.81	51	3,039.00
Eastern	2,719.25	1,495.59	55	1,400.00	700.00	50	2,156.00	1,097.05	51	3,270.00
Total	**22,291.92**	**12,632.41**	**57**	**10,111.00**	**5,055.50**	**50**	**16,900.00**	**8,600.31**	**51**	**25,000.00**

Source: Department of National Budget, Department of Treasury Operations

Table 02: Sector - wise Allocation of Provincial Specific Development Grant (2022-2024)

(Rs. Mn)

Sector	2024		2023		2022	
	Amount	%	Amount	%	Amount	%
Social Infrastructure	**9,729**	**38.92**	**6,554**	**38.78**	**5,325.84**	**52.67**
Education	3,890	15.56	2,620	15.50	2,461.62	24.34
Western Medicine	3,001	12.00	2,000	11.83	1,920.49	18.99
Indigenous Medicine	793	3.17	549	3.25	336.29	3.33
Sports	263	1.05	175	1.04	77.99	0.77
Probation and Childcare	710	2.84	494	2.92	281.14	2.78
Social Services	526	2.10	362	2.14	113.62	1.12
Cultural and Religious Affairs	149	0.60	98	0.58	32.65	0.32
Housing	222	0.89	154	0.91	56.1	0.55
Co-operative	83	0.33	51	0.30	13.23	0.13
Early Childhood Development	92	0.37	51	0.30	32.71	0.32
Economic Infrastructure	**13,238**	**52.95**	**8,991**	**53.20**	**4,282.79**	**42.36**
Provincial Roads	4,300	17.20	2,951	17.46	1,759.70	17.40
Estate Infrastructure	236	0.94	159	0.94	15.66	0.15
Transport	264	1.06	182	1.08	82.93	0.82
Land	80	0.32	55	0.33	11.98	0.12
Agriculture	1,479	5.92	998	5.91	427.66	4.23
Livestock	1,004	4.02	679	4.02	291.59	2.88
Inland Fisheries	309	1.24	209	1.24	75.03	0.74
Irrigation	1,697	6.79	1,146	6.78	540.43	5.34
Rural Development	463	1.85	318	1.88	91.68	0.91
Small Industries	424	1.70	290	1.72	141.12	1.40
Rural Electrification	135	0.54	88	0.52	37.95	0.38
Tourism	418	1.67	283	1.67	107.81	1.07
Local Government	2,429	9.72	1,633	9.66	699.25	6.92
Total	**22,967**	**91.87**	**15,545**	**91.98**	**9,608.63**	**95.03**
Projects under Flexible Amount	700	2.80	988	5.85	241.47	2.39
Grant for Special Development Projects	1,333	5.33	367	2.17	261.42	2.59
Grand Total	**25,000**	**100.00**	**16,900**	**100.00**	**10,111.52**	**100.00**

2.2.3 Criteria Based Grant (CBG)

In addition to the 23 broadly identified subjects mentioned under 3.2 of this report for which the Provincial Specific Development Grants are given, the Criteria Based Grants can be used 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, 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 directives issued by the Finance Commission on the utilization of CBG.

The allocations and imprests released under CBG during the year 2020-2023 and allocation for 2024 are given in Table 03.

Table 03: Budgetary Allocation and Imprest Released of Criteria Based Grant (2020-2024)

(Rs.Mn)

Province	2020			2021			2022			2023			2024
	Allocation	Released	%	Allocation	Released	%	Allocation	Released	%	Allocation	Released	%	Allocation
Western	101.40	101.40	100	392.00	215.60	55	80.00	44.80	56	223.00	111.50	50	371.00
Central	202.60	202.60	100	560.00	308.00	55	190.00	106.40	56	333.00	166.50	50	555.00
Southern	260.80	260.80	100	494.41	271.93	55	125.00	70.00	56	304.00	152.00	50	506.00
Northern	253.81	253.81	100	580.82	319.45	55	115.00	64.40	56	386.00	193.00	50	644.00
North Western	155.80	155.80	100	508.00	279.40	55	201.00	112.56	56	301.00	150.50	50	502.00
North Central	173.30	173.30	100	450.00	247.50	55	190.00	106.40	56	343.00	171.50	50	573.00
Uva	194.60	194.60	100	560.48	308.26	55	165.00	92.40	56	369.00	184.50	50	616.00
Sabaragamuwa	215.20	215.20	100	595.00	327.25	55	85.00	47.60	56	360.00	180.00	50	599.00
Eastern	194.40	194.40	100	511.31	281.22	55	180.00	100.80	56	381.00	190.50	50	634.00
Total	**1751.91**	**1751.91**	**100**	**4652.02**	**2558.61**	**55**	**1331.00**	**745.36**	**56**	**3000.00**	**1500.00**	**50**	**5000.00**

Source: Department of National Budget, Department of Treasury Operations

CHAPTER 3

Assessment of Capital and Recurrent Needs of Provinces for the Year 2025

3.1 Matters Considered in the Assessment of Provincial Expenditure Needs

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

a) Constitutional Mandate, Policy Guidelines, and other relevant matters such as Cabinet decisions.

b) Critical development needs identified through the interactions with Provincial Authorities most of which are identified in the Medium Term Development Plans of the Provinces.

c) The Capital and Recurrent Expenditure requirements submitted by the Provincial Councils seeking Government grants for the year 2025 and the nature of financial imprest released to the Provincial Councils for the year 2024 so far.

d) Socio-economic status of the Provinces.

e) The needs for equitable and balanced regional development.

f) The findings of consultative meetings conducted with stakeholders and findings of certain studies.

In view of the inadequacy of funds allocated to the Provincial Councils which are expected to assist the balanced regional development, the Finance Commission in recent years has recommended that the capital allocation to the Provincial Councils should be at least 20% of the total estimated capital investment in the National Budget. In allocating such grants, devolution framework, national policies announced by the Government as well as SDGs should be taken into consideration. Considering the limitations of providing budgetary allocations in the current economic downturn, project prioritization should be of utmost importance while avoiding duplications between the Line Ministries and the Provincial Councils. Accordingly, instead of allocating funds to Line Ministries for devolved subjects, more funds could be allocated directly to the Provincial Councils as per the recommendations made by the Finance Commission in previous years.

It has been instructed in the Budget Call-2025 also that the Line Ministries should not allocate budget for devolved subjects which are coming under the Provincial Councils' purview and this matter has strongly been emphasized by the Public Expenditure Review Committee (PERC) on the Ministry of Public Administration, Home Affairs, Provincial Councils and Local Governments in its recommendations. As these recommendations have been approved also by the Cabinet, the Finance Commission believes that due attention will be paid to allocate adequate funds to the Provincial Councils as recommended by the Commission for 2025.

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

The Finance Commission issued Guidelines on 12th of February 2024 to the Provincial Councils to identify the Capital Needs for the year 2025. Based on these Guidelines, the Provincial Councils have prepared their annual needs of Capital nature and submitted to the Finance Commission seeking Government Grants from the National Budget. Based 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.

The expenditure requirements for the Annual Implementation Plan have been identified by taking into consideration the targets and timeframe of the medium-term plans for financing from different sources of funds. Accordingly, the Capital Expenditure requirements of the Provincial Councils for the ensuing year have been prepared for the purpose of implementing their development plans utilizing funds received from the National Budget in the form of Provincial Specific Development Grant (PSDG).

The Capital fund requirements have been presented by all Provincial Councils and allocations have been recommended by the Finance Commission for the following sectors.

- Education
- Western Medicine
- Indigenous Medicine
- Provincial Roads
- Irrigation
- Agriculture
- Livestock
- Inland Fisheries
- Small Industries
- Sports
- Probation and Childcare
- Social Services
- Cultural Affairs
- Co-operative Development
- Early childhood Development
- Estate Infrastructure
- Transport
- Housing
- Rural Electrification (within the scope of item no. 34 of the Provincial List)
- Local Government
- Tourism
- Rural Development
- Land Development

In addition to above, a flexible amount to meet the gaps of development needs and a grant for special development Projects will be earmarked. Furthermore, an allocation will be earmarked under PSDG for the projects identified by the national level on devolved subjects required to be implemented by the Provincial Councils.

