GUIDELINES ON PROVINCIAL/LOCAL PLANNING AND EXPENDITURE MANAGEMENT

Volume 4

Tools and techniques on budgeting & public expenditure management

ADB

Asian Development Bank

National Economic and Development Authority front cover

Volume 4: Tools and Techniques on Budgeting and Public Expenditure Management

This is part of the **Guidelines on Provincial/Local Planning and Expenditure Management** produced under the NEDA-ADB Technical Assistance on Strengthening Provincial and Local Planning and Expenditure Management. The Guidelines consist of:

Volume 1: Integrated Framework
Volume 2: Provincial Development and Physical Framework Plan
Volume 3: Investment Programming and Revenue Generation
Volume 4: Tools and Techniques on Budgeting and Public Expenditure Management
Volume 5: Project Evaluation and Development

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VOLUME 4

tools and techniques

on budgeting & public expenditure management

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TOOLS AND TECHNIQUES ON BUDGETING AND PUBLIC EXPENDITURE MANAGEMENT

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Acronyms

AIP	Annual Investment Program
BESF	Budget of Expenditures and Sources of Financing
BIR	Bureau of Internal Revenue
CFF	Cash Flow Forecast
CRF	Cash Receipts Forecast
DBM	Department of Budget and Management
DILG	Department of the Interior and Local Government
GNP	Gross National Product
IPIn	Implicit Price Index
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
LBE	Local Budget Execution
LBEv	Local Budget Evaluation
LBM	Local Budget Matrix
LBP	Local Budget Preparation
LBR	Local Budget Review
LCE	Local Chief Executive
LDIP	Local Development Investment Program
LDP	Local Development Plan
LEP	Local Expenditure Program
LGC	Local Government Code
LGUs	Local Government Units
MFOs	Major Final Outputs
MOOE	Maintenance and Other Operating Expenses
MPS	Mean Percentage Scores
MTEF	Medium-Term Expenditure Framework
NSCB	National Statistics Coordination Board
OPIF	Organizational Performance Indicator Framework
PDC	Provincial Development Council
PDPFP	Provincial Development and Physical Framework Plan
PDIP	Provincial Development Investment Program
PFC	Provincial Finance Committee
PEM	Public Expenditure Management
PPAs	Programs, Projects, and Activities
RPT	Real Property Tax
SEF	Special Education Fund
UBOM	Updated Budget Operations Manual

Executive Summary

NEDA, with assistance from the ADB, formulated the Guidelines on Provincial/Local Planning and Public Expenditure Management comprising of (1) Integrated Framework, (2) Provincial Development and Physical Framework Plan, (3) Investment Programming and Revenue Generation, (4) Tools and Techniques on Budgeting and Public Expenditure Management, and (5) Project Evaluation and Development.

The fourth volume aims to provide provinces with tools and techniques that will help incorporate the tenets of public expenditure management in provincial budget processes. It is meant to be used by all provincial officials involved in local government finance--governors, members of the Sanggunian, budget officers, planning and development officers, local treasurers, and other provincial department heads.

The local budget is the province's principal instrument for implementing the programs, projects, and activities (PPAs) identified in the Provincial Development and Physical Framework Plan (PDPFP) and prioritized in the Provincial Development Investment Program (PDIP) and Annual Investment Program (AIP). Thus, there has to be a strong plan-investment program-budget linkage if the budget is to be an effective instrument for implementing provincial plans and policies.

This volume seeks to reinforce this connection by adopting the principles of the public expenditure management (PEM) framework:

- Fiscal discipline or spending within means;
- Allocative efficiency or the alignment of provincial spending allocations with their priorities; and
- Operational efficiency or getting value for money.

In more specific terms, PEM fosters the plan-budget connection in three ways:

- By installing a multi-year perspective in budgeting;
- By adopting a top-down approach to budgeting; and
- By promoting a greater performance-orientation in the budget process.

Budget Preparation

The formal budget calendar at the provincial level starts when the Provincial Governor issues the budget call, thereby sending the signal for the heads of offices in the province to prepare the budget proposals for each of their offices for the next budget year.

Prior to the issuance of the budget call, the Provincial Finance Committee (PFC) should have come up with estimates of provincial income. With these income estimates and with the prioritized list of projects and activities found in the PDIP/AIP, the PFC then finalizes the spending ceilings of the different sectors/offices.

At the same time, the budget formulation process also provides the framework against which the implementation of PPAs delineated in the budget will be measured. In this regard, the budget document itself will be the benchmark against which provincial government performance is measured.

Subsequently, the budget office consolidates the budget proposals of the different departments, integrates the Provincial Development Fund (PDF) budget (i.e., the projects listed in the AIP that are funded out of the PDF with the budget for regular programs of the various departments), and allocates the amount of funding available for new projects/investments in accordance with priorities set out in the PDIP/AIP.

This volume presents provinces with simple spreadsheet models and diagnostic questions, to help them in their conduct of the following budget preparation processes and activities:

- Analysis of provincial revenue trends and composition to help them in arriving at their income estimates;
- Formulation of multi-year revenue estimates as inputs to the preparation and updating of PDIP/AIP;
- Estimation of amount of resources allocable for investments and/or expansion of regular/recurring programs in excess of those charged against the PDF;
- Determination of sectoral/departmental expenditure ceilings, and
- Application of the Organizational Performance Indicator Framework (OPIF) in order to increase the results-orientation of the budget and improve the formulation of performance indicators.

Budget Legislation

Budget authorization or legislation starts from the time the governor presents his or her proposed executive budget to the Sanggunian for its review. The Committee on Appropriation and the Sanggunian then deliberate on the proposed executive budget.

Specifically, the Sanggunian reviews the draft appropriation ordinance for (1) its consistency with the provincial goals and objectives as expressed in the PDPFP; and (2) its conformity with the budgetary provisions of the Local Government Code. This volume provides the Sanggunian with a simple tabular summary that it can use in reviewing compliance of the executive budget proposal with the budgetary requirements and the general limitations on the provincial budget and in presenting the results of said review.

On or before the end of the current budget year and after securing the approval from a majority of its members, the Sanggunian enacts the annual budget for the province by passing an appropriation ordinance. The appropriation ordinance is then presented to the governor for his or her approval.

Budget Execution

Once the budget is passed into an appropriation ordinance and approved by the reviewing authority, the budget enters the budget execution phase. It consists of:

- The apportionment of the appropriation and the release of the advice of allotment by the Budget Officer who essentially defines which part of the appropriation the spending units can use at which time;
- The commitment of expenditures as the spending units contracts or incur future obligations to pay for the acquisition of goods and services that they need to perform their functions and release of spending authorization (or allotments), and
- The disbursement of funds as the province pays for goods and services upon delivery by suppliers.

Good budget execution calls for: (i) ensuring that the budget will be implemented in conformity with the budget legislation; (ii) adapting the budget to changes in the economic environment; and (iii) managing the use of resources efficiently and effectively.

This volume provides a simple spreadsheet model that provinces can use in the preparation of their cash flow forecasts and cash flow analysis, which in turn guides them in their release of the allotment advice.

Budget Accountability

The last phase in the local budget cycle is budget accountability. It covers the recording, reporting, and audit of estimated and actual income and expenditures and the evaluation of provincial physical and financial accomplishments vis-à-vis targets. This volume focuses on the internal evaluation of the effects of government programs and does not cover audit of accounts, this being under the purview of the Commission on Audit (COA).

The Local Government Code mandates a mid-year or semi-annual review and examination of the cost and physical accomplishment of each PPA against targets. The Budget Operations Manual calls on local governments to fill out physical and financial accomplishment evaluation forms.

Beyond assessing provincial performance relative to targets that have been agreed upon during the budget preparation phase, the evaluation of the physical and financial accomplishment of the province mid-year during the budget year may also be used as a venue for reviewing and re-evaluating the relevant contribution of the various programs, projects and activities of the different departments of the province to its specific objectives and strategies using the OPIF. The elements of this framework and the diagnostic tools that may be used in its application are the same as those discussed under the budget preparation chapter.

An important output of this review is the identification of PPAs that are irrelevant or ineffective as well as those that contribute significantly to provincial objectives. The provincial performance review is also be a good time to review the definition of MFOs and the performance indicators.

Another way of enhancing accountability at the local level is by promoting mechanisms that allow the province to effectively report the results of budget implementation to their constituents. In this regard, this volume presents some of the key elements of public participation in budget accountability (as derived from various good-practice stories).

part 1
introduction

introduction

A. OVERVIEW

NEDA, with assistance from the ADB, formulated the Guidelines on Provincial/ Local Planning and Public Expenditure Management comprising of (1) Integrated Framework, (2) Provincial Development and Physical Framework Plan, (3) Investment Programming and Revenue Generation, (4) Tools and Techniques on Budgeting and Public Expenditure Management, and (5) Project Evaluation and Development.

The fourth volume aims to provide provinces with tools and techniques that will help incorporate the tenets of sound public expenditure management in provincial budget processes. It is meant to be used by all provincial officials involved in local government finance--governors, members of the Sanggunian, budget officers, planning and development officers, local treasurers, and other provincial department heads.

Development programs, projects, and activities (PPAs) that are identified, prioritized, and evaluated as they move from the planning stage to investment programming, (and project evaluation) eventually need to be included in the local budget in order to be implemented. And it is during this budgeting process that the tools and techniques discussed in this volume may be applied--from budget preparation to legislation, execution, and accountability—following the overall objective of a strong planning-investment programming-budgeting linkage.

B. PLANNING, INVESTMENT PROGRAMMING, AND BUDGETING (PPB) LINKAGE

Central to the effective functioning of provinces as well as all other local governments units (LGUs) are the policies, processes, and procedures that govern how they raise, allocate, and spend resources in a manner that is responsive to the needs of the local community. If LGU resources are to be spent in a manner that truly reflects the LGU's mission and vision, then its

budget should have a strong link with its plan and investment program.
As the Updated Budget Operations Manual (UBOM) for Local Government Units (DBM 2005) emphasizes, the Local Government Code of 1991 contains provisions that mandate a strong planning-budgeting linkage:

- Local budget plans and goals shall, as far as practicable, be harmonized with national development plans, goals, and strategies in order to optimize the utilization of resources and to avoid duplication in the use of fiscal and physical resources (Section 305–h).
- Local budgets shall operationalize approved local development plans (Section 305-i).
- Local governments shall formulate sound financial plans, and the local budgets shall be based on functions, activities and projects in terms of expected results (Section 305–g).
- Budget proposals of departments or offices (of the LGU) … shall contain brief description of the functions, projects, and activities for the ensuing budget year, expected results for each function, project, and activity, and the nature of work to be performed, including the objects of expenditures for each function, project and activity [Section 317-b (3)].

If LGU resources are to be spent in a manner that truly reflects the LGU's mission and vision, then its budget should have a strong link with its plan and investment program.

Article 384 of the IRR of the Local Government Code provides that only local development projects identified in the local development plan may be funded out of the Local Development Fund (representing 20% of the IRA that is earmarked for development activities). The Annual Investment Program (AIP), the current-year slice of the Local Development Investment Program (LDIP), is thus at the core of the planning-investment programming-budgeting linkage. Per the DILG-NEDA-DBM-DOF Joint Memo Circular No. 1 (s. 2007), the AIP is defined as follows: for planning and investment programming purposes, constitutes the annual slice of the LDIP, referring to the indicative yearly expenditure requirements of the LGUs' PPAs to be integrated into the annual budget; for budgeting purposes, constitutes the total resource requirements for the budget year including the detailed annual allocation of each PPA in the annual slice of the LDIP and the regular operational budget items broken down into personal services, maintenance and other operating expenses, and capital outlay (Annex A contains the AIP Summary Form).

For provinces, it is the document by which budgetary support to the Provincial Development and Physical Framework Plan (PDPFP) and the Provincial Development Investment Program (PDIP) is provided. In principle, the programs, projects, and activities (PPAs) that are funded in the budget ordinance are identified and defined in the PDPFP such that said PPAs are in support of the province's vision, goals, objectives, and strategies[1]. Given this perspective, the budget ordinance as approved by the Sanggunian does not only represent the authority to spend; it is also the principal instrument by which provincial governments translate their development plan and investment programs into reality.

C. RATIONALE AND OBJECTIVES

1. Common Problems in Resource Allocation and Use

The experience of many countries around the world suggests that the poor performance of local governments is associated with inadequacies in resource allocation and use including the weak link between policy-making, planning, and budgeting (Box 1). This is also true in the Philippines.

Box 1. Weaknesses In Resource Allocation And Use

Weaknesses that undermine public sector performance include:

- Poor planning;
- No links between policy making, planning and budgeting;
- Poor expenditure control;
- Inadequate funding of operations and maintenance;
- Little relationship between budget as formulated and budget as executed;
- Unreliability in the flow of budgeted funds to implementing units;
- Poor cash management;
- Inadequate reporting of financial performance; and
- Poorly motivated staff.

