Performance of the Finance Commission
(for the period of 01st January 2018 to 31st December 2018)

The Finance Commission performs its mandatory functions in line with the provisions under the constitution. The establishment of the Finance Commission and the functions and responsibilities of are defined in Article 154 R of the 13th Amendment to the Constitution.

This report presents the major activities performed by the Finance Commission during the period of 1st January 2018 to 31st December 2018.

01. Recommendations for the Year 2019

One of the main functions of the Commission is to make recommendations to the Government on allocation of annual budget to meet the needs of the provinces and apportionment of funds among nine provinces with the objective of achieving balanced regional development in the country.

The recommendations to the Government on budget allocation for Provincial Councils for the financial year 2019 were prepared methodologically based on the needs of the provinces. The recommendations with apportionment of funds among nine provinces for Capital and Recurrent Expenditure for 2019 were prepared in three languages and submitted to H E the President on 29th September 2018.

The comprehensive report on recommendations also includes proposed policies giving attention to balanced and inclusive regional development in the country and effective implementation.

02. Visits to Provinces to Review and Grant Concurrence for the Provincial Annual Development Plans

In 2018, the Chairman and the Secretary along with other relevant officers of the Finance Commission visited each Province to review the proposed Annual Development Plans of the Provincial Councils and ongoing projects. The Chief Secretaries, Provincial Secretaries and Heads of Department and other senior officials participated this review meetings in each provinces.

The Annual Development Plans of the Provincial Councils for the year 2018 were reviewed and concurrence of the Finance Commission were granted for implementation subject to make few revisions as discussed and agreed at the review meetings.

03. Issue the Budget Guidelines on Recurrent and Capital Needs of the Provinces for Ensuing Year

The Finance Commission issues guidelines annually to provincial authorities regarding the Assessment of needs under both recurrent and capital budget. The guidelines on need assessment for the year 2019 were prepared with necessary attachments and sent to the All Chief Secretaries of the Provincial Councils.

This comprehensive guideline included specific formats for the practices in effective manner and for submission of need assessment of the provinces to Finance Commission.

04. The Annual Reports of the Finance Commission - 2016 and 2017

The printed version of Annual Report - 2016 of the Finance Commission in three language was handed over officially to H E the President at the Presidential Secretariat on 15th of February 2018.

The Annual Report - 2017 was also prepared in three language and submitted to H E the President on the 05th December 2018.

05. Review of Strategic Plan

A Strategic Plan of the organization is an efficient guiding tool in achieving institutional goals and objectives. Recognizing it, the Finance Commission has taken initiatives to produce Strategic Plan for Finance Commission. A draft Strategic Plan with goals and targets under each thrust area in line with the mandatory function of the Finance Commission was prepared with active participation of staff of the Finance Commission.

The Draft Strategic Plan was tabled at Commission meeting. The Commission has approved the Strategic Plan in principal and suggested for further improvement. Necessary action taken with the input from senior staff to upgrade the document as improved quality version.

06. The Activity Plan for 2018

The Annual Activity Plan which contains detailed description of planned activities with timeframe to be performed by the Finance Commission Secretariat during the year 2018 was prepared. The Activity Plan - 2018 was prepared in line with the achievements and the targets in Strategic Plan 2017 - 2020 which approved by Commission in principal.

07. Preparing Reports on Provincial Audit Reports

Provincial Audit Reports of the Auditor General's Department were studied and observations of the Finance Commission on the audit reports were sent to the Chief Secretaries of the respective Provincial Councils with a view to improving accountability of the Provincial Councils.

08. Construction of New Building for the Finance Commission

The new Office Building Complex for the Finance Commission was completed in 2018. The total cost for the construction of this building was Rs. 442 mn. The staff of the Finance Commission shifted to new building on 15th August 2018.

09. Data Base and MIS of the Finance Commission

A Memorandum of Understanding signed between the Asia Foundation and the Finance Commission to develop Database and Information System for the Finance Commission with the financial assistance of the Asia Foundation.