3.3 Assessment of Capital Expenditure Needs for the Year 2025

The Provincial Councils possess Provincial Five-Year Development Plans prepared comprehensively on a multi - sectoral integrated approach on which the provincial sectoral capital expenditure needs with medium term sectoral results framework were basically identified. Provincial Ministries and the Departments possessing the technical expertise of relevant sectors are responsible for the assessment of sectoral need in the Province. This assessment has been carried out in consultation with the Hon. Governors, Chief Secretaries and other relevant Provincial Authorities. Further, due attention has been paid to SDGs and Targets, Inter and intra - regional disparities, readiness in project implementation and their feasibility, Special Development Programmes which are being implemented by the Line Agencies, guidance of the Centre provided through Guidelines and Circulars issued on capital investments, rural infrastructure damaged by floods and the need for optimum utilization of physical and human resources in the Provinces.

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

On the above basis, the assessed amount of the total Provincial Specific Development Grant (PSDG) amount for the year 2025 is Rs.147 billion. Up to 2024, Provincial Revenue target was set off against the Total Recurrent Needs. However, pursuant to the approval of the Budget Proposals in 2024 regarding the setting off the revenue of the Provincial Councils against their expenditure, from 2025 only 50% of the total Provincial Revenue collected by the nine Provincial Councils will be set off against Recurrent Expenditure while balance 50% be set off against Capital Funds (PSDG). Accordingly, out of the total Provincial revenue target of Rs. 26. 638 billion, Rs. 13.319 billion is proposed to be set off against the recommended PSDG that makes the recommended amount of PSDG Rs. 133.681 billion. The Commission recommends to continue this practice in the future.

As per this proposal, the amount of revenue to be set off defers from one Provincial Council to the other taking into account the magnitude of revenue target of each Provincial Council. The revenue targets of nine provinces range from Rs. 1,253.30 million to Rs. 9,332.74 million (please see Annex 01) and consequently, the proposed amounts of revenue to be set off against PSDG range from Rs. 1,150 million to Rs. 1750 million. The Uva Provincial Council which has the lowest revenue target of Rs.1253.30 million will set off Rs.1150 million that is 91.76% of the total revenue target and the Western Provincial Council targets to collect Rs.9332.74 million as revenue and it will set off 18.75% of that for PSDG amounting to Rs.1750 million.

In addition, the Commission also wishes to propose that a Criteria Based Grant (CBG) (please see 2.2.3 of the report) amounting to Rs.18.00 billion. The past several years, the Finance Commission recommended the government to allocate certain amount as Revenue Performance Grant to incentivize the Provincial Councils for higher revenue collection but it was not made available by the General Treasury. Therefore, only PSDG and CBG will be recommended to meet Capital Expenditure of the Provinces in the year 2025.

3.4 Assessment of Block Grant for the Year 2025

Recurrent needs of the Provinces were assessed through scrutinizing the requests submitted by the Provinces as per the guidelines issued by the Finance Commission on 12th February 2024 followed by the budget discussions had with Provincial officials with the participation of officials from the General Treasury.

The assessment of the recurrent needs for 2025 is based on the following;

01. The total Provincial cadre as at 31.03.2024 approved by the Department of Management Services (DMS) was the basis for the assessment but it is noted in some instances, the total cadre requested is greater than the approved cadre and also the cadre in some institutions of Provincial Councils is more than the DMS approved cadre. In the recommendation of the Finance Commission, the Personal Emoluments only for cadre approved by the Department of Management Services and the cadre for which approval of the DMS is pending were assessed.

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

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

04. Provisions for the payment of newly introduced allowances in 2024 have been included in the assessment.

05. Unemployed graduates recruited under the Government's top priority programme were already made permanent subject to the DMS approval. Therefore, funding requirement for them has been assessed as excess cadre for whom posts to be created in the Provincial Public Service.

06. The requirement of overtime and holiday pays for 2025 was assessed considering per head cost of living cadre and the actual expenditure pattern in the recent past (Provincial request for overtime and holiday pays have been increased dramatically compared to the previous years).

07. Assessed Transfers amounting to Rs. 39,700,810,000 to the Local Government Authorities for Salary Reimbursements for the approved cadre and the payment of Members Allowance also is shown under Personal Emolument (PE). The 20% annual deduction from salary reimbursement of Municipal Councils has been proposed to encourage the self-financing of Municipal Councils in the Budget Speech 2024. Accordingly, this estimate has been calculated after the 20% reduction only from personal emoluments of each Municipal Council excluding other recurrent expenditure as proposed by the Department of National Budget.

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

09. General maintenance has been assessed separately (instead of including it under "Other Recurrent Expenditure "as customarily done prior to 2022) to ensure the availability of adequate funds for day to day maintenance requirements. Also considered assets maintenance on essential and critical needs for repairing and refurbishing provincial assets including maintenance of Roads, Irrigation Infrastructure and Buildings and Structures particularly in the Education, Health, Irrigation, Agriculture and other sectors and the requirement has been estimated within Rs.25 billion limit.

10. Outstanding salary arrears for Education, Health and other sectors amounting to Rs. 2,289,814,000 has been included.

11. Other Recurrent Expenditures are consisted of expenditure assessed for grants for special needs of child and elderly care institutions and public assistance, as well as assistance for patients suffering from illnesses such as kidney diseases, tuberculosis and cancer, as proposed by the Ministry of Health from time to time.

12. Contingency Funds amounting to Rs. 2,740,661,000 is also included in the recommendation.

13. An amount of Rs. 5,532,639,000 has been included in our recommendation for the Advanced B Account for the year 2025 with the objective of removing an anomaly between the Central Government and the Provincial Councils.

Accordingly, the Provincial recurrent need for the year 2025 has been assessed as Rs. 591,403.057 million.

Table 04: Assessed Recurrent Needs for 2025

(Rs.000)

Province	**DMS approved cadre of the Province as at 31.03.2024**	**Personal Emolument**	**Provincial Share of PE**	**Other Recurrent Expenditure**	**Provincial Share of ORE**	**Total Recurrent Expenditure**	**Provincial Share of TRE**
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7) = (3) + (5)**	**(8)**
Western	64,799	74,895,873	16.90	32,418,107	23.14	107,313,980	18.40
Central	53,672	59,960,327	13.53	17,365,089	12.40	77,325,416	13.26
Southern	48,208	52,986,121	11.96	16,013,226	11.43	68,999,347	11.83
Northern	37,055	38,822,016	8.76	12,276,028	8.76	51,098,044	8.76
North Western	50,484	55,589,253	12.55	13,957,642	9.96	69,546,895	11.93
North Central	30,633	32,334,126	7.30	11,054,220	7.89	43,388,346	7.44
Uva	35,474	37,683,595	8.51	9,990,928	7.13	47,674,523	8.18
Sabaraga muwa	40,733	45,849,942	10.35	12,879,592	9.20	58,729,534	10.07
Eastern	39,771	44,939,353	10.14	14,114,319	10.08	59,053,672	10.13
Total	**400,829**	**443,060,606**	**100.00**	**140,069,151**	**100.00**	**583,129,757**	**100.00**

Add-	Assessed Contingency Fund - 2025	2,740,661
	Assessed Advanced B Account - 2025	5,532,639
	Assessed Total Recurrent Needs	**591,403,057**

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

Column 5 - Includes Local Government Transfers (LGT), Expenses for School Nutrition Program, PE for Provincial Authorities (referred to in 08 above) and Excludes Stamp Duty & Court Fines belonging to Local Government Authorities

3.5 Provincial Revenue

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

I. Revenue collection from sources devolved to Provincial Councils

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

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

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

II. Government revenue transfers

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

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

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

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

The forecasted revenue collection for 2025, including stamp duty and court fines, is Rs. 67,158 million. The forecasted revenue for 2025, excluding stamp duty and court fines which are transferred to the local authorities, is Rs. 26,638 million. The revenue forecast made for 2025 under the devolved sources is given in Table 05.