Source: World Bank, Public Expenditure Management Handbook, 1998

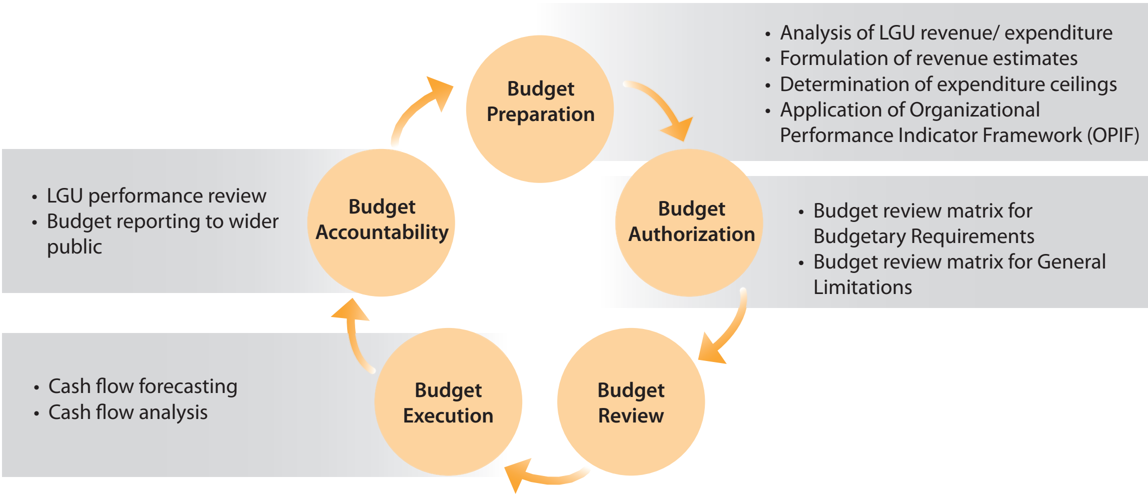
On the one hand, policy making, planning, and investment programming are often not constrained by the amount of resources that will be available in the medium-term. The failure of decision-makers to work within realistic resource constraints early on in the planning, investment programming, and budget formulation stage tends to result in unpredictability in the flow of budgeted resources to units tasked with delivering services to local communities and/or poor expenditure control.

On the other hand, policymakers are usually not well informed of the impact of changes in policy on the budget and the implications of new investment projects on recurrent costs in the future. Consequently, sectoral budget allocations may not reflect strategic priorities of local governments, making their overall policy objectives unsustainable (World Bank, 1998).

2. Objectives

Mechanisms for establishing a strong planning-investment programming-budgeting linkage are thus critical if the budget is to be an effective instrument for implementing provincial plans and investment programs. In line with the budget reforms introduced by the Department of Budget and Management in 2000, this volume seeks to reinforce this connection by adopting the principles of the public expenditure management framework, which is discussed in greater detail in Section D.

Figure 1. The Budget Cycle and Tools/ Techniques Provided in this Volume



As mentioned earlier, this volume aims to provide provincial officials involved in local government finance with tools and techniques pertaining to various stages of the budget cycle (Figure 1):

2.1. Budget preparation
- Analysis of revenue and expenditure trend and composition – input to UBOM's Local Budget Preparation (LBP) Forms 1 and 2
- Formulation of multi-year revenue estimates – input to UBOM's LBP Forms 1 and 2
- Determination of departmental expenditure ceilings – input to UBOM's LBP Form 3
- Application of the Organizational Performance Indicator Framework (OPIF) – input to UBOM's LBP Form 5

2.2. Budget legislation
- Budget review matrix for budgetary requirements – input to UBOM's Local Budget Review (LBR) Forms 3c - 3d
- Budget review matrix for budgetary limitations
- Diagnostic questions for checking consistency of budget proposal with AIP

2.3. Budget execution
- Cash flow forecasting – input to UBOM's Local Budget Execution (LBE) Forms 4/4a/4b and 5

2.4. Budget accountability
- Provincial government performance review
- Budget reporting to wider public.

In principle, the tools and techniques presented in this volume should apply to the allocation and use of all provincial government resources, including those accruing to the General Fund and the Special Education Fund (SEF). On the expenditure side, it should include both current expenditures (including personal services expenditures) and capital expenditures. On the revenue side, it should cover all sources of provincial revenues: local or own sources as well as external sources (including the IRA).

D. CORE VALUES, BASIC PRINCIPLES, AND ANALYTICAL FRAMEWORK

The Department of Budget and Management has started to implement a package of budget reform measures that are aimed not only at improving the government's financial management system but also at strengthening the planning-investment programming-budgeting linkage. These reforms shift the focus of the budget process from inputs and rules-based compliance to outputs/outcomes and results/performance orientation, greater flexibility, transparency, and accountability (Figure 2). These changes are summarized in what is called the public expenditure management (PEM) framework.

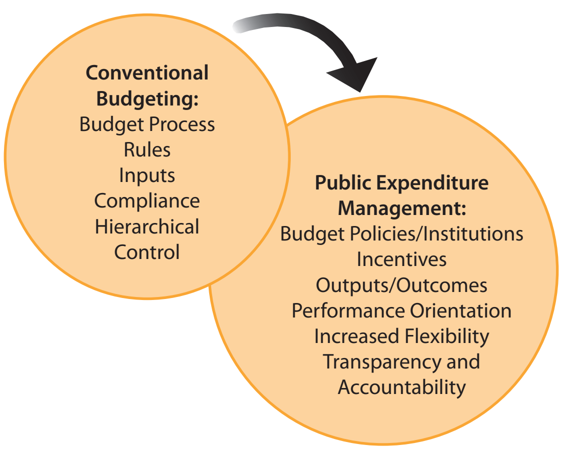
1. Goals of Public Expenditure Management

The basic objectives of a good public expenditure management system are:

- Fiscal discipline;
- Allocative efficiency; and
- Operational efficiency.

1.1. Fiscal discipline calls for matching of the demand for government spending with the available resources in the aggregate in order to ensure that the province's fiscal position is sustainable in the medium-term. It requires that provinces come up with honest and good forecasts of revenues and practice good expenditure control.

Figure 2. Shift in the Nature of the Budgeting Process



Source: ODI Briefing Paper May 2004. M. Schaeffer, "Framework for Effective Local Government Finance and Expenditure Management." 2005

1.2. Allocative efficiency refers to the alignment of government's spending allocation with their policies and priorities. It requires that provinces allocate their resources in a strategic manner so that the budget system reallocates resources:

- From programs, projects, and activities (PPAs) that are of lower priority to those of higher priority, and
- From less effective to more effective PPAs.

That is, allocative efficiency calls on spending units (i.e., departments and offices) to deliver goods and services in a manner that is effective by selecting the right combination of PPAs (or outputs) that contribute the most to the achievement of the desired outcome.

1.3. Operational efficiency calls on spending units to deliver goods and services in a manner that is:
   - Efficient by finding the right combination of inputs so that any given output is produced in the least costly manner (i.e., minimizing cost per unit of output); and
   - Economical by acquiring quality inputs at the lowest cost.

2. PEM and Planning-Investment Programming-Budgeting Linkage

PEM fosters the connection between planning and investment programming on the one hand and budgeting on the other hand in three ways:

- By installing a multi-year perspective in budgeting;
- By adopting a top-down approach to budgeting; and
- By promoting a greater performance-orientation in the budget process.

2.1. By emphasizing the operationalization of a multi-year (e.g., three-year) expenditure framework[2], the PEM injects the future into budgeting. By doing so, it effectively bridges the difference in the time horizon pertinent to development planning and budgeting.

The PEM also helps ensure greater predictability in the amount of resources that will be available in the medium-term by encouraging the formulation of honest and realistic multi-year forecasts of provincial revenues. In turn, good revenue forecasts help improve the allocation of resources by allowing provinces to prioritize their PPAs given a realistic appreciation of their budget constraints.

2.2. By establishing sectoral and/or departmental spending ceilings that are aligned with the priorities of the province and by communicating these to the spending units early on in the budget process, the top-down approach to budgeting under the PEM minimizes the excessive bargaining that is associated with the "open-ended" or the "bottom-up" approach. Too much bargaining tends to result in greater inefficiency as allocation decisions are made on the basis of the relative political power of the different players (Schiavo-Campo and Tommasi 1999).

2.3. The prominence given to performance/results in the budget process under the PEM naturally reinforces the link between budgetary allocations, on the one hand, and the government's goals, policies, strategies, and priority PPAs. This performance-orientation is enshrined in the Organizational Performance Indicator Framework (OPIF)[3]. This framework describes a logical hierarchy of causal relationships that link the outputs (i.e., goods and services) that the government delivers to the outcomes that it seeks to achieve[4].

In contrast to the conventional budgeting approach that is focused on inputs, the outcome and output framework works down the result chain from outcomes to outputs, to programs/projects/activities, to inputs and, finally, to needed financial resources (refer to right-hand side of Figure 3). It helps answer three fundamental questions:

- What does government want to achieve? (outcomes)
- How does it achieve this outcome? (outputs)
- How does it know if it is succeeding? (performance reporting)

PEM encourages the formulation of honest and realistic multi-year forecasts of provincial revenues

In other words, government first specifies the outcomes it seeks to attain in a given area. Then, government agencies specify and manage their outputs to maximize their contribution to the achievement of desired outcomes. Finally, performance indicators are developed to measure how well government is doing in terms of achieving these outcomes and in terms of delivering these outputs. The specification of these performance indicators and the corresponding performance targets is essential because they are used to gauge the performance of the different departments and offices during the annual performance review. The framework thus aims to improve governance and accountability in the public sector.

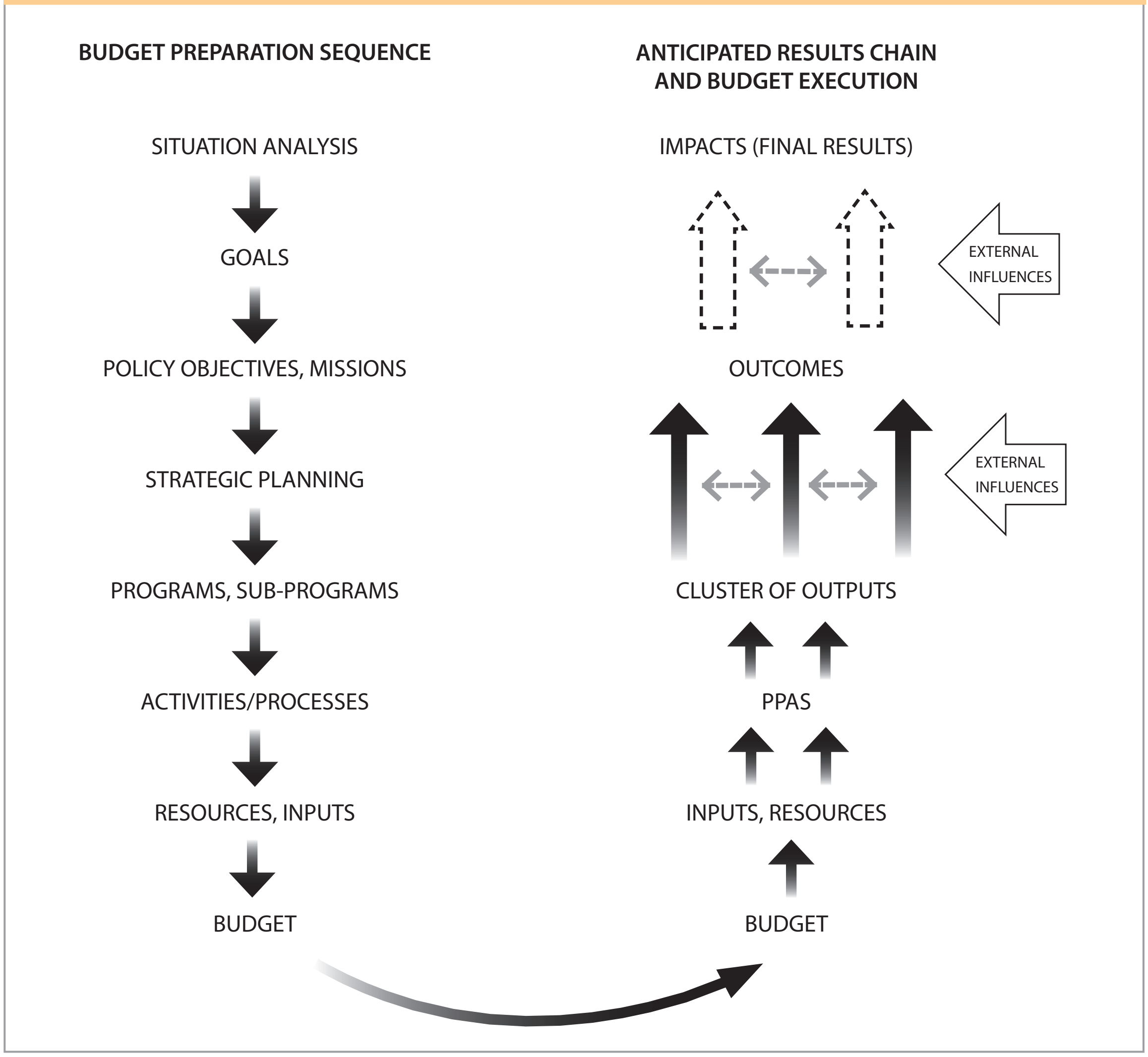
E. STRUCTURE AND ORGANIZATION

The rest of this volume is organized following the budget cycle. The next part (Part II) covers tools and techniques in budget preparation; Parts III, IV, and V deal with budget legislation, budget execution, and budget accountability, respectively.