Accordingly, a well-known software development agency "Theekshana" under the purview of University of Colombo were selected by the Asia Foundation as service provider for this software development. A series of discussions conducted to study the current systems and further requirements for new system. It was decided to start the MIS for recurrent expenditure immediately and then development of MIS for capital programme and for revenue system. The system development for recurrent programme was commenced with input of the Finance Commission.

10. Draft Finance Commission Act

The Commission has been functioning without an Act and the absence of an Act and the own procedures, have stifled the working of the Commission to a great extent.

The Draft Finance Commission Bill was formulated and submitted to H.E. the President. The Presidential Secretariat made few observations on the draft and the Finance Commission has already responded thereto. Consequently, the Commission was informed that H. E. the President had forwarded a cabinet paper to assign this task to the Legal Draftsman on 02nd January 2018. On 26th of June 2018 the Finance Commission received the preliminary draft of the Act from the Legal Draftsman for our observations. Accordingly, the observations of the Finance Commission were submitted to the Legal Draftsman for their considerations. The Finance Commission received the Bill on 18th October 2018 from the Legal Draftsman Department and it was forwarded to the Attorney General on 26th October 2018 for their clearance.

11. Capacity Building of the Staff

11.1. Local Training

Few Finance Commission Officers were provided training opportunities on the following selected fields and participated successfully

- Computer Driving License
- Pay As You Earn (PAYE) and With Holding Taxes.
- Computer Application
- Capacity Building Programme
- Labour law (shop & office Act, Gratuity, EPF, ETF etc…)
- Driver Awareness Program

11.2. Foreign Training

The following officers attended short-term foreign training programmes for two weeks period.

Designation of Officer	Field of Training	Country
Secretary	Sustainable Development of Middle - Income Countries : Korea' Experience and Practices	Korea
Chief Accountant	Public Procurement	Japan
Asst. Director	Contract Administration	India

11.3. Guest Lectures

The Finance Commission arranges regular guest lectures for the staff to provide opportunities to improvement the capacity and update knowledge in performing their work. The following Guest Lecturers made presentations in various topic for the staff of the Finance Commission.

Name	Topic
Prof. Siri Hettige, Department of Sociology, University of Colombo	Vision 2025
Mr. D.N.S.Kuruppumullage, CEO and Director Ind-expo of Certification Institute and Ex-Director General of Institute of Textile and apparel	Time & Stress Management
Mr. R.M.S.P. Rathnayaka, Traffic Police, Bambalapitiya	Road safety awareness programme
Mr. Davd Baxter, Specialist USAID	Public Private Partnership
Dr. P.A. Kirivandeniya, Former Chairman of Sanasa Development Bank	Impact of SME Credit for Rural Development
Mr .W.C.Dheerasekera, External Collaborator for International Food Policy Research Institute (IFPRI) in Sri Lanka & Ex-Secretary Ministry of Industries	Implementation of Proposals for Food Value Chain Development Plans through Provincial Councils
Mr. Lakshaman Jayasekara, Project Director, Western Region Mega Police Planning project.	Overview of Western Region Mega Police Developments projects
Dr. Thamara Bogoda	Healthy Life with Ayuruvedic.
Prof. S.P. Premarathna, Department of Economics, University of Colombo	Current Economic Issues in Sri Lanka
Prof. Diyanath Samarasingha, Psychiatry Educator	Money and Health

11.4. Staff Studies

The Finance Commission officers also prepared and made presentations on the basis of further studies done under the assigned duties to them.

11.5. Presentation and Discussion on MIS/DB of the Finance Commission

On the invitation of the Finance Commission, Mr. A. Subakaran, Executive Director, The Asia Foundation and his associate jointly made a presentation to the Commission on the MIS software development for Finance Commission with the ground the programme currently being developed by the Northern Province with the financial support of the Asia Foundation.

12. Meeting on the matters related to Independent Commissions

A meeting was held at the Presidential Secretariat on 2nd February 2018 on the invitation of Mr. Austin Fernando, Secretary to the President. The Commission and the Secretary of the Finance Commission participated in the meeting.

The objective of the meeting was to provide an opportunity to all representatives to discuss issues of their Commissions and make necessary recommendations.