Table 05: Revenue Target of the Provincial Councils in 2025

(Rs.'000)

Province	License fee on Liquor	Motor vehicle revenue license Fees	Stamp Duty	Court Fines	Retained Amount PC on Stamp Duty	Retained Amount PC on Court fine	*Others	Total (Excluding SD & CF)	Total (Including SD & CF)
Western	1,054,004	4,950,000	22,500,000	2,100,000	-	-	3,328,736	9,332,740	33,932,740
Central	425,000	1,450,000	2,100,000	140,000	-	-	800,000	2,675,000	4,915,000
Southern	220,000	1,800,000	3,000,000	700,000	-	-	950,000	2,970,000	6,670,000
Northern	60,000	600,000	1,800,000	500,000	-	-	800,000	1,460,000	3,760,000
North Western	160,000	1,900,000	2,920,000	425,000	84,000	-	1,800,000	3,944,000	7,289,000
North Central	90,000	900,000	290,000	650,000	-	-	870,000	1,860,000	2,800,000
Uva	150,000	700,000	500,000	250,000	3,000	300	400,000	1,253,300	2,003,300
Sabaragamuwa	140,000	1,100,000	1,200,000	320,000	-	-	600,000	1,840,000	3,360,000
Eastern	90,000	810,000	725,000	400,000	8,000	5,000	390,000	1,303,000	2,428,000
Total	**2,389,004**	**14,210,000**	**35,035,000**	**5,485,000**	**95,000**	**5,300**	**9,938,736**	**26,638,040**	**67,158,040**

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

The forecasted amount of Stamp Duty and Court Fines are required to be transferred to the Local Authorities from total revenue for 2025 is Rs.40,520 Mn. The Provincial break-down of Stamp Duty and court fines to be transferred to Local Authorities is given in Table - 06.

Table 06: Stamp Duty and Court Fines to be Transferred to the Local Authorities for 2025

(Rs'000)

Province	Stamp Duty	Court Fines	Total	Provincial Share (%)
Western	22,500,000	2,100,000	24,600,000	60.71
Central	2,100,000	140,000	2,240,000	5.53
Southern	3,000,000	700,000	3,700,000	9.13
Northern	1,800,000	500,000	2,300,000	5.68
North Western	2,920,000	425,000	3,345,000	8.26
North Central	290,000	650,000	940,000	2.32
Uva	500,000	250,000	750,000	1.85
Sabaragamuwa	1,200,000	320,000	1,520,000	3.75
Eastern	725,000	400,000	1,125,000	2.78
Total	**35,035,000**	**5,485,000**	**40,520,000**	**100.00**

Even though, there was a noticeable increase in the revenue pursuant to the introduction of the transfer mechanism, the abolition of NBT in 2019 resulted a significant decrease in Provincial revenue as shown in the table 07 below.

Table 07: Provincial Expenditure and Revenue Receipts (2016 – 2023)

(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)**
2016	257,734	16,396	38,267	54,663	21
2017	264,158	17,425	42,491	59,916	23
2018	281,543	18,201	45,267	63,468	23
2019	303,740	18,928	47,070	65,998	22
2020	326,418	16,767	11,240	28,007	9
2021	342,023	18,012	10,500	28,512	8
2022	400,165	24,800	10,189	34,989	9
2023	431,014	34,752	11,737	46,489	11

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. It should be noted that for the other eight Provinces, excluding the Western Province, their income is only sufficient for covering approximately 6 % of their expenditure. Therefore, harnessing the full potential of revenue capacity of Provincial Councils and Local Government Authorities is a prioritised requirement.

Furthermore, many revenue sources are charged at outdated rates without amending for a long time. This situation leads to revenue losses to the Provincial Councils and also some revenues are not transferred properly by the Line Ministries to the Provincial Councils.

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

Table 08: Provincial Devolved Revenue Targets and Collection (2018-2023)

(Rs.Mn)

Province	2018			2019			2020			2021			2022			2023		
	Target	Collection	%	Target	Collection	%	Target	Collection	%	Target	Collection	%	Target	Collection	%	Target	Collection	%
Western	23,725	25,449	107	26,385	21,987	83	26,750	19,521	73	25,400	28,285	111	23,175	35,295	152	27,806	37,607	135
Central	3,492	3,860	111	4,078	3,677	90	4,195	3,304	79	4,650	3,953	85	3,940	4,615	117	4,375	4,599	105
Southern	4,010	4,379	109	4,366	4,580	105	4,550	4,359	96	4,846	5,304	109	4,037	5,954	147	4,883	6,973	143
Northern	1,220	1,784	146	1,580	1,990	126	1,860	2,074	112	2,135	2,313	108	2,345	2,948	126	2,499	3,839	154
North Western	4,340	4,417	102	4,707	4,678	99	4,970	4,438	89	5,110	5,825	114	5,252	7,012	134	5,340	9,143	171
North Central	1,490	1,674	112	1,541	1,691	110	1,826	1,904	104	1,951	1,888	97	1,812	2,180	120	1,955	2,914	149
Uva	1,570	1,472	94	1,495	1,389	93	1,605	1,416	88	1,640	1,604	98	1,629	1,760	108	1,500	2,032	135
Sabaragamuwa	2,245	1,734	77	2,195	2,720	124	2,275	2,350	103	2,500	2,508	100	2,477	2,810	113	2,535	4,046	160
Eastern	1,520	1,585	104	1,640	1,523	93	1,725	1,637	95	1,780	1,770	99	1,752	2,057	117	1,870	2,813	150
Total	**43,612**	**46,354**	**106**	**47,987**	**44,235**	**92**	**49,756**	**41,003**	**82**	**50,012**	**53,450**	**107**	**46,419**	**64,631**	**139**	**52,763**	**73,966**	**140**

Note: Revenue collection including stamp duty and court fines

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

Table 09: Target and Transfer of the Revenue from Treasury (2018-2023)

(Rs.Mn)

Province	2018			2019			2020			2021			2022			2023		
	Target	Realease	%	Target	Realease	%	Target	Realease	%	Target	Realease	%	Target	Realease	%	Target	Realease	%
Western	26,400	21,659	82	30,624	22,936	75	30,624	4,916	16	6,720	5,001	74	6,720	4,734	70	6,000	5,680	95
Central	4,950	4,062	82	5,742	4,159	72	5,742	1,137	20	1,260	952	76	1,260	897	71	1,125	1,093	97
Southern	4,950	4,115	83	5,742	4,175	73	5,742	1,133	20	1,260	951	75	1,260	893	71	1,125	1,074	95
Northern	2,750	2,222	81	3,190	2,387	75	3,190	517	16	700	513	73	700	531	76	625	540	86
North Western	4,950	4,136	84	5,742	4,200	73	5,742	1,180	21	1,260	954	76	1,260	1,096	87	1,125	998	89
North Central	2,750	2,287	83	3,190	2,188	69	3,190	638	20	700	538	77	700	500	71	625	600	96
Uva	2,750	2,236	81	3,190	2,290	72	3,190	609	19	700	522	75	700	493	70	625	586	94
Sabaragamuwa	2,750	2,296	83	3,190	2,336	73	3,190	580	18	700	536	77	700	504	72	625	617	99
Eastern	2,750	2,254	82	3,190	2,399	75	3,190	530	17	700	533	76	700	539	77	625	549	88
Total	**55,000**	**45,267**	**82**	**63,800**	**47,070**	**74**	**63,800**	**11,240**	**18**	**14,000**	**10,500**	**75**	**14,000**	**10,187**	**73**	**12,500**	**11,737**	**94**

Source: Department of Fiscal Policy and Provincial Revenue Collection Reports

CHAPTER 4

Recommendation on Apportionment of Government Grants among Provincial Councils for the Year 2025

4.1 Recommendation on Apportionment of Capital Grants

As per Article 154R (4) of the Constitution, it shall be the duty of the Finance Commission to make recommendations to the Hon. President on the principles of apportionment of funds which are granted annually by the Government for the use of Provinces and these principles should be formulated with the objective of achieving balanced regional development in the country. The Constitution spells out criteria to be taken into account for the formulation of fund apportionment principles. It appears that these provisions have been introduced with the aim of accelerating balanced regional development through the establishment of Provincial Councils. The objective of this is to give the priority to backward Provinces, taking into account the economic and social disparities between Provinces. Even though the allocation of financial resources to each Provincial Council is done according to a highly scientific method, achieving the desired balanced regional development has been made difficult primarily by two factors. The first is the limited amount of financial resources directed to Provincial Councils, which are subject to such more meaningful allocation. The second issue is that the Line Ministries and National Agencies, which make large scale investments, decide the provinces or areas to which these funds are allocated without following a clear rational formula like the one mentioned in this Chapter. This is mentioned under (I) in the Chapter 5 of this report.