Much of the tools and techniques discussed involve the use of worksheet templates that comprise a spreadsheet model prepared for this purpose. The entire model is contained in Annex B and is also available as an interactive file in an accompanying disk to this volume. Additional templates and forms are contained in Annexes C-E.

Numerous examples and diagnostic questions are utilized throughout the volume to illustrate specific tools and/or their components. Further, innovative experiences of other local governments ("Gems in LGU Fiscal Management: A Compilation of Good Practices") are provided as additional references.

Figure 3. Results-Based Planning and Budgeting



Notes:

1. The direction of the arrows indicates the policy and planning sequence. The curved arrow indicates that budget preparation is an iterative process.
2. The first sequence is a bottom-up approach, which starts from the situation at micro level while, the actual allocation will be bounded by a top-down resource envelope determined at macro level.
3. The sequence on the right-hand side shows the budget execution/expected results chain.
4. The dashed horizontal arrows indicate the linkages (feedback and synergies) among the outcomes and impacts.
5. The dashed external influence arrows for the outcomes and impacts indicate that the latter are not under the control of the intervention agency.
6. The dashed impact arrows also reflect the uncertainty about impact

part 2
budget preparation

budget preparation

Objectives:

To provide specific guidance on:

- The derivation of multi-year revenue projections that are needed for the preparation of the PDIP and for the formulation of a multi-year expenditure framework
- The determination of sectoral/departmental expenditure ceilings needed to operationalize top-down budgeting
- The application of outcomes-outputs framework to improve the performance-orientation in the budget process

Contents:

- Analysis of LGU revenue/expenditure trend and composition
- Formulation of multi-year revenue forecasts
- Application of the Organizational Performance Indicator Framework
- Determination of sectoral/departmental expenditure ceilings for budget year and two outer years

The UBOM (2005, page 49) states that "budget preparation proper starts with the issuance of the local government budget call, cost estimation, preparation of budget proposals, executive review of budget proposals and finally the preparation of the budget message, local expenditure program (LEP) and the budget of expenditures and sources of financing (BESF). These three (3) documents shall consist the Executive Budget to be submitted to the local Sanggunian."

The "local budget call is the issuance of a directive from the Local Chief Executive to mark the beginning of the budget preparation period for the local government. It shall contain the general objectives, specific sectoral objectives, policy decisions, strategies and prioritized PPAs by sector/office as reflected in the Annual Investment Program (AIP). It shall provide specific guidelines in the preparation of individual budget proposals. The budget guidelines shall include the following:

- Expenditure ceiling by office/sector
- Allocation scheme by major final output and PPA
- Budget calendar and budget preparation forms
- Other administrative guidelines." (UBOM 2005, page 50).

The spreadsheet model pertaining to the determination of sectoral/departmental expenditure ceilings that is presented below is an input to the preparation of the budget call.

"The first part of the LEP is the estimates of income. The income structure that is composed of three components (namely, beginning balance, income sources and other sources of revenue) shall have information on the immediate past year, current year and the budget year estimates. … Data on the above sources of income are generated in LBP Form No. 151, now LBP Forms No. 1 and 2" (UBOM 2005, page 53.) The spreadsheet models pertaining to the analysis of the trend and composition of LGU revenues and the formulation of multi-year revenue forecasts that are presented below are inputs to the preparation of LBP Forms No. 1 and 2.

"The second part of the LEP is the expenditure program. The details of the expenditure program shall be presented by sector, office or department, special purpose appropriations, by program/project/activity, and by expense class for a 3-year period, namely, the past year, current year, and budget year. Each department/office shall have the following presentation of the expenditure program:

- *Functional statement, objectives and expected results. This is presented by program/activity/project for each office. Each office has several programs or functions to perform under its present mandate. – LBP Form No. 5*
- *The program structure shall reflect the expected results or output indicator for each activity/project since it is the key result area and responsibility center." (UBOM 2005, page 54).*

The tools and techniques pertaining to the application of the OPIF that are presented in Section D below are inputs to the identification and evaluation of performance indicators which are needed for LBP Form No. 5.

In summary, budget preparation thus starts with a clear definition of the amount of resources that are likely to be available (i.e., the resource envelope). It focuses on the allocation of these resources in a manner that is consistent with the objectives and strategic priorities of the province. At the same time, the budget formulation process also provides the framework against which the implementation of PPAs delineated in the budget will be measured. In this regard, the budget document itself will be the benchmark against which provincial government performance is measured in the budget accountability phase of the budget cycle.

A. ANALYZING PROVINCIAL INCOME TREND AND COMPOSITION

Objective:

To suggest a simple way for the Provincial Finance Committee (PFC) to analyze the pattern of provincial income. This analysis helps the determination of realistic revenue estimates.

1. Gather Data on Actual Provincial Income in the Last 5 Years

1.1. The best source of data on provincial income is the Statement of Income and Expenses prepared by the Accountant's Office.

1.2. The most recent data on actual provincial income that are available at any point in time are those for the previous year (py) or two years prior to the budget year (by). For instance, if you are preparing the budget for 2006, the most up-to-date data on provincial income refer to those for 2004.

2. Prepare Summary Table of Actual Provincial Income in the Last Five Years, Broken Down into Their Major Components

2.1. Encode actual data for the different components of provincial income in the last five years in the cells marked by "v" in the pro-forma summary table (Worksheet 1.1) that is suggested in this volume.

Annex B contains Worksheet 1, which has three parts, that was developed to help you in the conduct of the analysis of provincial income trend and composition. Worksheet 1.1 is the summary table of LGU income that is described above. The second part (Worksheet 1.2) refers to the analysis of the composition of LGU income while the third part (Worksheet 1.3) refers to the analysis of the growth of LGU income. (An electronic copy of the spreadsheet model using Excel format is provided with the disc that accompanies this volume.)

Note

The components of provincial income and receipts shown in Worksheet 1.1 present the province with a complete picture of its resources: the various components of the General Fund, the Special Education Fund, and inter-local government transfers. It should be emphasized that while only the revenues in the General Fund are subject to Sanggunian appropriation, the other revenue sources are also available to support provincial priorities as specified in its PDPFP and PDIP.

Encoding actual data in the cells marked by "v" of Worksheet 1.1 will automatically cause the other cells to generate the computations for "sums" or "averages" as indicated. The output of Worksheet 1.1 for a province in the Visayas, Province A, is shown as Example 1 below.

Warning

1. **After encoding, always verify that your "totals" and/or "subtotals" tally with your source document. If your "totals" do not match those in your source document, review your encoding. You may not have included some items or you may have made some mistake in inputting the data.**
2. **Always remember to encode a value (including zero, if applicable) in all cells marked by "v." Otherwise, the formulas embedded in the spreadsheet model may not work.**

3. Analyze the Composition of Provincial Income

3.1. Compute the percentage share in total provincial income of each of its components.

The electronic copy of the spreadsheet model for analyzing provincial income that is provided with this volume already contains the formula for computing the percentage share of the various components of provincial income and the results are automatically generated in Worksheet 1.2 once the actual data for the different components of provincial income are encoded in the cells marked by "v" in Worksheet 1.1. Thus, the reader may skip the discussion below which describes the formula used to compute the percentage share of the different components of provincial income to total provincial income.

If the revenue from component k of provincial income is denoted by revk, then the percentage share of revenue component k in total provincial income is computed by dividing revk by total provincial income and multiplying the result by 100. Thus, the formula for the percentage share of revk in total provincial income is given by:

(revk / total provincial income) * 100.

Example 1. Output of Worksheet 1.1 for Province A

Worksheet 1. Sources of LGU Income

Province A	2000	2001	2002	2003	2004	Average
Worksheet 1.1 Levels of LGU Income (in pesos)						
A. OWN-SOURCE REVENUES	76,359,961	70,004,943	64,862,222	73,576,909	96,686,185	76,298,044
1 Tax Revenues	36,635,630	26,758,735	20,260,856	24,637,418	28,560,794	27,370,687
Real Property Tax:	23,836,701	16,449,016	18,342,847	21,426,389	23,816,265	20,774,244
General Fund (GF)	10,119,900	6,880,486	6,970,076	8,986,254	9,352,368	8,461,817
Special Education Fund	13,716,801	9,568,531	11,372,771	12,440,135	14,463,897	12,312,427
Business Tax	0	0	0	0	0	0
Other Taxes	12,798,929	10,309,719	1,918,009	3,211,029	4,744,529	6,596,443
2 Non-tax Operating Income	39,724,330	43,246,208	44,601,366	48,939,491	68,125,391	48,927,357
Regulatory Fees	147,870	133,440	164,919	273,088	351,520	214,167
Service/User Charges (e.g., garbage fees, hospital fees, etc.)	27,775,561	26,332,561	32,576,508	39,312,942	48,573,507	34,914,216
Receipts from Economic Enterprise	1,488,733	1,467,270	1,813,405	3,011,995	3,698,381	2,295,957
Other Non-tax Operating Income	10,312,166	15,312,937	10,046,535	6,341,466	15,501,983	11,503,017
General Fund	10,135,072	15,199,849	10,007,861	6,312,088	15,475,272	11,426,029
Special Education Fund	177,094	113,088	38,673	29,378	26,711	76,989
B. EXTERNAL SOURCES	472,558,063	450,862,560	560,800,000	605,597,108	596,795,628	537,322,672
1 Internal Revenue Allotment (IRA)	465,691,148	450,862,560	560,800,000	583,810,692	574,516,501	527,136,180
2 Share in National Wealth/ Eco. Zones/ Tobacco Excise Tax/EVAT	6,866,915	0	0	21,786,416	22,279,127	10,186,492
3 Other Income from External Sources	0	0	0	0		0
TOTAL OPERATING INCOME	548,918,024	520,867,503	625,662,222	679,174,017	693,481,813	613,620,716
General Fund	535,024,129	511,185,885	614,250,778	666,704,504	678,991,205	601,231,300
Special Education Fund	13,893,895	9,681,619	11,411,444	12,469,513	14,490,608	12,389,416
Capital Revenue	0	21,475	0	0		5,369
TOTAL INCOME	548,918,024	520,888,978	625,662,222	679,174,017	693,481,813	613,625,011
General Fund	535,024,129	511,207,360	614,250,778	666,704,504	678,991,205	601,235,595
Special Education Fund	13,893,895	9,681,619	11,411,444	12,469,513	14,490,608	12,389,416
Income from Grants and Donations	0	0	124,800	0	0	24,960
Interlocal Government Transfers	0	20,000	0	0	0	4,000
Borrowings	0	0	0	0	0	0
TOTAL RECEIPTS	548,918,024	520,908,978	625,787,022	679,174,017	693,481,813	613,653,971
General Fund	535,024,129	511,227,360	614,375,578	666,704,504	678,991,205	601,264,555
Special Education Fund	13,893,895	9,681,619	11,411,444	12,469,513	14,490,608	12,389,416
MEMO ITEM:						
Regular Income: GF	518,022,141	495,986,036	604,242,917	638,606,000	641,236,806	579,618,780
Non-Recurring Income: GF	17,001,988	15,221,324	10,132,661	28,098,504	37,754,399	21,641,775

Example 2. Computation of Percentage Share in Total Provincial Income

If actual collections from the real property tax (RPT) of province A in 2004 is PhP23.8 million and total provincial income for the year is PhP693.5 million, then the percentage share of RPT in total provincial revenue = (23.8 / 693.5) * 100 = 3.43%.

3.2. The percentage share of the different components of provincial revenue that is presented in Worksheet 1.2 indicates the relative contribution of the said components in total provincial income during the period under study. It tells you how much the province relies on any given revenue source. The output of Worksheet 1.2 for Province A is shown as Example 3 below.

4. Analyze the Trend in Various Components of Provincial Income

4.1 Compute the yearly increase in total provincial income and its components. Also, compute the compounded or geometric average annual growth year in the last five years.

Again, the electronic copy of the spreadsheet model that is provided with this volume already contains the formula for computing the growth rate and the results are automatically generated in Worksheet 1.3 once actual data is encoded in cells marked by "v" in Worksheet 1.1. Thus, the reader may skip the discussion below which describes the formula used to compute the growth rate of the different components of LGU income to total LGU income.

The growth rate of revk between year (t-1) and year (t) is given by:

$$\mathbf{grrevk_{t/t-1} = (revk_t / revk_{(t-1)} - 1) * 100.}$$

On the other hand, the geometric average annual growth rate of revenue component k between year (t - n) and year (t) is equal to:

$$\mathbf{[\ nth\ root\ of\ (revk_t / revk_{(t-n)}) \ - 1] * 100,}$$

where year (t-n) refers to the year that is n years prior to the reference year, and year (t) is the reference year.

To compute the geometric average growth rate using Excel, enter the following:

"= (((revk$_t$ / revk$_{(t-n)}$)^(1/n))-1)*100"

Alternatively, one may also compute the arithmetic average growth rate. The arithmetic average is equal to the sum of the yearly growth rates in the relevant years divided by the number of years under consideration.

Example 3. Output of Worksheet 1.2 for Province A

The output of Worksheet 1.2 for Province A shows that the province relies heavily on its IRA. On the average, the IRA accounts for 85.9% of its total income in 2000-2004. Also, the share of tax revenue in total LGU income decreased consistently from 6.7% in 2000 to 3.2% in 2002 but recovered partially in 2003 and 2004.