13. Joint Field Visit to Community Water Supply Scheme at Dorowwa

The officials of the Western Province and the Finance Commission participated in a field visit in Dorowwa village in Gampaha District on 15th February 2018 and observed the water supply scheme for the Dorowwa village. Water supply tanks have been constructed under a Community Water Supply Scheme. The major finding was the insufficiency of water in the well. There is a need for should be an alternative water source for the project. The Western Provincial Council is to identify proper solution for the issue.

14. Meetings with Provincial Revenue Commissioners and the Officers of Provincial Transport Sector

The Finance Commission conducted two different meetings with the Provincial Revenue Commissioners and the Officers of Provincial Transport Sector on 2nd April 2018 at the Finance Commission. The objective of the meetings was to provide an opportunity to all representatives to discuss the issues and problems faced in the Provincial Transport and Revenue Sectors with a view to developing policy decisions.

15. Discussion on the Policy Recommendations of the Finance Commission -2018

A meeting on the Policy Recommendations of the Finance Commission 2018 was held on 23rd May 2018 at the Presidential Secretariat chaired by the Secretary to the President. The Members and Officers of the Finance Commission, Chief Secretaries and relevant Secretaries of the Line Ministries attended this meeting. After the discussion of the Finance Commission Recommendations, the issues already submitted to the Finance Commission by the Chief Secretaries were also discussed.

16. Field Visit to Kalutara District - Kanewela Anicut and Agriculture Projects (Good Agricultural Practices -GAP)

The officials of the Western Province and the Finance Commission participated a field visit in Kaluthara District to view the Reconstruction of Kanewela Anicut and few Agriculture Projects (Good Agricultural Practices (GAP). During the visit, certain issues have identified. In order to address those issues, a special meeting was conducted with relevant authorities on 25th June 2018. The Deputy Chief Secretary Planning (WP), the Secretary, Ministry of Agriculture (WP), Provincial Directors of the Department Agriculture and Irrigation and other responsible officers in Western Province and Export Development Board attended this meeting.

17. Meeting on the matters related to Municipal Councils and Urban Councils in Western Province.

The meeting with Mayors, Chairmen, Commissioners, Secretaries, of the Municipal Councils and Urban Councils in Western Province was held on 19th July 2018 at the Finance Commission.

The objective of the meeting was to provide an opportunity to all representatives to discuss the issues and problems faced by the Municipal Councils and Urban Councils in Western Province with a view to developing policy decisions and directions.

18. Meeting with the Economic Council

The Chairman, Secretary and some of the Senior Officials of the Finance Commission had a fruitful discussion with Prof. Lalith Samarakoon, Secretary General of the National Economic Council (NEC)on 5th July 2018 at the Presidential Secretariat .

The Secretary General (SG) of the NEC appreciated the work carried out by the FC and requested to submit a draft report. A report was submitted to the NEC on 23rd July 2018.

19. Common Planning Framework for National and Sub-National Level Development

The Finance Commission is in the view of having common planning framework for National and Sub National Level Development. This subject was discussed in the meeting chaired by the Secretary to the President and directed to have a meeting with Ministry of National Policies and Economic Affairs together with officers from the Department of National Planning. The Secretary, Ministry of National Policies and Economic Affairs arranged a meeting on 19th September 2018 and the Chairman, Secretary and three officers of the Finance Commission participated. The other relevant officers of the Line Ministries also attended this meetings.

20. Meeting on Issues in Budget 2018 and Budgetary Provisions for 2019

The meeting with the Chief Secretaries and the Deputy Chief Secretaries (Finance) of nine Provinces was arranged on 05th October 2018 at the Finance Commission. Director General, Department of Treasury Operation also participated at this meeting.

The main objective of the meeting was to provide an opportunity to Chief Secretaries to discuss issues on 2018 provincial budget and provisions for 2019 and made necessary recommendations.

21. Meeting on Preparation of Annual Development Plan - 2019

A special meeting was organized on 16th October 2018 at the Finance Commission to discuss on Budgetary Allocation, Guidelines and Preparation of Annual Development Plan and other related matters (Sectors, Components, and Sub Components) for the year 2019. The Deputy Chief Secretaries (Planning) of all Provinces participated at this Meeting.