Accordingly, the following variables are specified in the Constitution which should be used in the construction of such principles;

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

Considering the requirement of the Constitution, the Finance Commission has developed a statistical formula in consultation with the Department of Census and Statistics using more variables for the apportionment of capital grants allocated annually from the national budget to the Provinces in a rational manner addressing the disparities among the Provinces. Accordingly, until 2024, the following variables were used to develop the formula;

i. Mid-year Population of the Province
ii. The Land Area of the Province
iii. Provincial Gross Domestic Product
iv. Median Monthly Per capita Income in the Province
v. Percentage of candidates qualified for university entrance in science stream
vi. No. of poor people in the Province
vii. No. of persons per medical officer in the Province

The Commission always takes into consideration the current socio economic status of each Province to ensure the fair fund distribution and new variables are identified accordingly for the construction of the formula. At present, high level of child malnutrition has been observed throughout Sri Lanka and this situation has become a forefront policy concern in the country. As child malnutrition is highly correlated with the socio economic situation of the family, it is worthwhile incorporating level of child malnutrition of the Provinces also into fund apportionment formula as it is closely linked to the socio economic condition of the Provinces. Considering the critical needs of intervention on child malnutrition since 2023, the Government allocates funds directly to the Provincial Councils to implement the School Nutrition Programme.

When formulating a statistical formula, the land area of each Province can be used more effectively as a criterion in such a formula only if the accurate information can be obtained about the land area available for development purposes in each Province (excluding forests, reserves, and inland water bodies). When the total land area of each Province without such information is used as a criterion in formulating the index, it has been shown through trial runs in the formula formulation process that it is disadvantageous to Provinces with a large population and low income in a relatively small area, as all other components in the formula are more advantageous to backward Provinces. This situation is further complicated by the fact that large-scale government investments in irrigation, forest conservation and wildlife conservation are carried out through central government institutions rather than through Provincial Councils. After a lengthy discussion by the Commission on these matters, the Commission has decided to formulate the formula for the year 2025 by adding another criterion that is more advantageous to backward Provinces with a low population (low density), taking into account the following variables.

i. Mid-year Population of the Province
ii. Median Monthly Per capita Income
iii. Percentage of candidates qualified for university entrance in science stream
iv. No. of poor people in the Province
v. No. of persons per medical officer in the Province
vi. Percentage of children with acute malnutrition (wasting)

Since the disparity among Districts within the Province is also high, District level data were taken for the calculation of composite index for each district initially and converted to Provincial composite index subsequently by summation of respective District values of each Province. The latest available data were used for the calculation and relevant data were taken from the Department of Census and Statistics, the Family Health Bureau, the Department of Examinations and the Ministry of Health.

Accordingly, the District data used to prepare the Composite Index used for the allocation of capital Funds related to each province for the year 2025 is shown in Table 10 below.

Table 10: Selected Physical, Demographic and Socio - Economic Indicators of Districts of Respective Provinces Used to Prepare Composite Index

Province	District	Mid-Year Population -2023	Median Monthly per capita Income Rs. (2019)	G.C.E. (A/L) Science stream Eligible percentages for Universities 2022 (%)	Number of Poor population (2019)	persons per medical officer (2021)	Wasting (Acute Malnutrition) % (2023)
Western	Colombo	2,460,000	22,757	60.7	54,800	446	7.4
	Gampaha	2,421,000	18,856	57.2	133,600	1,147	9.6
	Kalutara	1,279,000	16,017	59.6	153,800	1,261	8.9
Central	Kandy	1,482,000	13,833	55.9	204,700	778	9.2
	Matale	525,000	10,917	55.1	99,700	1,378	11.8
	Nuwara-eliya	781,000	11,330	49.4	199,100	2,061	10.5
Southern	Galle	1,139,000	13,732	61.3	145,700	866	11.0
	Matara	869,000	14,400	60.3	93,700	1,229	11.2
	Hambantota	680,000	13,347	57.5	87,700	1,357	11.0
Northern	Jaffna	628,000	10,840	62.8	157,800	910	8.9
	Mannar	116,000	10,825	58.6	8,700	835	8.0
	Vavuniya	196,000	14,357	54.8	25,300	784	7.9
	Mullaitivu	99,000	10,106	56.6	42,900	853	9.2
	Kilinochchi	136,000	9,125	50.8	32,400	1,115	8.5
Eastern	Batticaloa	582,000	10,010	59.4	117,500	1,104	14.2
	Ampara	749,000	11,375	56.9	122,400	905	3.6
	Trincomalee	443,000	9,313	61.0	76,300	1,303	8.8
North Western	Kurunegala	1,727,000	14,160	56.6	209,200	1,397	11.6
	Puttalam	845,000	15,790	60.2	85,200	1,442	10.7
North Central	Anuradhapura	950,000	14,148	48.9	72,700	1,258	12.1
	Polonnaruwa	445,000	13,085	47.3	72,200	1,115	12.6
Uva	Badulla	896,000	10,796	56.6	276,900	1,165	11.1
	Monaragala	509,000	11,543	52.3	101,660	1,312	9.5
Sabaraga-muwa	Ratnapura	1,188,000	11,449	55.4	287,300	1,320	11.3
	Kegalle	892,000	12,836	55.8	180,700	1,411	10.4
Sri Lanka		**22,037,000**	**14,095**	**57.4**	**3,041,960**	**979**	**10.0**

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

Table 11 below depicts the percentages that were used to apportion the capital funds among nine Provinces based on the Composite Index values calculated using the above data.

Table 11: Percentages of each Province used for Capital Fund Allocation

Province	Percentage Value of CI value
Western	9.21
Central	11.50
Southern	10.90
Northern	11.45
North Western	10.68
North Central	10.96
Uva	12.01
Sabaragamuwa	11.85
Eastern	11.44
Total	**100.00**

Accordingly, the Finance Commission recommends the following amounts (Table 12) as capital grants to the Provincial Councils for the year 2025 based on the Composite Index.