Worksheet 1. Sources of LGU Income						
Province A	**2000**	**2001**	**2002**	**2003**	**2004**	**Average**
Worksheet 1.2 Percent Distribution of LGU Income						
A. OWN-SOURCE REVENUES	13.91	13.44	10.37	10.83	13.94	12.43
1 Tax Revenues	6.67	5.14	3.24	3.63	4.12	4.46
Real Property Tax:	4.34	3.16	2.93	3.15	3.43	3.39
General Fund (GF)	1.84	1.32	1.11	1.32	1.35	1.38
Special Education Fund	2.5	1.84	1.82	1.83	2.09	2.01
Business Tax	0	0	0	0	0	0
Other Taxes	2.33	1.98	0.31	0.47	0.68	1.07
2 Non-tax Operating Income	7.24	8.3	7.13	7.21	9.82	7.97
Regulatory Fees	0.03	0.03	0.03	0.04	0.05	0.03
Service/User Charges (e.g, garbage fees, hospital fees, etc.)	5.06	5.06	5.21	5.79	7	5.69
Receipts from Economic Enterprise	0.27	0.28	0.29	0.44	0.53	0.37
Other Non-tax Operating Income	1.88	2.94	1.61	0.93	2.24	1.87
General Fund	1.85	2.92	1.6	0.93	2.23	1.86
Special Education Fund	0.03	0.02	0.01	0	0	0.01
B. EXTERNAL SOURCES	86.09	86.56	89.63	89.17	86.06	87.57
1 Internal Revenue Allotment (IRA)	84.84	86.56	89.63	85.96	82.85	85.91
2 Share in National Wealth/Eco. Zones/ Tobacco Excise Tax/EVAT	1.25	0	0	3.21	3.21	1.66
3 Other Income from External Sources	0	0	0	0	0	0
TOTAL OPERATING INCOME	100	100	100	100	100	100
General Fund	97.47	98.14	98.18	98.16	97.91	97.98
Special Education Fund	2.53	1.86	1.82	1.84	2.09	2.02
Capital Revenue	0	0	0	0	0	0
TOTAL INCOME	100	100	100	100	100	100
General Fund	97.47	98.14	98.18	98.16	97.91	97.98
Special Education Fund	2.53	1.86	1.82	1.84	2.09	2.02
MEMO ITEM:						
Regular Income: GF	94.37	95.22	96.56	94.03	92.47	94.45
Non-Recurring Income: GF	3.1	2.92	1.62	4.14	5.44	3.53

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Example 4. Computation of Average Annual Growth Rate

If actual collections from the basic RPT of Province A (proceeds of which goes to its General Fund) are as follows:

2000 – PhP10.12 million
2001 – PhP6.88 million
2002 – PhP6.97 million
2003 – PhP8.99 million
2004 – PhP9.35 million

then, the growth rate between 2003 and 2004 is given by:

[(9.35 / 8.99) – 1] *100 = 4.00%.

In like manner, the growth rate between 2000 and 2001 is -32.01%; that between 2001-2002 is 1.31%; and that between 2002-2003 is 28.98%.

The geometric average growth rate between 2000 and 2004 is given by:

"= (((9.35 / 10.12)^(1/4))-1)*100" = -1.96%

Similarly, the geometric average growth rate between 2002 and 2004 is given by:

"= (((9.35 / 6.97)^(1/2))-1)*100 = 15.84%

On the other hand, the arithmetic average growth rate between 2002-2004 is equal to the sum of the yearly rate of growth in 2003 and 2004 and is given by:

= (28.98 + 4.00) / 2 = 16.49%

4.2. The results shown in Worksheet 1.3 tell you which of the various components of provincial revenues are increasing faster than others during the period under study, thereby making the province more dependent on them as a revenue source. One could also relate changes in the revenue policies that the province has put in place with the movement in these growth rates. The output of Worksheet 1.3 for Province A is shown as Example 5 below.

Tip

You may wish to modify Worksheet 1 in accordance with your specific situation and needs. For instance, you may wish to track one or two of the more important taxes other than the real property tax and the local business tax that are imposed and collected by your province. To do this, simply insert a row between the "Business Tax" and "Other Taxes" rows in all three panels. Label the inserted row/s appropriately. Then, copy the command in the row above the inserted row by first highlighting the relevant cells, pressing "ctrl c" and pointing cursor to the appropriate column in the inserted row.

Example 5. Output of Worksheet 1.3. for Province A

The output of Worksheet 1.3 for Province A shows that the year 2001 was a bad year for our sample province. Most of its own-source revenues decreased during that year. However, revenues from most of these sources recovered in 2003 and 2004. The development is related to the conversion of two of its municipalities into cities in 2000 and 2001. These two municipalities jointly account for over 20% of total RPT revenues of Province A prior to their conversion.

Worksheet 1. Sources of LGU Income

	2001	2002	2003	2004	Geometric Average 2002-2004	Arith. Average 2003-2004
Worksheet 1.3. Growth Rate of LGU Income (%)						
A. OWN-SOURCE REVENUES	-8.32	-7.35	13.44	31.41	22.09	22.42
1 Tax Revenues	-26.96	-24.28	21.6	15.92	18.73	18.76
Real Property Tax:	-30.99	11.51	16.81	11.15	13.95	13.98
General Fund (GF)	-32.01	1.3	28.93	4.07	15.84	16.5
Special Education Fund	-30.24	18.86	9.39	16.27	12.77	12.83
Business Tax	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Other Taxes	-19.45	-81.4	67.41	47.76	57.28	57.59
2 Non-tax Operating Income	8.87	3.13	9.73	39.2	23.59	24.46
Regulatory Fees	-9.76	23.59	65.59	28.72	46	47.15
Service/User Charges (e.g, garbage fees, hospital fees, etc.)	-5.2	23.71	20.68	23.56	22.11	22.12
Receipts from Economic Enterprise	-1.44	23.59	66.1	22.79	42.81	44.44
Other Operating Income	48.49	-34.39	-36.88	144.45	24.22	53.79
General Fund	49.97	-34.16	-36.93	145.17	24.35	54.12
Special Education Fund	-36.14	-65.8	-24.04	-9.08	-16.89	-16.56
B. EXTERNAL SOURCES	-4.59	24.38	7.99	-1.45	3.16	3.27
1 Internal Revenue Allotment	-3.18	24.38	4.1	-1.59	1.22	1.26
2 Share in National Wealth/ Eco. Zones/Tobacco Excise Tax/EVAT	-100	#DIV/0!	#DIV/0!	2.26	#DIV/0!	#DIV/0!
3 Other Income from External Sources	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
TOTAL OPERATING INCOME	-5.11	20.12	8.55	2.11	5.28	5.33
General Fund	-4.46	20.16	8.54	1.84	5.14	5.19
Special Education Fund	-30.32	17.87	9.27	16.21	12.69	12.74
Capital Revenue	#DIV/0!	-100	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
TOTAL INCOME	-5.11	20.11	8.55	2.11	5.28	5.33
General Fund	-4.45	20.16	8.54	1.84	5.14	5.19
Special Education Fund	-30.32	17.87	9.27	16.21	12.69	12.74
Income from Grants and Donations				#DIV/0!		#DIV/0!
Interlocal Government Transfers	#DIV/0!		#DIV/0!		#DIV/0!	#DIV/0!
Borrowings						0
TOTAL RECEIPTS	-5.1	20.13	8.53	2.11	5.27	5.32
General Fund	-4.45	20.18	8.52	1.84	5.13	5.18
Special Education Fund	-30.32	17.87	9.27	16.21	12.69	12.74
MEMO ITEM:						
Regular Income: GF	-4.25	21.83	5.69	0.41	3.02	3.05
Non-Recurring Income: GF	-10.47	-33.43	177.31	34.36	93.03	105.84

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B. ANALYZING PROVINCIAL EXPENDITURE TREND AND COMPOSITION

Objective

To suggest a simple way for the Provincial Finance Committee to analyze the pattern of provincial expenditures. This analysis provides provinces with a better appreciation of past trends in provincial spending priorities and allows them to relate provincial spending levels with various outcome indicators.

1. Gather Data on Actual Provincial Expenditures in the Last 5 Years

1.1. The best source of data on actual provincial expenditures by functions is the Statement of Appropriation, Allotment, Obligations, and Balances (SAAOB) that is also prepared by the Accountant's Office. An alternative source of data for provincial expenditures is the Provincial Budget Office.

1.2. The most recent data on actual provincial expenditures that are available at any point in time are those for the previous year or two years prior to the budget year. For instance, if you are preparing the budget for 2006, the most up-to-date data on provincial expenditures refer to those for 2004.

2. Prepare Summary Table of Actual Provincial Expenditures in the Last Five Years, Broken Down into Their Major Components

2.1. Encode actual data for the different components of provincial expenditures in the last 5 years in the cells marked by "v" in the pro-forma summary table (Worksheet 2.1) that is suggested in this volume. Worksheet 2.1 is the first part of the simple spreadsheet model (Worksheet 2) that has been developed to help you in the conduct of the analysis of provincial expenditure trend and composition. It is presented in Annex B. (An electronic copy of the spreadsheet model using Excel format is provided with the disc that accompanies this volume.)

2.2. Encoding actual data in the cells marked by "v" of Worksheet 2.1 will automatically cause the other cells to generate the computations for "sums" or "averages" as indicated. The output of Worksheet 2.1 for Province A is shown as Example 6 below.

Example 6. Output of Worksheet 2.1 for Province A

Worksheet 2. LGU Expenditure, by function

Province A	2000	2001	2002	2003	average
Worksheet 2.1 Levels of LGU Expenditures (in pesos)					
GRAND TOTAL	500,287,315	536,933,489	574,543,271	593,110,870	551,218,736
Total Economic Services	115,012,312	118,020,380	126,281,928	130,358,093	122,418,178
Agriculture/ Veterinary Services	38,929,458	38,702,410	40,134,056	40,235,532	39,500,364
Environment/ Natural Resource Services	50,000	650,314	330,636	0	257,738
Cooperative Services	0	0	0	0	0
Architectural Services	0	0	0	0	0
Engineering Services	67,247,595	74,991,867	72,650,108	67,900,494	70,697,516
Tourism Projects	0	0	0	0	0
Commercial/ Industrial Devt Projects	0	0	0	0	0
Energy Development Projects	0	0	0	0	0
Livelihood Projects	6,750	0	0	0	1,688
Other Economic Services	2,240,269	3,135,751	12,892,559	22,222,066	10,122,661
Economic Enterprise	6,538,240	540,037	274,569	0	1,838,211
Total Social Services	196,721,484	216,814,446	217,950,140	211,862,275	210,837,086
Education, Culture, Sports & Manpower Services	10,264,256	5,790,168	2,943,868	0	4,749,573
Health Services	177,481,517	199,975,425	203,749,147	200,769,976	195,494,016
Hospital Services	83,731,687	172,967,428	190,017,595	200,769,976	161,871,671
Other Health Services	93,749,830	27,007,997	13,731,552	0	33,622,345
Social Welfare Services (incl. Population Office)	7,170,855	10,933,906	11,198,682	11,092,299	10,098,935
Labor & Employment Services	0	0	0	0	0
Housing &Community Development Services	1,804,857	114,948	58,442	0	494,562
General Public Services	113,709,691	105,564,442	104,656,347	100,279,608	106,052,522
Other Purposes	42,002,403	40,676,641	27,484,998	13,382,415	30,886,614
Debt Service	12,351,108	11,446,159	0	0	5,949,317
Retirement and Other Benefits	27,855,295	29,008,482	20,568,168	0	19,357,986
Misc. Other Purposes	1,796,000	222,000	6,916,830	13,382,415	5,579,311
20% Development Fund	32,841,424	55,857,580	98,169,859	137,228,478	81,024,335
Economic Services	22,656,220	46,182,524	86,986,413	124,907,296	70,183,113
Social Services	5,212,300	8,292,438	10,480,488	12,321,182	9,076,602
General Public Services	4,972,905	1,382,618	702,958	0	1,764,620

3. Analyze the Composition of Provincial Expenditures

3.1. Compute the percentage share in total provincial expenditure of each of its components. The electronic copy of the spreadsheet model for analyzing provincial expenditures that is provided with this volume already contains the formula for computing the budget share of its various components and the results are automatically generated in Worksheet 2.2 once the actual data for the different components of provincial expenditures are encoded in the cells marked by "v" in Worksheet 2.1.

3.2. The percentage share of the different components of provincial expenditures that is presented in Worksheet 2.2 indicates the relative share of these components in total provincial expenditure (i.e., their budget share) during the period under study. It tells you the relative priority accorded by the province to the various sectors during the same period. The output of Worksheet 2.2 for Province A is shown as Example 7 below.

4. Analyze the Trend of Provincial Expenditures

4.1. Compute the yearly increase in total provincial expenditures and its components. Also, compute the average annual growth year in the last five years. The electronic copy of the spreadsheet model that is provided with this volume already contains the formula for computing the growth rate in provincial expenditures and the results are automatically generated in Worksheet 2.3 once actual data is encoded in cells marked by "v" in Worksheet 2.1.

4.2. The results shown in Worksheet 2.3 indicate which of the various components of provincial expenditures are increasing faster than others during the period under study. Together with the movement in the budget shares, they tell you how resources have been shifted from/to the different sectors/offices during the same period. One could then validate the consistency of these movements with the policy pronouncements found in the PDPFP and PDIP.