22. Two Day National workshop on Development of Provincial Food Technology Parks for implementing Food Value Chain Development Proposals for Achieving Balanced Regional Development.

The Finance Commission formulates principles with objective of achieving balanced regional development and recommends allocation of funds to the Provincial Councils to reduce progressively socioeconomic disparities.

The core group were under preparation to organize a two-day national workshop on development of provincial food technology parks for implementing food value chain development proposals for achieving balanced regional development of Sri Lanka to obtain stakeholder’s views.

The intended two-day workshop is jointly organized by the presidential Secretariat, the Finance Commission and the National Enterprise Development authority in collaboration with the Asia Foundation. The workshop will be conducted in 2019.

23. Study Visits of Medical Administrators

A group of Medical Administrators from various part of the country visited the Finance Commission to study the role and functions of the Finance Commission. The subjects related to recommendation process, planning and budgeting process in connection with provincial administration were presented to them. Grants provided to the provinces, revenue sources of the provinces, financing for local government and cadre of the provinces also presented and discussed at this visit.

24. Discussion on Socio Economic Indicators and Measuring Balance Regional Development

A discussion organized by the Finance Commission was held with Department of Census and Statistics, Central Bank, Department of Fiscal Policies, Department of National Planning on 5th December 2018 at the Finance Commission. The main objectives of the discussion was to identify the nature of regional disparities among provinces, performing a study and to present measures, methodologies to overcome critical issues related to regional imbalances.

As discussed at this meeting, a draft TOR was prepared and submitted to the participating agencies on 12th December 2018 for observations and comments.

25. Participation /Attendance Seminars and Workshop

Few staff of the Finance Commission attended seminars on State of Sri Lankan Cities, Local Development Support Project, Primary Health Care Sector, Sustainable Development Goals, Financial Regulation Act, Public Accounts, Early Childhood Development, Inter Provincial Coordination, etc.

26. Internal Audit Committee

The Management and Audit Committee was established at Finance Commission and four meetings were held with participation of an Audit Superintend and the Director, Department of Management Audit. The decisions of the meetings were informed to the all staff of the Finance Commission for necessary follow up actions. The Commission decided that in addition to regularity aspects, Internal Audit should deal with performance aspects as well.

27. **National Audit Act**

The Commission considered the provisions of the National Audit Act passed in the Parliament in July 2018 and in terms of its provisions the National Audit Act and good governance the Internal Audit would be reporting to the Commission through the Sub Committee.

28. Joint Research Studies in Collaboration with Sri Lanka Institute of Local Governance

The Commission has taken initiatives to carry out joint research studies in collaboration with the Sri Lanka Institute of Local Governance in the areas Local Government and Provincial Councils system.

Through this effort, it is also expected to build the capacity of the officials of the Finance Commission in the field of research. In order to proceed with this exercise, a draft MOU has been prepared and sent it to the Sri Lanka Institute of Local Governance on 30th November 2018 for its further development and finalized.

29. Performance Reports of the Finance Commission

Performance Reports of the 1st and 2nd Quarters of 2018 were submitted to the Parliament and 3rd Quarter was submitted to the Constitutional Council.

30. Performance Assessment of Senior Staff

As per the provisions of the Code of Governance adopted by the Commission in 2017, the performance of the Chief Executive Officer (Secretary) and other Senior Management Staff (Directors Level) were evaluated by the Sub Committee of the Commission and their report was submitted to the Commission in November 2018. The Commission intend to carry out the appraisal of the Senior Management Staff on a quarterly basis in order to improve the performance of the Commission.

31. Work Study

As per a decision taken by the Finance Commission it was decided to conduct a work study to determine the requirements of staff to perform its mandatary functions in more effective and efficient manner.

The overall objective of the study is to improve the productivity of the organization by an intensive study of each operation along with utilization of human resources and technology within the Commission.

32. Special Studies

A number of special studies were carried out for the support of Finance Commission activities. Followings are the major studies carried out.