Table 12: Capital Funds Recommended for each Province as per the Composite Index for the Year 2025

Provincial Council	Recommended Capital Grants (Rs. Mn)		Total recommended capital grants (Rs. Mn)	Provincial share of capital grants (%)
	Total Amount of PSDG	CBG		
Western	13,538.00	1,658.00	15,196.00	9.21
Central	16,905.00	2,070.00	18,975.00	11.50
Southern	16,023.00	1,962.00	17,985.00	10.90
Northern	16,832.00	2,061.00	18,893.00	11.45
North Western	15,700.00	1,922.00	17,622.00	10.68
North Central	16,111.00	1,973.00	18,084.00	10.96
Uva	17,655.00	2,162.00	19,817.00	12.01
Sabaragamuwa	17,420.00	2,133.00	19,553.00	11.85
Eastern	16,816.00	2,059.00	18,875.00	11.44
Total	**147,000.00**	**18,000.00**	**165,000.00**	**100.00**

Table 13: Recommended Amounts of Capital Grants to the Provincial Councils for the Year 2025 with the Adjustment to the Revenue Target for PSDG

Provincial Council	Recommended Capital Grants (Rs. Mn)		
	PSDG Amount after Revenue Adjustment	CBG	Total
Western	11,788.00	1,658.00	13,446.00
Central	15,285.00	2,070.00	17,355.00
Southern	14,438.00	1,962.00	16,400.00
Northern	15,632.00	2,061.00	17,693.00
North Western	13,986.00	1,922.00	15,908.00
North Central	14,611.00	1,973.00	16,584.00
Uva	16,505.00	2,162.00	18,667.00
Sabaragamuwa	15,870.00	2,133.00	18,003.00
Eastern	15,566.00	2,059.00	17,625.00
Total	**133,681.00**	**18,000.00**	**151,681.00**

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

4.2 Recommendation of Block Grant to the Provincial Councils

The grant for needs of recurrent nature to the Provincial Councils totally depends on the assessed final amount of Recurrent Expenditure requirements, the estimated revenue of the respective Provincial Council and the revenue transferred from the Treasury. The expenditure requirements and the devolved revenue targets of the Provincial Councils were assessed by the Finance Commission through review discussions with the participation of respective Provincial authorities, the officials of the Department of National Budget, Department of Management Services and the Department of Treasury Operations.

The Finance Commission recommends the Block Grant for the Provincial Councils to fill the gap between the assessed recurrent expenditure and 50% share of expected collection of devolved revenue of those entities (leaving 50% of revenue target to be set off capital grant). The estimated transfers of Government revenue to the Provincial Councils which is a small component of total estimated revenue of Provincial Councils has not been included in revenue estimates shown in the 3rd column in table 14 as these figures are not yet made available to the Finance Commission from the Department of Fiscal Policy.

Accordingly, the Recommended amount for Block Grant for the year 2025 by the Commission is given below.

Table 14: The Recommended Block Grant for 2025

(Rs.000)

Province	** Assessed Total Recurrent Expenditure	** Devolved Revenue Target after adjusting to PSDG	Total Block Grant Recommended by FC (After adjusting to the 50% of revenue target)
(1)	**(2)**	**(3)**	**(4)= (2) - (3)**
Western	107,313,980	7,582,740	99,731,240
Central	77,325,416	1,055,000	76,270,416
Southern	68,999,347	1,385,000	67,614,347
Northern	51,098,044	260,000	50,838,044
North Western	69,546,895	2,230,000	67,316,895
North Central	43,388,346	360,000	43,028,346
Uva	47,674,523	103,300	47,571,223
Sabaragamuwa	58,729,534	290,000	58,439,534
Eastern	59,053,672	53,000	59,000,672
Total	**583,129,757**	**13,319,040**	**569,810,717**

Add -	Assessed Contingency Fund - 2025	2,740,661
	Assessed Advanced B Account - 2025	5,532,639
	Assessed Total Block Grant	**578,084,017**

NB: ** (Provincial Revenue) Excluding Stamp Duty & Court Fines

Accordingly, total amount of grants (Capital and Recurrent) recommended by the Finance Commission for Provincial Councils for the year 2025 is Rs. 729,765.017 million.

4.3 Observations and Recommendations:

1. Since we have recommended allocations for the total approved cadre, and also for posts of Development Officers recruited under the government flagship programme of recruiting unemployed graduates into the public service. It is recommended that adequate allocation to be given for both living cadre and also the vacant cadre, particularly for posts of Development Officers.

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

3. The Funds allocated to the following institutions which are essential for the uninterrupted discharge of provincial functions are based on approval granted by the DMS;

- Provincial Road Development Authority
- Provincial Passenger Transport Authority
- Provincial Early Childhood Development Authority

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

4. The Finance Commission has requested key Line Ministries (Health and Indigenous Medicine, Education, Agriculture) to submit us the financial requirements for the payments of personal emoluments of the centrally recruited cadre that will be attached to Provincial Councils. The Ministries have responded to this request and their financial commitments for 2025 have been considered in our assessment of recurrent needs.

5. The provincial requests for assets maintenance amount to Rs.34.9 billion has been assessed as Rs. 25 billion considering the pressing needs and nature of expenditure, in consultation with the Provincial Councils.

6. The estimate of Rs. 34,996,852,000 for the Implementation of School Nutrition Programme for Grade 1-5 students in all Government Schools (both Provincial and National Schools) by the Ministry of Education has been included under Other Recurrent Expenditure of the Provincial Councils.

CHAPTER 5

Special Recommendations

This Chapter contains certain proposals which are complementary to the Government overall Development Strategy, adoption of which may facilitate the effective performance of the Provincial Councils.

Part I

Part I of this Chapter deals with a few such proposals on certain policy level changes and interventions by the Government which are needed to achieve the balanced regional development by Provincial Councils and also to ensure effectiveness of public investment by the Government on regional development.

1. Adopting a policy towards the rational allocation of resources in various regions by both National Level entities and Provincial Councils

With regard to the funding arrangements for the Provincial Councils, Article 154R (3) of the Constitution stipulates that “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.”

In sub-Article (4) therein, it is stated that the duty of the Commission is to make recommendations regarding the apportionment of funds among Provinces based on a formula with the objective of achieving balanced regional development in the country taking into consideration the regional disparities, and level of development. Accordingly, the Commission has worked out a formula giving due consideration to the 4 aspects referred to the above sub-Article (4) of the Constitution while using the following additional criteria to articulate the emphasis made in the Constitution.

01. Number of poor people in the Province
02. Percentage of candidates qualified for university entrance in the science stream
03. Number of persons per medical officer in the Province
04. Percentage of malnutrition (wasting) among children in the Province (This criterion was added to the formula this year (2024) for formulating the Composite Index for the year 2025)

Even though the formula worked out is a well thought out one for the purpose, the usefulness of that exercise has become very limited. This is because funds received by the Provincial Councils on Capital Expenditure (which is apportioned according to the above formula) is relatively small when compared to the capital provision received by the Line Ministries, which do not adopt an objective formula, similar to the one used by the Provincial Councils for making public investments in different regions. Therefore, it is recommended that instructions be issued to the Line Ministries to use a formula which is similar to the formula used by the Finance Commission (not necessarily the same) by the Line Ministries in diverting funds to different regions.

2. The need to adopt a common and integrated planning mechanism in both National and Provincial Levels

With a view to avoid duplication and overlapping in similar activities carried out by the Provincial Councils and the Line Ministries, an attempt was made to identify those activities that will be undertaken by the Line Ministries in different regions and on similar subjects. At Provincial level, an Annual Development Plan (ADP) is prepared identifying activities under various subjects in different regions of the Provinces. But what we found was that the Line Ministries do not have similar development plans. Therefore, our efforts to avoid duplication of activities on the same subjects were not successful. In order to get the best use of funds without waste and duplication, it is necessary to infuse the dimensions of regional development in to the planning process of the Line Ministries by adopting a common and integrated planning mechanism that is similar to the one adopted by the Provincial Councils.

3. Inadequacy of capital grants given to the Provincial Councils

Even though the Provincial Councils have been assigned an extensive list of subjects pertaining to the subjects listed out in the List I of the Ninth Schedule of the Constitution, delivery of which at regional level hitherto carried out by certain Line Ministries. The amount of capital grant received by the Provinces is about 15% of the total capital expenditure incurred on the devolved subjects. While appreciating the difficulties faced by the government in allocating adequate capital grants to the Provincial Councils, the Commission wishes to recommend that allocations given to the Line Ministries on devolved subjects be diverted to the Provincial Councils without incurring additional expenditure by the government within the total resource envelop. It is noteworthy that the Treasury has given instruction to the Line Ministries in the recent past not to seek funds on subjects which are devolved to the Provinces. It appears that the practice adopted by the Line Ministries has not been discontinued despite the Treasury instructions. When examine at depth, it was revealed that the Treasury faces difficulties in resisting such demands as the Line Ministries take the advantage of references made in the subjects by the Honorable President specifying subjects and functions under Article 44 of the Constitution in broader categories. Therefore, the Commission wishes to place this issue before the Hon. President.