5. Compute Per Capita Expenditure by Sector

5.1. Get data on the provincial population from the National Statistics Office. Actual data is available for 1995 and 2000. Encode these information in row 182 columns e and f, respectively, of Worksheet 2.

5.2. Estimate population in recent years using the geometric average growth rate in 1995 and 2000. That is, the population estimate for 2001 may be derived as:

Popn2001 = popn2000*(1+popngr/100).

Where: Popn2001 is population in year 2001,
Popn2000 is population in year 2000, and
Popngr is geometric average growth rate between 1995 and 2000 population.

Similarly, **popn2002 = popn2001* (1+popngr/100)** and so on.

5.3. Divide actual spending on any given sector in any given year by the population estimate for that year to arrive at per capita expenditure by sector.

Example 7. Output of Worksheet 2.2 for Province A

The output of Worksheet 2.2 for Province A shows that social services captures the biggest share (39.9% on the average in 2000-2003 including spending chargeable against the DF in total spending of Province A, followed by economic services (34.9%). The relative priority given to social services appears to have declined during the period (from 40.4% in 2000 to 37.8% in 2003) while that given to economic services appears to have increased (from 27.5% in 2000 to 43.0% in 2003).

Worksheet 2. LGU Expenditure, by function					
	2000	2001	2002	2003	average
Worksheet 2.2 Percentage Distribution of LGU Expenditures (%)					
GRAND TOTAL	100	100	100	100	100
Total Economic Services	22.99	21.98	21.98	21.98	22.21
Agriculture/ Veterinary Services	7.78	7.21	6.99	6.78	7.17
Environment/ Natural Resource Services	0.01	0.12	0.06	0	0.05
Cooperative Services	0	0	0	0	0
Architectural Services	0	0	0	0	0
Engineering Services	13.44	13.97	12.64	11.45	12.83
Tourism Projects	0	0	0	0	0
Commercial/ Industrial Devt Projects	0	0	0	0	0
Energy Development Projects	0	0	0	0	0
Livelihood Projects	0	0	0	0	0
Other Economic Services	0.45	0.58	2.24	3.75	1.84
Economic Enterprise	1.31	0.1	0.05	0	0.33
Total Social Services	39.32	40.38	37.93	35.72	38.25
Education, Culture, Sports & Manpower Services	2.05	1.08	0.51	0	0.86
Health Services	35.48	37.24	35.46	33.85	35.47
Hospital Services	16.74	32.21	33.07	33.85	29.37
Other Health Services	18.74	5.03	2.39	0	6.1
Social Welfare Services (incl. Population Office)	1.43	2.04	1.95	1.87	1.83
Labor & Employment Services	0	0	0	0	0
Housing &Community Development Services	0.36	0.02	0.01	0	0.09
General Public Services	22.73	19.66	18.22	16.91	19.24
Other Purposes	8.4	7.58	4.78	2.26	5.6
Debt Service	2.47	2.13	0	0	1.08
Retirement and Other Benefits	5.57	5.4	3.58	0	3.51
Misc. Other Purposes	0.36	0.04	1.2	2.26	1.01
20% Development Fund (DF)	6.56	10.4	17.09	23.14	14.7
Economic Services	4.53	8.6	15.14	21.06	12.73
Social Services	1.04	1.54	1.82	2.08	1.65
General Public Services	0.99	0.26	0.12	0	0.32
Memo item:					
Total (regular program plus 20%DF)					
Economic Services	27.52	30.58	37.12	43.04	34.94
Social Services	40.36	41.92	39.76	37.8	39.9
General Public Services	23.72	19.92	18.34	16.91	19.56

Example 8. Computation of Per Capita Spending

Given the following data for Province A:

total health expd in 2003 = PhP200.8 million
total population in 2003 = PhP1.2 million

Then:
Per capita health expd in 2003 = 200.8 / 1.2 = PhP167.3

The electronic copy of the spreadsheet model that is provided with this volume already contains the formula for computing per capita spending on the various sectors and the results are automatically generated in Worksheet 2.4 once actual data is encoded in cells marked by "v" in Worksheet 2.1. The movement in per capita expenditure on the various sectors over the years indicates whether LGU spending has been able to keep up with the growth in population.

The output of Worksheet 2.4 for Province A is shown as Example 9 below.

6. Compute real per capita expenditure by sector

The movement in real per capita spending on the various sectors over the years indicates whether provincial spending has been able to keep pace with the growth in population as well as the increase in prices or inflation.

6.1. Get data on GNP implicit price index (GNP IPIn) from the National Statistics Coordination Board (NSCB) for the years under study. Encode this in row 353 of Worksheet 2.

6.2. Divide real per capita spending on any given sector in any given year by the GNP IPIn to arrive at per capita spending on the sector for that year expressed in 1985 prices.

The electronic copy of the spreadsheet model that is provided with this volume already contains the formula for computing real per capita spending on the various sectors and the results are automatically generated in Worksheet 2.5 once actual data is encoded in cells marked by "v" in Worksheet 2.1.

Example 9. Output of Worksheet 2.4 for Province A

Per capita spending on social services declined to PhP185 in 2002 and PhP177 in 2003 after rising significantly from PhP174 in 2000 to PhP188 in 2001. These suggest that Province A's spending on health services in 2002 and 2003 has not been able to keep up with population growth when compared to 2001.

Worksheet 2. LGU Expenditure, by function

Province A	2000	2001	2002	2003	average
Worksheet 2.4. Per Capita LGU Expenditure (in pesos)					
GRAND TOTAL	442.79	465.77	488.48	494.23	472.82
Total Economic Services	101.79	102.38	107.36	108.62	105.04
Agriculture/ Veterinary Services	34.46	33.57	34.12	33.53	33.92
Environment/ Natural Resource Services	0.04	0.56	0.28	0	0.22
Cooperative Services	0	0	0	0	0
Architectural Services	0	0	0	0	0
Engineering Services	59.52	65.05	61.77	56.58	60.73
Tourism Projects	0	0	0	0	0
Commercial/ Industrial Devt Projects	0	0	0	0	0
Energy Development Projects	0	0	0	0	0
Livelihood Projects	0.01	0	0	0	0
Other Economic Services	1.98	2.72	10.96	18.52	8.55
Economic Enterprise	5.79	0.47	0.23	0	1.62
Total Social Services	174.11	188.08	185.3	176.54	181.01
Education, Culture, Sports & Manpower Services	9.08	5.02	2.5	0	4.15
Health Services	157.08	173.47	173.23	167.3	167.77
Hospital Services	74.11	150.04	161.55	167.3	138.25
Other Health Services	82.98	23.43	11.67	0	29.52
Social Welfare Services (incl. Population Office)	6.35	9.48	9.52	9.24	8.65
Labor & Employment Services	0	0	0	0	0
Housing &Community Development Services	1.6	0.1	0.05	0	0.44
General Public Services	100.64	91.57	88.98	83.56	91.19
Other Purposes	37.18	35.29	23.37	11.15	26.74
Debt Service	10.93	9.93	0	0	5.22
Retirement and Other Benefits	24.65	25.16	17.49	0	16.83
Misc. Other Purposes	1.59	0.19	5.88	11.15	4.7
20% Development Fund (DF)	29.07	48.45	83.46	114.35	68.83
Economic Services	20.05	40.06	73.96	104.08	59.54
Social Services	4.61	7.19	8.91	10.27	7.75
General Public Services	4.4	1.2	0.6	0	1.55

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Example 10. Computation of Real Per Capita Spending in 1985 Prices

Given the following data for Province A:

total health expd in 2003 = PhP200.8 million
total population in 2003 = 1.2 million
per capita health expd in 2003 = PhP167.3
GNP IPIn in 2003 = 394.96

Then:
Real per capita health expenditure in 2003 = 167.3 / (394.96/100) = PhP42.36

C. FORMULATING MULTI-YEAR REVENUE ESTIMATES

Objective:

To suggest a systematic way of deriving multi-year revenue projections which are needed if the Provincial Development Council (PDC) is to be empowered to translate the PDIP from a mere wish list to a prioritized list of PPAs.

The availability of good multi-year revenue forecasts enables the PDC to translate the PDIP from a mere wish list to a prioritized list of PPAs by allowing the Provincial Finance Committee (PFC) to systematically match alternative expenditure initiatives with estimates of available resources. As such, the preparation of multi-year revenue estimates is an important input to the preparation and updating of the PDIP.

Although more sophisticated approaches (e.g., use of regression and other econometric techniques) are available, this volume proposes the use of simple extrapolation to arrive at estimates of provincial revenues for the budget year and the two outer years because of the lack of data on the local tax base and the absence of sufficient time series data for revenues in many provinces. The application of the extrapolation technique is described in detail below.

The spreadsheet model pertaining to the formulation of multi-year revenue estimates that is presented below is an input not just to the preparation of LBP Forms No. 1 and 2 which require provinces to come up with income estimates for the forthcoming budget year but also the preparation/updating of PDIP. For the preparation/updating of the PDIP, revenue estimates have to be ready as early as January of the current year. In contrast, income

Example 11. Output of Worksheet 2.5 for Province A

Per capita spending on social services in 1985 prices declined to PhP48.6 in 2002 and PhP44.7 in 2003 after rising almost imperceptibly from PhP50.7 in 2000 to PhP51.5 in 2001. These suggest that Province A's spending on health services in 2002 and 2003 has not been able to keep up with population growth when compared to 2001. Moroever, Province A's real per capita spending in 2003 is even lower than that in 2000. These may indicate reductions in service levels unless efficiency improvements in service delivery were effected in these years.

Worksheet 2. LGU Expenditure, by function					
Province A	**2000**	**2001**	**2002**	**2003**	**average**
Worksheet 2.5. Per Capita LGU Expenditure (in 1985 pesos)					
GRAND TOTAL	128.87	127.51	128.04	125.13	127.39
Total Economic Services	29.63	28.03	28.14	27.5	28.32
Agriculture/ Veterinary Services	10.03	9.19	8.94	8.49	9.16
Environment/ Natural Resource Services	0.01	0.15	0.07	0	0.06
Cooperative Services	0	0	0	0	0
Architechtural Services	0	0	0	0	0
Engineering Services	17.32	17.81	16.19	14.33	16.41
Tourism Projects	0	0	0	0	0
Commercial/ Industrial Devt Projects	0	0	0	0	0
Energy Development Projects	0	0	0	0	0
Livelihood Projects	0	0	0	0	0
Other Economic Services	0.58	0.74	2.87	4.69	2.22
Economic Enterprise	1.68	0.13	0.06	0	0.47
Total Social Services	50.67	51.49	48.57	44.7	48.86
Education, Culture, Sports & Manpower Services	2.64	1.38	0.66	0	1.17
Health Services	45.72	47.49	45.41	42.36	45.24
Hospital Services	21.57	41.08	42.35	42.36	36.84
Other Health Services	24.15	6.41	3.06	0	8.41
Social Welfare Services (incl. Popn Office)	1.85	2.6	2.5	2.34	2.32
Labor & Employment Services	0	0	0	0	0
Housing &Community Development Services	0.46	0.03	0.01	0	0.13
General Public Services	29.29	25.07	23.32	21.16	24.71
Other Purposes	10.82	9.66	6.13	2.82	7.36
Debt Service	3.18	2.72	0	0	1.47
Retirement and Other Benefits	7.18	6.89	4.58	0	4.66
Misc. Other Purposes	0.46	0.05	1.54	2.82	1.22
20% Development Fund	8.46	13.26	21.88	28.95	18.14
Economic Services	5.84	10.97	19.38	26.35	15.64
Social Services	1.34	1.97	2.34	2.6	2.06
General Public Services	1.28	0.33	0.16	0	0.44

estimates for purposes of preparing the annual budget are needed prior to the issuance of the budget call sometime between June 15 and June 30 of the current year (UBOM 2005, page 50).

1. Extrapolate components of regular provincial income

1.1. Components of regular provincial income other than the IRA

1.1.1. For each of the various components of regular provincial income other than the IRA, apply the average annual growth rates derived from the analysis of provincial income described in Section A above to the income estimates for the current year (cy) to arrive at the estimate for the budget year (by) and the two outer years (by+1) and (by+2). The reader may skip the formulae given below and simply proceed to the next sub-section which describes the spreadsheet model that is provided in this volume to help you derive the income estimates.

In particular, the estimated value for revenue component k for the budget year (estrevkby) may be expressed as:

$$\textbf{estrevk}_{by} = \textbf{estrevk}_{cy} * (1 + \textbf{grrevk} / 100);$$

where estrevkcy is the estimated revenue from component k in the current year; and grrevk is the average yearly growth rate of revenue component k.

In like manner, the estimated value of revenue component k in the year (by + 1) and the year (by +2) is computed as:

$$\textbf{estrevk}_{(by+1)} = \textbf{estrevk}_{cy} * (1 + \textbf{grrevk} / 100)^2, \textbf{ and}$$
$$\textbf{estrevk}_{(by+2)} = \textbf{estrevk}_{cy} * (1 + \textbf{grrevk} / 100)^3$$

1.1.2. Encode actual values of the various components of provincial income in the previous year as well as their estimated values for the current year in the main panel of the spreadsheet model for the preparation of the multi-year revenue forecasts (Worksheet 3 in Annex B).