- Development of a New Fund Apportioning Formula
- Intergovernmental Financial Relations in Sri Lanka
- Provincial Revenue in Sri Lanka
- Assessment of Provincial Recurrent Needs
- Provincial Councils, Provincial Authorities and Local Authorities Cadre
- Maintenance Expenditure Cost Recovery
- Comparison of Health Sector Expenses between National and Provincial Levels
- Comparison of Education Sector Expenses between National and Provincial Levels
- Sharing Revenue from Government to the Provincial Councils
- Assessment of Line Ministry Staff (Education) Attached to Provincial Councils - 2019.
- Private Sector involvement of Education in Sri Lanka -2017
- Private Sector Involvement in Health Care Sector in Sri Lanka
- Study on Financial Distributions of Budgetary Allocations Among the Provinces by Line Ministries
- Internal Policies and Procedure manual

33. Recruitment of the Staff

An Assistant Director, Four Public Management Assistants, Five Graduate Trainees and an Administrative Officer were appointed to the Commission Secretariat.

34. Financial Performance of the Finance Commission

The Commission reviewed the financial performance of the Finance Commission regularly on a monthly basis.

35. Compliance Report of the Finance Commission

The Commission ensures that all compliances required in its functioning are met. In this regard Compliance Reports are submitted to the Commission on a monthly basis.

36. Sector Studies

The Commission recommend Provincial Specific Development Grants (PSDG) to the provinces based on the sectors. In this regard the Commission has embarked on several sector studies such as health, education, irrigation, agriculture and social services etc. which are used in the process for recommendations to H.E. the President as well as in fund allocations to provinces.

37. The use of media an Regional Development

The Commission concern on the media reports published in daily national papers. In addition the Commission had initial discussion with the SLBC Sinhala National Service which identifies on a daily basis certain problems and issues pertaining to Local Government and Provincial Councils.

In addition news highlights in Daily News Papers and matters discussed in the Parliament has reported in Hanzard are being followed.

38. The Performance of the Commission During the Period November 2015 to 2018

The Commission considered some allegations made against independent Commissions in the recent past. Accordingly the Commission took a decision that a news brief released to the media indicating the Performance of the Finance Commission during its three years period.

This news release was published in Ceylon Daily News, Financial Times and Sunday Observer.

39. The Operational Manual of the Finance Commission

The operational manual is being prepared based on the recommendations made by the Commission meetings. The manual consists of the three major sections, which are the i)system and procedures for financial management, ii)the need assessment procedures and iii)the general administration procedures of the office of the Finance Commission. In addition a separate internal policy manual for streamlining the function of Finance Commission was also being prepared.

40. Commission Meetings/ Core-group Meetings/ Staff Meetings

- Commission Meetings 12 were held
- The Commission Sub Committee met regularly before each Commission Meeting
- Core-group Meetings were held regularly every week.
- Staff meetings were held in regular basis

41. Budget Allocation to the Finance Commission

In 2018, the Finance Commission was allocated Rs. 58.35 mn. for the recurrent expenditure and the utilization rate for recurrent expenditure was 96%. Personal Emoluments represents the significant portion of the Recurrent Expenditure. Mainly due to the increased overtime and other allowances with the implementation of new salary structure with effect from 1^{st} January 2018 caused to slight growth in Personal Emoluments. Recruitments of new officers to Finance Commission was also caused to above increase.

Finance Commission was allocated Rs. 310.95 mn. for the Capital Expenditure and Out of this, Rs. 286.85 mn was allocated for the construction of new office building at Rajagiriya. Utilization for capital expenditure was 70%.

Budgetary allocations and actual expenditure for 2018 and 2017 is shown in the following table.