4. Need to fully incorporate the activities implemented under the various donor assisted projects in the Annual Development Plans of the Provincial Councils

Most of the activities which are similar to those implemented by the Provincial Councils using the government grants are also implemented under the donor funded projects. In many instances those activities are carried out by the Line Ministries through project offices incurring more expenditure than the similar activities undertaken by a Provincial Councils itself. If those activities can also be integrated to the Annual Development Plan, then those can be implemented at a relatively lower cost by the Provincial staff and also the occurrence of duplication can be avoided.

5. The Need to revisit the present practice of Granting Direct contracts to the Community based Organization (CBO)s Circumventing the Tender procedure

With the objective of getting public participation in small-scale infrastructure development activities in rural areas and obtaining the maximum benefits with the labour contribution of the participating community, the present practice of granting small-scale contracts directly to the community – based organization (originally to the Rural Development Societies) was introduced about three decades ago.

At the inception, the value of the assets created through this method was expected to be higher than the estimated cost of the activity due to the beneficiary contribution in the form of labour. These CBOs were not allowed to sub – contract the work to other parties. Procurement Guidelines of 2006 specified 8 such organizations eligible to receive contracts up to the value of Rs. 2.0 million and the list has been subsequently expanded to thirteen, while increasing the value of a contract to Rs. 5.0 million. Along with the gradual relaxing the criteria to become eligible to receive contracts, much such community - based organizations became societies where purely engaged in contracts and as a result, civic-conscious citizens gradually left the organization. It is a well-known fact that local politicians, who assisted in securing the contracts to such CBOs, have colluded with the organizations, resulting in the final output or asset created being very much less than contract value.

Certain constructions that should have been completed as one unit to retain the quality have been divided into small sections (packages) to limit the value of the contract to Rs. 5 million or below. The instances attempting to package certain construction/rehabilitation of even the “C and D” Roads, which should have been constructed or rehabilitated with proper technical guidance and completed as a one unit at a higher cost, was also observed. Therefore, the final outcome was poorly built infrastructure lacking quality, resulting in the wasting of public funds. When taken together, the amounts spent on small scale infrastructure in the country runs into billions. Therefore, it is suggested to revisit this practice.

6. Rational deployment of Provincial cadre

Public Service delivery of many state institutions in the Provincial level (and also in the Public service in general) is severely affected due to the large number of vacancies of those institutions despite the fact that there is an excess cadre in many other institutions. This issue has to be resolved through rational deployment of such excess cadre in the institutions where there are vacancies. The main obstacle for such rational deployment of Cadre in the Provincial Public Service in general is the non-availability of correct information on manpower requirement of each institution. Therefore, there is an acutely felt need for the correct assessment of human resource requirement through thorough cadre review in the entire public service. The last cadre review which commenced in 2013 took almost two years to complete as it was the first attempt to assess the man power needs of the public sector. After the lapse of a decade, the man power requirements identified in that cadre review need to be revisited through another comprehensive cadre review since many changes took place subsequently, such as out-sourcing of activities previously carried out by the in house staff of those institutions and also the need to rationalize the geographical locations of service delivery centers (regional/divisional) taking in to consideration the improved transport network, communication channels and also the shift in the demand for services obtaining from the government institutes towards the private sector service providers. Such cadre review will also facilitate the impending digitalization as the processes adopted by various institutions will also be reviewed thoroughly in the cadre review. Therefore, the Commission wishes to strongly recommend the undertaking of comprehensive cadre review to ascertain the correct requirement of human resource of each Public institution taking also in consideration the impending adoption of new technologies and possibility of further outsourcing of certain services presently undertaken by the public sector institutions.

7. Strengthening the legal framework of the Local Governance to enhance the revenue generation and the performance of Local Authorities

i. Amending the legislation pertaining to the Local Government Authorities

Amending the Municipal Council Ordinance, Urban Council Ordinance and Pradeshiya Sabha Act which were not amended for many years, has been a felt need to update many provisions to meet emerging issues to improve the performance of those entities. Since the majority of them have to heavily rely on government grants to meet their expenditure, the top most priority should be to introduce amendment to increase their revenue so that over the time they can be self-reliant. Therefore, many taxes and levies imposed by those legislations have to be updated. Many procedures adopted by those entities have to be streamlined not only to provide better services to the community but also to enhance the confidence of investors. One of the bottlenecks identified in facilitating the investment is the difficulties encountered by the investors in obtaining the required approval from the Local Authorities. Certain powers and responsibilities of the Local Authorities have to be clearly defined to effectively implement the power delegated to them by certain regulatory authorities such as Central Environmental Authority. Updating of the existing provisions in the legislations regarding the enactment of by laws for effective service delivery is also required. Draft Bills embodying many of those amendments based on the recommendation of Presidential Commission of Local Governance and also the outcome of discussion the Line Ministry had with relevant stakeholders were drafted almost eight years ago and presented to Parliament in 2017. Again in 2021 those legislations were resubmitted to Parliament and differed for the views of the then Government Parliamentary Group and not pursued thereafter. One important amendment proposed for the Pradeshiya Sabha Act was to bring the settlement in plantation areas within the preview of the Local authorities facilitating the integration of the plantation community with the rural community. Provisions for Public Private Partnership at Local Authority Level and also to create a space for citizens' participation for planning, implementation, monitoring and auditing of the activities and also to implement the citizen charter between Local Authorities and general public were also envisaged.

In addition to the above recommendation and amendments incorporated in the draft bill already submitted to Parliament which are awaiting approval, the Commission also wishes to recommend the incorporation of provision for the direct transmission of court fines and stamp duty to Local Authorities without channeling them through Provincial Councils.

Therefore, it is recommended that these amending legislations be enacted expeditionary.

ii. Amending the legislation pertaining to the controlling of rabies and registration of dogs

By the Rabies Ordinance to provide for control of rabies which was enacted in 1893, the responsibility of controlling the rabies was vested with the Local Authorities. As a result of taking in the responsibility of controlling rabies by the other Authorities at the national level was the neither of institutions are directly responsible to the subject. In view of the increasing the rabies at an alarming rate strengthening the legal provisions for rabies control is of paramount importance. Parallel to this Registration of Dogs Ordinance enacted in 1901 which is not being effectively implemented has also to be amended making it compulsory for the owners of the dogs to take care of their dogs. This will facilitate adoption of measures targeting specially the control rapid increase dog population in the street (Stray dogs).

iii. Reviewing the number of members of Local Authorities

The Finance Commission wishes to recommend a reasonable reduction of the number of the members of the Local Government Institutions which has been increased from 4488 to 8719 in the year 2017. Since it is learnt that recommendations to reduce this number to more acceptable level has been submitted to the Government by the Delimitation Commission appointed for this purpose in 2022. The Finance Commission wishes to request the Government to expedite the implementation of these recommendations.

Part II

Part II contains a few recommendations on desired Government interventions in resolving some issues faced by certain sections of the society which come under the purview of the Provincial Councils, but difficult to resolve without such interventions.