1.1.3. Then encode the average annual growth rate of the different non-IRA components of regular provincial income that are derived from Worksheet 1 and which you want to use for estimating provincial income in the budget year and the two outer years in the right-hand panel of Worksheet 3. Worksheet 3 will then automatically generate the estimate for the non-IRA components of provincial regular income. Be sure to encode a value for the growth rate that you wish to apply for each of the following years: the budget year (by) and the two outer years (by+1) and (by+2).

Example 12. Derivation of Income Estimates

Suppose you are preparing the budget for budget year 2006. If the estimated revenue for the basic RPT in the current year (2005) is PhP11.80 million and if the geometric average annual growth rate of basic RPT revenues in 2002-2004[a/] is 15.84% (refer to Example 4 above); then the revenue forecast for RPT may be given as:

- Budget year 2006: 11.80 * (1 + 15.84 / 100) = 11.80 * (1 + .1584) = 13.67 million
- Budget year 2007: 11.80 * (1 + .1584) * (1 + .1584) = 15.83 million
- Budget year 2008: 11.80 * (1 + .1584) * (1 + .1584) * (1 + .1584) = 18.34 million

[a/] Because of the conversion of two of its municipalities into cities in 2000 and 2001, the growth of RPT revenues of Province A in 2001 and 2002 is below "normal". Thus, the average growth rate was computed over the period 2002-2004 instead of over the period 2000-2004.

The growth rate you wish to apply for each of these years may be the same or different depending on your assessment of the specific situation of the province.

1.1.4. If new revenue measures will be introduced in the budget year, the estimated revenue yield from such measures should be added to the estimate of the relevant revenue component as derived above in sub-section 1.1.3.

Encode the estimate of the additional revenue from new measures in the right-most column of the right-hand panel of Worksheet 3. The spreadsheet model will automatically adjust the income estimate for the revenue impact of these measures.

Warning

1. Exercise caution in applying the average annual growth rate derived from Section A above in a mechanical fashion to arrive at your income estimates.

2. Ideally, the average annual growth rate that should be used for this purpose is one that is derived from a period that may be considered "normal." One should thus be on the look-out for abnormal developments that may have affected provincial revenue generation during the period under study.

3. For instance, the mechanical application of the average annual growth rate should not be followed in deriving estimates of RPT revenues if a general revision in schedule of market values of real property was implemented in any given year during the period under consideration. Instead of applying the average annual growth rate for the entire period, use either the geometric or arithmetic average growth rate for the off-years, i.e., years that are either before or after the implementation of the general revision in assessments of real property.

4. The same holds true if the average annual growth rate that is derived from Section A is negative. In cases like these, the PFC is advised to study closely why the average annual growth rate is negative.

   Is it a temporary situation? Has the decline been reversed in recent years? If so, use either the geometric or arithmetic average growth rates for the "normal" years to arrive at revenue estimates.

5. One should also not apply the average annual growth rate for the entire period in deriving estimates of local tax revenues of the province if some of its municipalities were converted into cities sometime during the period under consideration. Again, use the geometric or arithmetic average growth rate for the off-years.

6. The arithmetic average rate of growth tends to be arithmetically higher than the geometric average rate of growth. Thus, income estimates based on the arithmetic average growth rate tend to be higher than those based on the geometric average growth rate.

1.2. Internal Revenue Allotment (IRA)

1.2.1. The IRA for any given year is based on BIR collections three years back. For example, the 2006 IRA is based on BIR collections in 2003.

Data on actual BIR collections in previous years are available from the website of the Bureau of Treasury (www.treasury.gov.ph). The reader may skip the formulae given below and simply proceed to the sub-section that follows which describes the spreadsheet model that is used to arrive at the provincial revenue forecasts.

If you are preparing the annual budget for 2006 (i.e., by = 2006) and the multi-year revenue forecasts for 2006-2008, the IRA for 2006 may be estimated by applying the actual growth rate of BIR revenues (actgrBIR) between 2002 and 2003 to the estimated IRA level for 2005:

$$\mathbf{IRA_{2006} = estIRA_{2005} * (1 + actgrBIR_{2003/2})}$$

Or, in more general terms,

$$\mathbf{IRA_{by} = estIRA_{cy} * (1 + actgrBIR_{(py-1)/(py-2)})}$$

Where

by refers to the budget year,
cy refers to the current year or the year immediately preceding the budget year,
py refers to the previous year or the year immediately preceding the current year,
py-1 refers to the year immediately preceding the previous year.

Similarly, the IRA for 2007 may be estimated by applying the actual growth rate of BIR revenues between 2003 and 2004 to the forecast value of the IRA for 2006:

$$\mathbf{IRA_{2007} = IRA_{2006} * (1 + actgrBIR_{2004/3}).}$$

Or, in more general terms,

$$\mathbf{IRA_{(by+1)} = IRA_{(by)} * (1 + actgrBIR_{py/(py-1)}).}$$

On the other hand, the IRA for 2008 may be estimated by applying the estimated growth rate of BIR revenues between 2004 and 2005. Projected BIR revenues for 2005 may be obtained from the 2005 Budget of Expenditures and Sources of Financing (BESF) of the national government.

Thus, $\mathbf{IRA_{2008} = IRA_{2007} * (1 + estgrBIR_{2005/4}).}$

Or, in more general terms,

$$\mathbf{IRA_{(by+2)} = IRA_{(by+1)} * (1 + estgrBIR_{cy/py}).}$$

Example 13. Estimation of IRA Forecasts

If the estimated IRA of province A in 2005 is PhP617.25 million, and if the growth rate of BIR revenues in previous years is:

- 2003/2 – 7.81%
- 2004/3 – 10.07%, and

if the estimated growth rate of BIR revenues between 2004 and 2005 based on the BESF is

- 2005/4 – 16.81%

then, the estimated IRA for the budget year and the two outer years may be projected as:

- Budget year 2006 = 617.25 * (1 + 7.81 / 100) = 628.76 * (1.0781) = 665.46 million
- Budget year 2007 = 665.44 * (1+ 10.07 / 100) = 665.44 * 1.1007 = 732.44 million
- Budget year 2008 = 732.44 * (1 + 16.81 /100) = 732.44 * 1.1681 = 855.56 million

1.2.2. Encode actual values of BIR revenues three and two years prior to the current year in the lower panel of Worksheet 3. Also, encode in the same panel of the worksheet projected BIR revenues for the current year as given in the BESF of the national government. The model will then automatically generate the growth rate of BIR revenues as well as the forecast for the IRA for the relevant years.

1.2.3. Alternatively, many provinces tend to estimate IRA in a conservative fashion by simply assuming that the IRA level in the budget year and the two outer years will be the same as the IRA level in the current year.

Caution

1. The approach described above may not yield good forecasts when applied to cities because of the non-stop conversion of municipalities into cities cause the IRA share of existing cities to be less than the growth in BIR revenues. Thus, this volume recommends pegging the IRA forecasts for cities in the medium-term to the IRA estimate for the current year as provided by DBM. Provinces which opt to err on the side of conservatism may likewise do the same.
2. The approach is fairly robust in the case of provinces.
3. Around June 15 of each year, the DBM regional office generally releases the initial estimate of the LGUs' IRA share for the budget year. However, the preliminary IRA estimate is needed for the updating of the PDIP or preparation of the AIP as early as January of the current year.

2. Arrive at forward estimates of various components of non-recurring income for the budget year and the two outer years.

2.1 This step requires knowledge of the specific situation of the province. For instance, to forecast capital revenues, one needs to know about the province's plans with respect to the sale of property and other capital assets during the period under consideration. In like manner, to forecast interest income (and other components of non-operating income), one needs to project not just the size of the principal that the province is investing but also what the interest rate will be.

On the other hand, forecasts of revenues from the province's share in national wealth, economic zones, tobacco excise tax, EVAT, etc. are largely dependent on how much the national government has programmed for release in the budget year and the two outer years.

Forward estimates of non-recurring income are thus treated exogenously. Thus, these exogenous estimates of non-recurring income are simply encoded in the main panel of Worksheet 3.

Remember: In forecasting non-recurring income, always err on the side of conservatism.

3. Sum up the extrapolated values of the various components of provincial income

The resulting estimates of the province's total resource envelope for the budget year and the two outer years are automatically generated by the spreadsheet model given in Worksheet 3. The output of Worksheet 3 when applied to Province A is shown as Example 14 below.

Example 14. Output of Worksheet 3 for Province A

Worksheet 3. LGU Medium-Term Revenue Forecasts

Main Panel Province A	actual 2004 py	estimate 2005 cy	forecast 2006 by	forecast 2007 by +1	forecast 2008 by + 2	Right-hand panel Growth rate by	Growth rate by + 1	Growth rate by + 2	Revenue from New measures
I. LEVEL (in pesos)									
A. OWN-SOURCE REVENUES	96,686,185	110,267,459	131,791,765	159,201,305	194,520,532				
*1. Tax Revenues	28,560,794	33,726,676	40,444,121	49,256,172	61,118,571				
						2002-2004			
Real Property Tax	23,816,265	29,156,676	33,242,441	37,907,335	43,234,393				
General Fund	9,352,368	11,800,000	13,668,600	15,833,105	18,340,372	15.84 a/	15.84	15.84	
Special Education Fund	14,463,897	17,356,676	19,573,841	22,074,230	24,894,021	12.77 a/	12.77	12.77	
Business Tax									
Other Taxes	4,744,529	4,570,000	7,201,680	11,348,838	17,884,178	57.59 a/	57.59	57.59	
*2. Non-tax Operating Income	68,125,391	76,540,783	91,347,644	109,945,132	133,401,961				
Regulatory Fees	351,528	360,000	515,042	757,908	1,115,298	47.15 a/	47.15	47.15	
Service/User Chargers (e.g. garbage fees, hospital fees, etc.)	48,573,507	56,582,453	69,109,241	84,394,419	103,060,283	22.12 a/	22.12	22.12	
Receipts from Economic Enterprise	3,698,381	4,781,555	6,906,586	9,976,030	14,409,604	44.44 a/	44.44	44.44	
Other Operating Income	15,501,983	14,816,775 *	14,816,775	14,816,775	14,816,775				
General Fund	15,475,272	14,789,775	14,789,775	14,789,775	14,789,775				
Special Education Fund	26,711	27,000	27,000	27,000	27,000				
B. EXTERNAL SOURCES	596,795,628	637,250,000	665,439,583	732,436,917	865,593,115				
*1. Internal Revenue Allotment	574,516,501	617,250,000	665,439,583	732,436,917	865,593,115	7.81 b/	10.07 b/	16.81 b/	
*2. Share in National Wealth/ Eco. Zones/ Tobacco Excise Tax / EVAT	22,279,127	20,000,000	0	0	0				
3. Other Income from External Sources	0	0	0	0	0				
TOTAL OPERATING INCOME	693,481,813	747,517,459	797,231,348	891,638,222	1,060,113,646				
General Fund	678,991,205	730,133,783	777,630,507	869,536,992	1,025,192,625				
Special Education Fund	14,490,608	17,383,676	19,600,841	22,101,230	24,921,021				
Capital Revenue	0	0	0	0	0				
TOTAL INCOME	693,481,813	747,517,459	797,231,348	891,638,222	1,060,113,646				
General Fund	678,991,205	730,133,783	777,630,507	869,536,992	1,025,192,625				
Special Education Fund	14,490,608	17,383,676	19,600,841	22,101,230	24,921,021				
Income from Grants and Donations	0	0	0	0	0				
Interlocal Government Transfers	0	0	0	0	0				
Borrowings	0	0	0	0	0				
TOTAL RECEIPTS	693,481,813	747,517,459	797,231,348	891,638,222	1,060,113,646				
General Fund	678,991,205	730,133,783	777,630,507	869,536,992	1,025,192,625				
Special Education Fund	14,490,608	17,383,676	19,600,841	22,101,230	24,921,021				
MEMO ITEM:									
Regular Income: GF	641,236,806	695,344,008	762,840,732	854,747,217	1,010,402,850				
Non-Recurring Income: GF	37,754,399	34,789,775	14,789,775	14,789,775	14,789,775				
20% of IRA	114,903,300	123,450,000	133,087,917	146,487,383	171,118,623				

Bottom Panel

BIR revenues	act 2002 cy - 3	act 2003 cy -2	act 2004 cy -1	est 2005 cy
BIR revenues (in millions)	394,549	425,352	468,177	546,899 *
BIR revenues growth rate		7.81	10.07	16.81

a/ pick up values from computation of average growth rate of LGU revenues in column K (rows 115, 116,118, 122, 123 and 124) of Worksheet 1
b/ pick up values from computation of growth of BIR revenues in row 67 above

D. APPLYING THE ORGANIZATIONAL PERFORMANCE INDICATOR FRAMEWORK (OPIF) TO IMPROVE THE PERFORMANCE-ORIENTATION OF BUDGET PROCESS