Vote	Payment Type	2018 (Rs. 000)				2017 (Rs. 000)			
		Estimate	Actual Expenditure	Savings	Actual Expenditure of a % of Estimate	Estimate	Actual Expenditure	Savings	Actual Expenditure of a % of Estimate
	Recurrent Expenditure	**58,350**	**55,984**	**2,366**	**96%**	**50,160**	**48,278**	**1,882**	**96%**
	Personal Emoluments	**35,100**	**33,853**	**1,247**	**96%**	**31,239**	**30,107**	**1,132**	**96%**
1001	Salaries & Wages	23,400	23,116	284	99%	16,935	16,082	853	95%
1002	Overtime and Holiday payments	600	579	21	97%	400	377	23	94%
1003	Other Allowances	11,100	10,158	942	92%	13,904	13,648	256	98%
	Travelling	**630**	**604**	**26**	**96%**	**248**	**231**	**17**	**93%**
1101	Travelling Local (Domestic)	200	174	26	87%	168	159	9	95%
1102	Travelling Foreign	430	430	0	100%	80	72	8	90%
	Supplies	**3,640**	**3,517**	**123**	**97%**	**2,447**	**2,380**	**67**	**97%**
1201	Stationery & Office Requisites	1,100	1,099	1	100%	685	677	8	99%
1202	Fuel	2,250	2,130	120	95%	1,330	1,283	47	96%
1203	Diets and Uniforms	40	40	0	100%	25	24	1	96%
1205	Other Supplies	250	248	2	99%	407	395	12	97%
	Maintenance	**2,100**	**2,057**	**43**	**98%**	**2,116**	**2,116**	**0**	**100%**
1301	Vehicles Maintenance	1,500	1,468	32	98%	1,400	1,400	0	100%
1302	Plant and Machinery Maintenance	600	589	11	98%	711	711	0	100%
1303	Buildings and Structures Maintenance	-	-	-	-	5	5	0	100%
	Services	**16,080**	**15,172**	**908**	**94%**	**13,310**	**12,689**	**621**	**95%**
1401	Transport (Services)	3,300	3,240	60	98%	2700	2317	383	86%
1402	Postal & Communication (Services)	1,500	1,364	136	91%	1,205	1,195	10	99%
1403	Water & Electricity (Services)	2,500	2,221	279	89%	1,725	1,567	158	91%
1404	Rents and Local Taxes (Services)	1,320	1,320	0	100%	5,280	5,280	0	100%
1409	Other (Services)	7,460	7,027	433	94%	2,400	2,331	69	97%
	Transfers	**800**	**782**	**18**	**98%**	**800**	**756**	**44**	**95%**
1506	**Interest for loans**	800	782	18	98%	800	756	44	95%
	Capital Expenditure	**310,950**	**217,495**	**93,455**	**70%**	**102,900**	**87,838**	**15,062**	**85%**
	Rehabilitation and Improvement of Capital Assets	**2,050**	**1,568**	**482**	**76%**	**800**	**701**	**99**	**88%**
2002	Plant Machinery eq.rehab & Improve	300	278	22	93%	300	205	95	68%
2003	Vehicles	1,750	1,290	460	74%	500	497	3	99%
	Acquisition of Capital Assets	**21,000**	**20,941**	**59**	**100%**	**1,200**	**1,145**	**55**	**95%**
2102	Furniture and Office Equipment	2,500	2,470	30	99%	330	312	18	95%
2103	Plant, Machinery and Equipment	18,500	18,470	30	100%	870	833	37	96%
	Capacity Building	**1,050**	**1,024**	**26**	**98%**	**900**	**863**	**37**	**96%**
2401	Staff Training	1,050	1,024	26	98%	900	863	37	96%
	Building & Structures	**286,850**	**193,963**	**92,887**	**68%**	**100,000**	**85,129**	**14,871**	**85%**
2104	Building & Structures	286,850	193,963	92,887	68%	100,000	85,129	14,871	85%

The details of the ‘Public Officers Advance B Account’ are given in below table, accordingly the Finance Commission has been able to operate within the authorized limits.

Description	2018 (Rs.)		2017 (Rs.)	
	Limits Authorized	Actual Limits	Limits Authorized	Actual Limits
Maximum Limit of Expenditure	3,200,000.00	2,999,593.50	3,200,000.00	4,110,390.00
Minimum Limit of Receipts	1,000,000.00	1,923,284.07	800,000.00	2,213,017.65
Maximum Limit if Debit Balance	13,000,000.00	9,359,711.28	12,000,000.00	8,283,401.85