8. Provincial schools without adequate number of teachers

Although many progressive measures have been taken since the introduction of the free education policy in 1945, there is still a glaring disparity in the facilities available in Provincial schools, which cater mainly to the poor segment of the society, compared to the resources available in National schools. This disparity can be addressed not only by upgrading the physical resources through additional capital expenditure by the Government, but also through proper management of human resources. This disparity has a serious impact on children from poor families who cannot afford private tuition. Even though their parents are also contributing to the Government revenue through consumption taxes, bulk of this revenue is channeled to the operation and maintenance of National schools. Inadequate teaching staff and non-availability of teachers with appropriate professional qualifications and experience is currently a major issue in Provincial schools, although there is an excess of similar teachers in National schools. In general, the majority of trained teachers and graduates with teaching qualification who are recruited through competitive examinations and trained teachers from Colleges of Education (referred to in items 4 and 5 of Appendix III of the Ninth Schedule of the Constitution) are employed in national schools as well as certain urban schools under the provincial councils, while the large number of teachers in Provincial schools do not belong to this category. It can also be observed that when qualified teachers for certain subjects are not available, some teachers who are assigned to teach these subjects (especially Mathematics, Science and English) in the Provincial schools do not have proper training to teach these subjects. This situation will continue unless a firm policy is adopted to recruit teachers from the same subject area to teach the subjects for which there are vacancies. It is also reported that some schools in the "difficult areas" (such as the plantation areas and some areas in the Eastern Province) have to rely on "Teacher Assistants" with O/L qualifications. Since these "Teacher Assistants" will continue to serve in the same school, once they qualify for permanent status, these schools will not have enough vacancies to absorb teachers with proper academic and professional training as mentioned above. There are also instances of some schools obtaining the services of volunteer teachers for lack of other alternatives, although this is not permissible.

The best solution to this problem is to transfer the surplus teachers serving in the National schools to the vacancies in the Provincial schools. In view of the demarcation of the subject of Education between the Provincial Councils and the (Line) Ministry of Education as specified in the Appendix III of the Provincial Council List of the Constitution and the List II (Reserved List) of the Constitution, it may be extremely difficult to devise a simple scheme to effect the transfer of surplus teachers in National Schools to Provincial Schools. According to the Circular dated 2023.07.14 issued by the

(Line) Ministry of Education, the teachers of the National Schools can be temporarily assigned to Provincial Schools with the consent of the respective teacher, but no formal transfer can be made.

It may be noted that a viable solution to this issue can be established by adopting a national policy on the balancing of teachers in provincial and national schools. In this case, the relevant provisions of the Constitution should be taken into consideration.

(i). As per Article 55(1) of the Constitution, the Cabinet of Ministers shall determine the policy matters of appointments, promotions, transfers, etc. of all public officers.

(ii). As per Article 57(1) of the Constitution, the Public Service Commission may delegate to a public officer, its powers of transfer of public officers (including teachers of the national service).

(iii). Article 55(4) of the Constitution states that the (National) Public Service Commission shall not derogate from the powers and functions of the Provincial Public Service Commission.

(iv). The 3rd item of Appendix III to the Provincial Councils List of the Constitution states that all education personnel belonging to the national service but serving in the Provincial Authority on secondment shall have the right to appeal to the (National) Public Service Commission, while the officers belonging to the Provincial Public Service shall have the right to appeal to the (National) Public Service Commission against dismissal. This provision indicates that the Public Service Commission exercises certain powers over the teachers serving in the Provincial Councils.

In this backdrop, the following proposals are presented.

(a). Taking a policy decision by the Cabinet of Ministers on balancing of teachers between National Schools and Provincial Schools under Article 55(1) of the Constitution. This means the necessity of taking a policy decision that all the teachers in the national service can be transferred to any school within the Province by considering the service requirements.

(b). On the basis of the above decision, request the Public Service Commission to delegate its authority to the Provincial Director of Education or to the Provincial Public Service Commission regarding the transfer of National Service teachers working within the Province, in terms of Article 57(1) of the Constitution subject to certain conditions and procedures determined by the Public Service Commission.

(c). In light of these facts, it is recommended to form a committee of relevant senior officials, with the participation of representatives of the Attorney General and the Public Service Commission as observers, to recommend a more viable solution by studying the legal implications and practical issues in implementation of the above proposals.

(d). Appointing of Provincial Boards of Education as per the provisions of the 9th item of the Appendix III to the Provincial Council List of the Constitution, to ensure proper implementation of the above (b).

9. The need to improve education facilities in the rural areas and plantation areas through re- organization of schools of lesser number of students

The Policy Framework of the Hon. President has recognized the fact that the schools with lesser number of students in rural and plantation areas should be provided with adequate facilities to enhance the quality of education in those schools. Recognizing this crucial aspect, we wish to resubmit a proposal made by the Commission in its Recommendation for the year 2024.

According to the information gathered from Provincial Authorities in 2022, there were 1402 schools throughout the island with less than 50 students. Out of that there are 128 schools with students below 10. There may be valid reasons for having these types of small schools in view of the accessibility problems faced by the students mostly in uncongenial remote areas. However, contrary to the popular belief there are similar small schools in the suburban areas in Colombo and in also many 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.

Even though the number of students is less, these small schools have to maintain classes from grade 1-5 or 1-10 in certain cases up to Advance Level and therefore adequate numbers of teachers for each subject have to be deployed. As a result, number of teachers in certain schools is sometimes more than the number of students leading to very high cost per student. Despite this high-cost, these schools do not offer better learning environment to students when compared to the other relatively bigger school in the vicinity. However, there are schools with relatively a large number of students and more facilities/ teachers within the close proximity to these small schools, to which the students of those small schools can be absorbed easily. If majority of those small schools can be amalgamated to such nearby schools, approximately 7000 teachers in those small schools can be released to vacant positions in the other rural schools.

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

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

Even though all of these schools come under the preview of Provincial Councils it is recommended that a policy decision be taken in this regard as the policy matters are with the Center (i.e. Line Ministry).

10. Recommendations for the betterment of Institutionalized Children

There are approximately 10,400 children under the age of 16 in the care of institutions managed by the Provincial Departments of Probation and Child Care and various non-governmental organizations. Although this is not a large number, it is important to note that society needs to pay a great deal of attention to their needs, while the public sector's concern for their needs is not up to the expectations. In addition, approximately 600 of men and women in the various Detention Homes and Remand Homes that fall under the purview of the Department of Social Services can also be considered as a part of this group.

These care homes consist of State Receiving Homes which take care of children of 0-5 years who are in the custody of the government, Certified Schools for children accused of various offences and sent under the direction of the courts, Detention Homes for vagrant children, Remand Homes for temporary detention of child suspects and victims, Approved Homes for rehabilitation of children accused of various offences and also Training and Counselling Centers which provide mental treatments and vocational training to these children are also considered as these care homes.

Although institutionalization is not the best solution for children in these categories, as there are no other alternatives in the short term, it is more feasible to provide better services in these institutions by improving the existing level of services.

Although the subjects of Social Services, Probation and Childcare are devolved subjects, the aforesaid institutions administered or supervised by the above Provincial Authorities are not being capable to delivering a satisfactory service, due to the inadequacy of physical and human resources for the Provincial Councils. The limited funds provided to Provincial Councils are mainly allocated to the sectors which are considered as main sectors (conventionally) such as Health, Education and Road Development, etc., and hence, the sector of Probation and Child Care receives very small amount of funds. Accordingly, we wish to highlight the following issues which can only be resolved under the direct involvement of the Government as the Provincial Councils alone cannot solve those issues.

i. After having field visits and a detailed discussion with the relevant subject officers, although, we brought the attention of the Ministry of Justice in 2021 on the requirement of amending the legislations in respect of these subjects, there is no progress reported in that regard other than acquiring the Ridiyagama Detention Home to national level, as per our request. Therefore, it is recommended that the laws related to this field, such as Children and Young Persons Ordinance no. 48 of 1939 (amendments not included to the Act no. 39 of 2022), Ordinance of Adoption of Children no.24 of 1941, National Child Protection Authority Act no 50 of 1998, Vagrants Ordinance no. 04 of 1841 as amended by Act no.02 of 1978, House of Detention Ordinance no. 05 of 1907, etc. have to be amended or integrated to match with the current requirements.

ii. Most of the works which have to be fulfilled by well - experienced matrons and supporting staff with professional qualifications are currently being attended to by junior staff of PL category who have been recently recruited to the government service under taskforce or workers without such qualifications. This situation is more detrimental for the well-being of these children. The main impediment for granting approval to fill the vacancies of matrons and other similar posts is the government's decision on not to grant approval for creating new positions and filling vacancies. Therefore, it is recommended to relax this policy in respect of posts referred to above.

iii. It is recommended that a special budgetary allocation be made for the development and upgrading of these homes, which are currently functioning without the minimum of essential facilities.