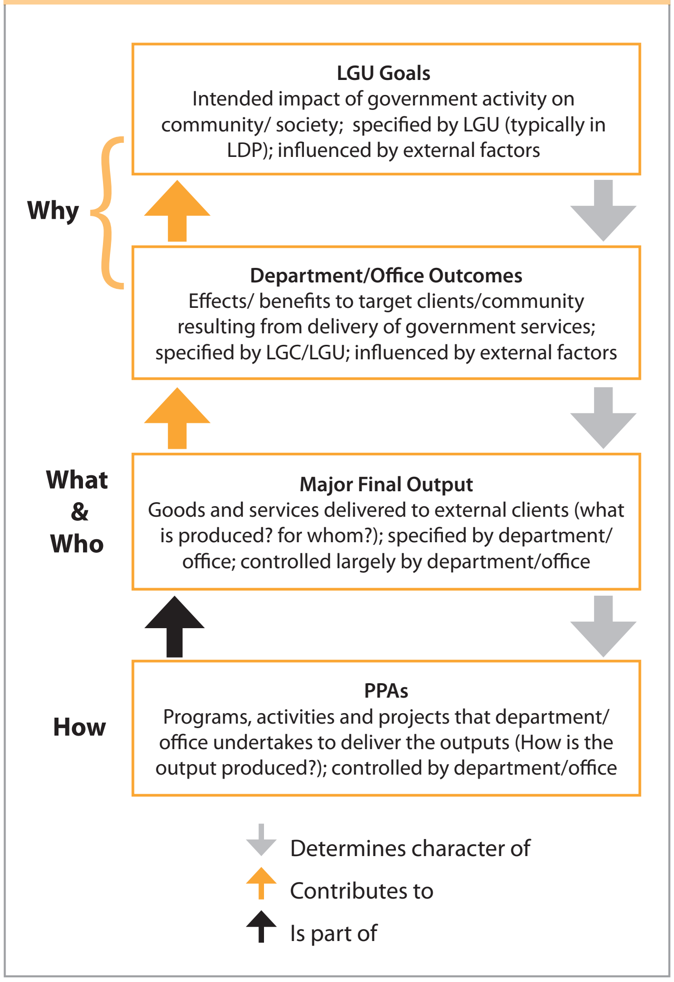
Objective

To provide the PFC with a set of diagnostic tools for specifying performance indicators and performance targets for the various provincial outputs.

As indicated earlier, each department/office of the province is required to fill out LBP Form No. 5 (Functional Statement, Objectives and Expected Results form) where they are asked to define the output indicators and performance targets for each of their PPAs (UBOM 2005, page 54). These submissions are then reviewed and consolidated by the Provincial Budget Officer as he/she puts together the Provincial Expenditure Program (PEP). In this sense, budget preparation provides a natural venue for evaluating the performance indicators and the performance targets for the various PPAs being proposed by the different departments.

Understanding what goods and services the different departments/offices of the province provide and the impact of these goods and services on the outcomes that the province wants to achieve is central to the evaluation of the performance indicators and targets that are being proposed by the department/office heads and the alignment of their PPAs with provincial goals and objectives. To facilitate this understanding, you may wish to use the OPIF framework (Figure 4). This framework describes the hierarchical link between what each department/office of the province does and the goods and services it delivers (outputs) and their desired impact on the community (outcomes).

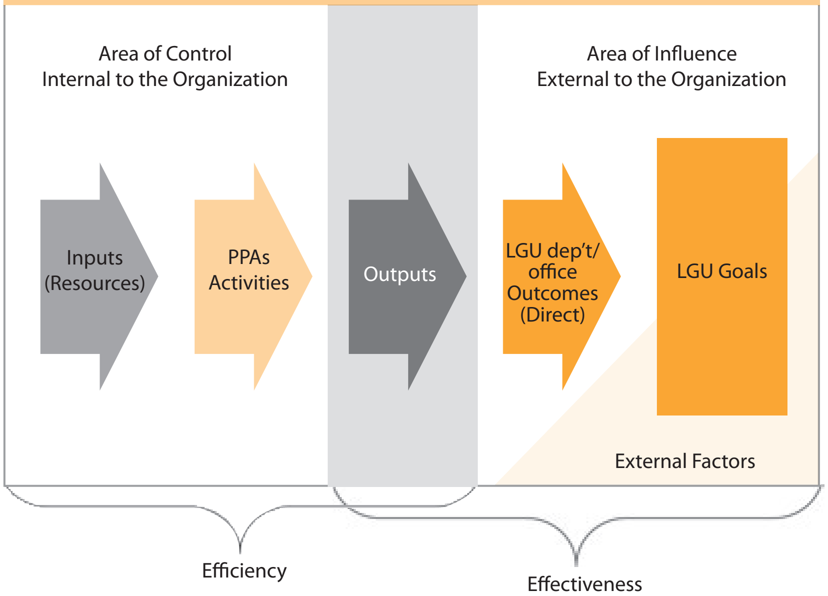
Figure 4. Elements of OPIF Framework



Adapted from: Department of Finance and Administration of the Government of Australia, "Outcome and Output Framework Guidance" 2003.

Figure 5 is an alternative depiction of the OPIF framework. It is helpful in clarifying the increasing ability of the provincial department/office to control/influence results and consequently, its increasing accountability as one moves from provincial goals, to department/office outcomes, to MFOs and to PPAs. It also helps make clear the varying focus of performance measurement across outcomes and outputs. To wit, output indicators focus on various aspects of efficiency: quantity, quality, timeliness, access and cost. In contrast, outcome indicators focus on the overall state of the outcome and the effectiveness of government's contribution to the result.

Figure 5. Outcomes-Outputs Framework: Alternative Depiction



Adapted from: Treasury Board of Canada Secretariat, "Preparing and Using Results Based Management Accountability Frameworks," 2005

By helping provinces focus on what is important (i.e., the delivery of outputs that are relevant to its goals), the OPIF framework fosters a more strategic allocation of resources. It also helps the government identify performance indicators, establish targets, assess accomplishments, and report results. It is a useful tool for performance management by providing the context against which the implementation of the PPAs will be measured during the budget accountability phase. Finally, it is a powerful instrument for communicating to various stakeholders what each department/office in the province does and why and how well it has performed its functions.

The tools and techniques provided below for the application of the OPIF are aimed at helping provincial officials define more clearly the performance indicators that will be used to assess how well these departments/offices have delivered their MFOs. While the application of the OPIF framework will also help the various departments/offices check the consistency and alignment of the PPAs with the province's goals, this consistency check is perhaps better done during the provincial performance review and during the preparation/updating of the PDIP/AIP.

1. Clarify link between PPAs, MFOs and department/office outcomes

To help the department/office heads and the PFC link outputs with desired outcomes, it is useful to complete the following statement[5]:

"We should produce this output because such and such will happen (desired outcome/s) which will contribute to the LGU's goals and objectives in the following way."

And/or answer the following questions:

"What effect, impact, result or consequence (outcome) does this output have on target clients or the community? How does this outcome relate to the LGU's goals and objectives?"

In turn, the following questions help in screening the MFOs/PPAs of provinces:

1.1. Is the output consistent with the government's policy? Does it contribute to the achievement of the government's desired outcomes or policy objectives?

1.2. Is there a duplication or conflict with another output?

1.3. Are there alternative means of producing the output, either within the government or in the private sector? Has the province identified any alternative means?

1.4. Are there outputs that are not clearly linked to the province's overall mission?

2. Specify outcome/s of each provincial department/office

Outcomes are the results or impacts that the province intends to achieve. Outcomes describe why a government agency delivers a particular service. They do not refer to strategies, processes, activities or actions. They may be influenced by a broad range of factors, some of which are outside the control of the province.

Outcomes describe the desired consequence of government activities on the community. In other words, outcomes are conditions of well-being for children, adults, families, or communities. Examples include poverty reduction, higher literacy, longer life expectancy, higher incomes, greater national security, and so on.

Outcome statements are important because they define the impacts that the province expects from the goods/services it produces and/or delivers (i.e., its outputs). All of the province's outputs should contribute – directly or indirectly - to the realization of specified outcomes.

As such, outcome statements provide the parameters within which the province's outputs are defined.

In specifying outcomes of the different provincial departments/offices, the following diagnostic questions[6] can be used:

2.1. Does the outcome statement indicate an end result, impact or consequence on the community?

2.2. Does the outcome statement adequately reflect any one of the province's objectives and priorities? Refer to the PDPFP.

2.3. Is it possible to identify the link between services provided by provincial department/office and the outcome?

2.4. Is it possible to monitor and assess achievement of the outcome?

2.5. Is the outcome statement clear? Is it free of vague and value-laden language?

3. Specify the outputs of each department/office in the province

Outputs are the goods and services that any given department/office of the province delivers to external clients. Users of these goods and services can include members of the general public, and other government agencies including other provincial departments. In addition to direct goods and services provided by any given department/office of the province, major final outputs may include policy advice, regulatory services, and capability to respond to demand.

Outputs should make a clear contribution toward the achievement of the desired outcomes. The specification of outputs provides critical information for performance measurement in terms of identifying, costing, and producing outputs in the most efficient and effective manner.

The following diagnostic questions can be used to help express the output:[7]

3.1. Does the output reflect the primary function of the given provincial department/office/project? Refer to Section 17 of Local Government Code for a listing of the mandated functions of different levels of LGUs and Sections 470-490 for the functions of the different departments/offices of the province.[8]

3.2. Is the output a good or service provided to individuals/organizations external to the given department/office of the province?

3.3. Is the output for final use and not for an internal process?

3.4. Does the output clearly identify the target group?

3.5. Is the output under the control of the department/office of the province?

3.6. Is there a link between the output and one or more of the province's goals?

3.7. Can the output be routinely measured so that the province will know if it is getting the outputs for which it has allocated funds?

3.8. Is it possible to generate information on how well it delivers its outputs – quantity, quality, timeliness, access, accuracy, and cost?

4. Formulate performance indicators

Results-based (or performance-oriented) budgeting requires that outcomes and outputs should be measurable. Performance indicators are the measures that are used to judge success in achieving the outcomes or in delivering the outputs. It is critical that performance indicators are specified well because they form the basis of assessing how well the different provincial departments/offices have delivered their outputs during the conduct of the annual performance review.

4.1. Outcome indicators

The Updated Budget Operations Manual specifically asks the province to define performance indicators for each of their PPAs (outputs). Thus, the performance indicators and targets agreed upon during budget preparation are the ones used in assessing the performance of the different provincial departments/offices during the conduct of the annual performance review.

At present, LBP Form No. 5 refers only to output indicators. Prospectively, however, it is useful for the province to collect performance information on outcomes as well.

Outcome indicators indicate progress towards the achievement of the province's higher level results. They may not be exact measures of the province's performance but they do provide some evidence as to whether anyone is "better off" as a result of the services being delivered by the province.

Outcome indicators reflect the effectiveness of the province's outputs. While the province is not fully accountable for the attainment of the outcome, it has an obligation to manage for results. In doing this, it is helpful to ask the following questions:

4.1.1. How relevant are the goods/services provided by government to the achievement of the stated outcomes?

4.1.2. How well do these outputs contribute to the achievement of the said outcome?

4.1.3. Is government doing the right things? Is the output mix right?

4.2. Output Indicators

Outputs are measured with respect to efficiency. Efficiency is a reflection of how well government uses its resources (inputs) to produce goods/services (i.e., outputs).

In assessing efficiency, you want answers to the following questions: Is government doing things right? Is it combining resources in a manner that minimizes total input cost to produce a given unit of output (or in a manner that maximizes the quantity of output produced in relation to a given total cost of inputs)? Is the input mix right?

For each output, develop performance indicators that allow you to monitor the various aspects of the performance of any given provincial department/office in the delivery of its outputs:

4.2.1. Quantity – How much did the province do? What volume of services was delivered? Here, you typically count clients served and measure the volume of services delivered.

4.2.2. Quality – How well did the province do? How well did it deliver its output? Were clients satisfied? Were clients of the service better-off?

4.2.3. Access and timeliness – Measures of quality that are related to availability and timeliness of service delivery. They may include measures such as turnaround time, average waiting time, distance/time traveled to receive service.

4.2.4. Cost – Measures related to the amount of inputs used to produce a service, e.g., average cost per patient

The following diagnostic questions can be used to check the articulation of the performance indicator for outputs:

- Is the performance indicator clear, i.e., precise and unambiguous?
- Is the performance indicator relevant, i.e., appropriate to what is being measured?
- Is the performance indicator monitorable? Is data needed to measure it available on a regular and timely basis?
- Is it possible to generate information that will allow performance comparisons over time or with other providers?
- Is the data needed to monitor the performance indicator available at reasonable cost? Are there too many performance indicators for any one output?
- Is the performance indicator verifiable?
- Does the performance indicator provide perverse incentives (i.e., does it encourage or induce unwanted behavior)? An example of a perverse performance indicator is the number of tricycle permits issued by the local Sanggunian. Note that issuing permits beyond a given number will lead to congestion.

Example 15 below provides some illustrative outcome, output, and performance indicator statements for many common LGU PPAs.

5. Agree on the performance target for each performance indicator

The performance target is the benchmark against which actual performance will be compared. Performance targets may be based on:

Past performance of the province – Is the province able to do better than it did in the past?
A benchmark derived from performance of other provinces – Is it a fair apples-to-apples comparison?
Standard set by the central government – Are standards of good performance defined? Are they reasonably attainable rather than "fighting targets"?