    It may be possible to provide a better service at least by providing more physical space and facilities for the certified schools which are the most common type of caring centres among the aforesaid centres, by allocating funds to establish one centre for two or more Provinces after conducting a proper study, rather than maintaining separate centres for a small number of children in each Province without adequate facilities.

iv. Providing at least one vehicle per each Province for the purpose of transportation of children and youth to the courts (as accused or witnesses) and also to provide transport facilities within the Province or between Provinces.

v. The children in these institutions are currently receiving vocational trainings which is less useful compared to the vocational training received by normal children in the society. Therefore, it is recommended that the institutions at the national level be advised to make arrangements to provide these children with quality vocational training on par with the vocational training received by other children in the country.

vi. Amending the laws enabling institutionalised children to be able to stay in those caring homes under certain conditions after completing the age of 18, if those children are not in a position to be reunited with their families or integrated with the society. The intension of this proposal is to prevent these persons from being abused or victimised by various unscrupulous persons in the society.

vii. Giving priority to the children (especially girls) who will be reintegrated into the society after institutionalization, to be provided with houses which are currently being provided to low-income persons by the National Housing Development Authority under the schemes such as "Samata Sewana (Shelter for All)" Programme.

viii. Since taking care of children with autism or other mental retardation is extremely challenging (especially for low-income families), it is recommended that funds be provided for the establishment of Centres such as Certified Schools for each Province or at least one Centre for two or more Provinces to take care of these children.

11. Children of low-income families suffering from nutrition deficiencies

Thriposha cereal mix was a valuable nutritional supplement given to children from 6 months to 5 years of age. In 2022, it has been decided to discontinue the supply of Thriposha to children aged 06 months to 03 years, as it has been reported that the level of Aflatoxin in Thriposha exceeds the approved level. Provincial health authorities had informed us that this was having an enormously negative impact on the growth of children from low-income families, who were already severely affected by the economic downturn and the Covid pandemic. It has been reported that the children with severe acute malnutrition (SAM) can be temporarily relieved from this situation by providing the special nutritional supplement called "DP 100" through hospitals for a maximum of 6 months. However, it has been reported that after stopping this supplement, if they do not receive adequate nutrition, they will revert to SAM status. A significant solution to this situation is provided by the recent policy decision of the government to increase the daily cost borne by the government from Rs.60 to Rs.100 for a meal per day for pre-school children in pre-schools with a large number of malnourished children. Accordingly, 155,000 of the preschool children enrolled in registered preschools, which include a large number of children with nutritional deficiencies, will receive this benefit. However, it has been reported that there are certain groups of children who do not receive benefits from this program.

(a). Children under the age of 3 who do not attend preschool and suffer from malnutrition: These children do not receive either Thriposha or a nutritious meal similar to the meal received by the preschool children.

(b). Children between the ages of 3 and 5 who do not attend preschool and suffer from malnutrition: Based on the information obtained from the provincial authorities, there are approximately 131,000 no. of children of this age category, all over the country.

(c). Children between the ages of 03 and 05 who attend unregistered preschools: This category includes the children attending unregistered preschools as some parents decide to send their children to any preschool closer to their home due to their poor economic status. According to the Provincial authorities, the approximate number of such preschools is about 2000.

(d). Children in the plantation sector who fall into the above categories: Special reference is made to these children as their nutritional status and other health indicators are much unsatisfactory as compared to similar children in other areas. Although the children who attend the Child Development Centers (CDC) operated by the Plantation Management Companies receive a meal under the supervision of the Plantation Human Development Trust, the children of families who live in the plantation areas but work in various occupations outside the respective plantations are not allowed by the plantation management companies to enroll in these Child Development Centers and therefore, these children do not receive the meals offered in the CDC. It has been reported that it is problematic to properly provide Thriposha even to the children of 03 years and above of this group of children as there are comparatively large number of families expecting the services of one midwife.

Under the aforementioned circumstances, it is worth highlighting several areas that necessitate direct Government intervention to improve and maintain the nutritional status of these groups.

(i). Provide incentives to the Thriposha Company to produce Thriposha by mixing rice and other nutritious grains instead of using maize which is suspected of containing Aflatoxins, and exploring the possibility of providing the "Suposha" nutritional supplement produced by the same company at an affordable price.

(ii). In certain areas, with the direct intervention of Medical Officers of Health, “Mavu Hawul” (Mothers’ Groups) prepare and distribute nutritious grain mixtures to children. This supplement, named "Sathumavu," is already being distributed to children in several areas, including Kotagala MOH Division in the plantation sector, and in certain MOH Divisions in the Northern Province. If this nutritional intervention proves successful, expanding the program to other areas would be appropriate. The feasibility of replicating this initiative in other regions should be explored.

(iii). Facilitating the availability of eggs at a reasonable price, as it is a nutritious and storable alternative to perishable and relatively expensive items such as meat, fish, and yogurt, for low-income families who do not have refrigerators.

(iv). Introducing flexible duty hours for Medical Officers of Health and Public Health Midwives working in Plantation areas, so that it would allow working mothers in the plantation sector to access these services more conveniently.

(v). The establishment of a committee comprising of representatives of the Line Ministry of Health and Provincial Health Authorities in the plantation areas is recommended to expedite the process of taking over of the Hospitals and Health Centres which are currently operated by the plantation companies, to the Government in accordance with the government policy.

(vi). Although preschool education and early childhood development are subjects devolved to Provincial Councils under the Constitution, the Government's School Meal Programme for registered preschools is implemented by the National Secretariat of Early Childhood Development under the purview of the Ministry of Women and Child Affairs, through the Divisional Secretaries (without getting the involvement of Provincial Authorities). To implement this programme more effectively (similar to the operational mechanism of School Nutrition Meal Programme), it is advisable to implement this programme through Provincial Councils or to coordinate the implementation closely with Provincial Authorities.

Annexure 01

Apportionment of the Recommended PSDG amounts among Provinces after 50% Revenue Target Adjustment - 2025

(Rs.Mn)

Sub No.	Province	Provincial share of capital grant as per the Composite Index (%)	Recommended Total Amount of PSDG	Revenue Target	Revenue Adjustment with PSDG	Percentage of Revenue target set off against 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	9.21	13,538.00	9,332.74	1,750.00	18.75	7,582.74	11,788.00
2	Central	11.50	16,905.00	2,675.00	1,620.00	60.56	1,055.00	15,285.00
3	Southern	10.90	16,023.00	2,970.00	1,585.00	53.37	1,385.00	14,438.00
4	Northern	11.45	16,832.00	1,460.00	1,200.00	82.19	260.00	15,632.00
5	North Western	10.68	15,700.00	3,944.00	1,714.00	43.46	2,230.00	13,986.00
6	North Central	10.96	16,111.00	1,860.00	1,500.00	80.65	360.00	14,611.00
7	Uva	12.01	17,655.00	1,253.30	1,150.00	91.76	103.30	16,505.00
8	Sabaragamuwa	11.85	17,420.00	1,840.00	1,550.00	84.24	290.00	15,870.00
9	Eastern	11.44	16,816.00	1,303.00	1,250.00	95.93	53.00	15,566.00
	Total	**100.00**	**147,000.00**	**26,638.04**	**13,319.00**	**50.00**	**13,319.04**	**133,681.00**

We are pleased to submit the foregoing recommendations.

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சுமித் அபேசிங்ஹ
தலைவர்
Sumith Abeysinghe
Chairman

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பதவி வழி அங்கத்தவர் (இலங்கை மத்திய வங்கி ஆளுநர்)
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T. Naleen Ossen
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