It is necessary to determine and agree on the performance targets for each output measure during the budget preparation phase of the budget cycle. This is the essence of the UBOM's LBP Form No. 5 which department heads fill in and which is incorporated in the LEP that the Budget Officer puts together. In this sense, the budget formulation process provides the framework against which the implementation of PPAs funded in the budget will be measured.

Example 15. Illustrative Outcome, Output and Performance Indicator Statements

Outcomes	Outputs	Performance indicators
Increased literacy of community	1. Formal basic education services	1.1. % of students with Mean Percentage Scores (MPS) > 50 1.2. Enrollment rate – % of children aged 6-11 who are in school 1.3. Completion rate - % of students who start grade 1 six years ago who graduate from grade school
	2. Day care services	2.1. % of children aged 4-5 in day care centers
Improved health status of community	1. Vaccination/immunization services	1.1. No. of children under 5 served 1.2.. % of children under 5 who are fully immunized
	2. Micronutrient supplementation	2.1. No. of clients served 2.2. % of target group covered
	3. Supplemental feeding program	3.1. No. of moderately/severely malnourished children served 3.2. % of children under 5 who are moderately to severely malnourished given supplemental feeding
	4. Maternal care services	4.1. No. of pregnant women served by type of service 4.2. % of pregnant women given prenatal care 4.2. % of pregnant women given tetanus toxoid vaccine
	5. Hospital services	5.1. No. of admissions 5.2. No. of outpatients served 5.3. % of patients satisfied 5.4. Waiting time in emergency cases 5.5. Ratio of primary to secondary cases admitted 5.6. No. of hospital-acquired infections 5.7. Cost per case treated
	6. Safe water supply services	6.1. No. of households served 6.2. % of households with access to safe water
	7. Sanitation services	7.1. No. of households served 7.2. % of households with proper sanitation
Vulnerable groups protected/ empowered	1. Social welfare services for - battered women - children - victims of disaster	1.1. No. of clients served 1.2. Response time for critical intervention

Outcomes	Outputs	Performance indicators
Increased agricultural productivity/ improved income of farmers and fisherfolk	1. Irrigation services	1.1. No. of hectares irrigated 1.2. Increase in yield of irrigated areas
	2. Agricultural/fisheries services (by type; e.g., training in new farm technologies, demonstration farms, maintenance of tree nurseries, veterinary services, fisheries development services)	2.1. No. of farmers/clients served (by type of service) 2.2. Increase in income of farmers served 2.3. % of farmers/fisherfolk who received service who found service relevant/who are satisfied 2.4. % of farming/fishing household benefiting from service
	3. Cooperative development services	3.1. No. of farmers/clients served 3.2. Increase in income of farmers served 3.3. % of farmers/fisherfolk who received service who found service relevant/who are satisfied 3.4. % of farming/fishing household benefiting from service
Improved sustainability of environment	1. Environmental ordinances enforced	1.1. No. of firms (or km. of rivers) monitored per month 1.2. No. of violators caught 1.3. No. of complaints filed
	2. Marine environmental protection services	2.1. % of municipal waters patrolled
	3. Solid waste management services – collection/disposal	3.1. % of barangays whose garbage is regularly collected 3.2 % of garbage collected that is recycled/composted 3.3. Type of waste disposal facility in place, e.g. sanitary landfill/dumpsite
Increase income/ employment opportunities for community	1. Livelihood training	1.1. No. of persons provided training 1.2. % of trained persons finding jobs/starting business 1.3. % increase in income of trained persons
	2. Local roads	2.1. Length of local roads maintained 2.2. % of local roads paved 2.3. % of barangays connected to main thoroughfare by farm-to-market road
	3. Promotion of local tourism	3.1. No. of campaigns conducted 3.2. No. of tourist arrivals 3.3. % increase in tourist arrivals

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E. SETTING SECTORAL/DEPARTMENTAL EXPENDITURE CEILINGS FOR THE BUDGET YEAR

Objective:

To provide the PFC a tool to aid in the determination of sectoral/departmental budget ceilings.

As indicated earlier, the budget guidelines that form part of the budget call include the expenditure ceiling by office/sector (UBOM 2005, page 50). The determination of the spending ceilings is at the core of the top-down approach to budgeting. The expenditure ceiling is important because the different departments/offices of the province need a clear indication of the amount of resources that will be made available to them if excessive bargaining during the budget process is to be minimized.

The preparation of the sectoral/department budget ceilings is anchored on: (i) the overall revenue forecast, (ii) the alignment of regular programs and ongoing projects with the province's strategic plan, (iii) the degree of rigidity in the funding requirement of regular programs and on-going projects (which is determined largely by the amount of expenditures that are considered mandatory), and (iv) the impact of new policies on the budget. The spreadsheet model presented below is aimed at helping provinces arrive at an estimate of the total amount of resources that is allocable for investments and/or expansion of regular/recurring programs in excess of those charged against the Provincial Development Fund. This estimate is an essential input to the preparation of the PDIP/AIP and the determination of departmental/sectoral expenditure ceilings.

1. Determine the net amount of resources available for appropriation in the budget year

The Local Budget Review (LBR) Form No. 2 of the UBOM (2005, page 139) specifies that the net amount of resources available for appropriation in the budget year is equal to sum of:

- The unappropriated beginning balance, if any;
- The estimate of regular and non-recurring income in the General Fund;
- Less the amount of continuing appropriations.

A spreadsheet model for the estimation of net amount of resources available for appropriations is given as Worksheet 4 in Annex B. First, fill in the main panel of Worksheet 4 with the appropriate values of the income estimates for the budget year as derived from Worksheet 3. The net amount of resources available for appropriation that is derived is given in Line 13 of Worksheet 4.

2. Estimate the amount of resources needed to meet budgetary requirements.

Section 324 of the Local Government Code provides that the budgets of local governments should provide for the following budgetary requirements:

- Debt service;
- Other statutory and contractual obligations;
- The 5% calamity fund;
- The required aid to barangays; and
- The 20% Development Fund.

To arrive at the estimate of the total budgetary requirements, fill in the upper right-hand panel of Worksheet 4 with parameter values needed to derive the budgetary requirements of your province. These parameters include:

- Estimate of debt service for budget year;
- Estimate of regular income for budget year;
- Number of barangays in province; and
- Estimate of IRA for budget year.

The estimate of the total amount of resources needed to meet budgetary requirements is given in line 14 of the main panel of Worksheet 4. The output of the main panel of Worksheet 4 for Province A is shown as Example 16 below.

3. Prepare the estimate of the cost of regular programs and ongoing projects of each of the various departments/offices to arrive at the "baseline" ceiling.

3.1. The baseline ceiling refers to the cost of existing policies. As such, it refers to the cost of regular programs and on-going projects. It may be estimated on the basis of the actual budget allocations for said programs in the current year (with or without some inflation adjustment) and consists of:

- The salaries/wages of plantilla positions; and
- The basic maintenance and other operating expenses (MOOE) that is needed by the various departments/offices to undertake their regular/recurring programs, including the recurrent cost of new programs/projects introduced in the current year.

3.2. A spreadsheet model for the estimation of net amount of resources available for appropriations is given as Worksheet 5 in Annex B. Fill in Worksheet 5 with the appropriate values of the baseline cost of regular/recurring programs of your province.

Example 16. Output of Worksheet 4 for Province A

The main panel of Worksheet 4 for Province A for the period 2004-2006 is shown below. It shows that the net amount of resources available for appropriation in the budget year 2006 is PhP770.50 million. On the other hand, the amount of resources needed to meet the budget requirements for Province A is estimated to be equal to PhP171.43 million.

Worksheet 4. Determination of Resources Available for Appropriation (General Fund)				
Main Panel **Province A**	**Previous Year 2004 Actual**	**Current Year 2005 Estimate**	**Budget Year 2006 Estimate**	
Beginning Balance (1)	0	0	0	
Regular Income (2) = (3)+(4)+(5)+(6)+(7)+(8)+(9)	641,236,806	695,344,008	755,709,561	
IRA (3)	574,516,501	617,250,000	665,439,583	
Basic RPT (4)	9,352,368	11,800,000	13,668,600	
Business Tax (5)				
Other Local Taxes (6)	4,744,529	4,570,000	5,084,519	
Regulatory Fees (7)	351,520	350,000	434,596	
Service/ User Charges (8)	48,573,507	56,592,453	65,079,270	
Receipts from Economic Enterprise (9)	3,698,381	4,781,555	6,002,993	
Non-Recurring Income (10)	37,754,399	34,789,775	14,789,775	
Total Available Resources (11) = (1)+(2)+(10)	678,991,205	730,133,783	770,499,336	
Less: Continuing Appropriation (12)	0	0	0	
Net Available Resources for Approp. (13) = (11) - (12)	678,991,205	730,133,783	770,499,336	
Less: Budgetary req. (14) = (15)+(16)+(17)+(18)+(19)	147,522,141	158,774,200	171,430,395	
20% Development Fund (15)	114,903,300	123,450,000	133,087,917	a/
Debt service (16)	0	0	0	b/
5% calamity fund (17)	32,061,840	34,767,200	37,785,478	c/
Aid to barangays (18)	557,000	557,000	557,000	d/
Other contractual obligations (19)	0	0	0	
Unapprop. Bal. Still Avail. for All. (20) = (13) - (14)	531,469,065	571,359,582	599,068,942	
a/ = 0.2 * IRA				
b/ = Actual Amount Due				
c/ = 0.05 * Regular Income				
d/ = 1000 * no. of Barangays				

Alternatively, you can modify this table by listing all the departments/offices of the province. The total baseline ceiling for regular programs and ongoing projects is given in Line 3 of Worksheet 5.

4. Add resource requirements that are derived from Step 2 and Step 3 above.

Encode the total baseline ceiling derived from Step 3 above in Line 2 of the lower left-hand panel of Worksheet 4. Worksheet 4 then automatically adds this to the total budgetary requirement obtained in Step 2 and the result is shown in Line 3 of the lower right-hand panel of Worksheet 4.

5. Estimate amount of available resources.

Subtract the total resource requirement obtained from Step 4 above from the net amount of resources available for appropriation obtained from Step 1 to arrive at an estimate of the amount allocable for investments and/or expansion of regular/recurring programs in excess of those charged against the Provincial Development Fund.

The result is shown in Line 4 of the lower right-hand panel of Worksheet 4. This amount represents the amount allocable for investments and/or expansion of regular/recurring programs in excess of those charged against the Provincial Development Fund. It is an important input in the preparation of the Annual Investment Program.

If the total resource requirements are greater than the net amount of resources available for appropriation (i.e., if Line 4 of the lower right-hand panel of Worksheet 4 is negative), then the PFC shall have to "charge" the province's debt service payments partially or in full to the Provincial Development Fund.

If the total resource requirement is less than the net amount of resources available for appropriation (i.e., if Line 4 of the lower right-hand panel of Worksheet 4 is positive), then the PFC shall allocate the balance to the different departments in accordance with the priorities set in the PDIP. Depending on the province's priorities, the balance may be allocated for the expansion in the coverage of one or more of its "regular" functions or to prioritized list of projects identified in its Annual Investment Program but which are not included in those charged against the Provincial Development Fund. This will then give rise to an adjustment in the baseline ceilings of the various departments as a result of the "policy change" adopted in the budget year and will be reflected in line 4 of Worksheet 5.

The output of Worksheet 5 and the lower left-hand panel of Worksheet 4 for Province A are shown as Example 17 below.

Example 17. Output of Worksheet 5 and the lower-left hand panel of Worksheet 4 for Province A

The total baseline ceiling for 2006 for Province A is estimated to be equal to PhP494.31 million (line 3 of Worksheet 5). The total resource requirement for Province A is the sum of the budgetary requirements (equal to PhP171.43 million as shown in line 14 of Worksheet 4) and the baseline cost of regular programs. It is equal to PhP665.74 million in 2006 (line 3 of lower left-hand panel of Worksheet 4). Thus, the sum of the resource requirements obtained for our sample province (PhP665.74 million) is found in line 3 of the lower-left hand panel of Worksheet 4. It is less than the net amount of resources (NAR) available for appropriation (which is equal to PhP770.50 million as shown in line 13 of the main panel of Worksheet 4) by PhP104.76 million (refer to line 4 of the lower left-hand panel of Worksheet 4.)This means that PhP104.76 million is the amount that is allocable to investments and/or expansion recurring programs over and above what is available from the Local Development Fund.

Worksheet 5. Estimation of Baseline Ceiling and Final Sectoral/Departmental Expenditure Ceiling

	General (a)	Social (b)	Economic (c)	Total (a)+(b)+(c)
Personal services (1)	69,000,000	165,000,000	66,000,000	300,000,000
Basic MOOE offices, services and facilities (2)	44,692,190	93,270,657	56,351,022	194,313,868
Baseline Ceiling for Regular Functions (3) = (1) + (2)	113,692,190	258,270,657	122,351,022	494,313,868
Add: Additional ceiling based on priorities in PDPFP/PDIP/AIP (4)	v	v	v	v
Final Sectoral/ Departmental Ceiling (3)+(4)	=sum	=sum	=sum	=sum

Source: Adopted from Celestino, et.al.

The output of the lower left-hand panel of Worksheet 4 for Province A is given below:

Comparison of NAR and total baseline ceiling/Estimation of amount allocable for investment	
Total budgetary req. (1)	171,430,394.64
Total baseline ceiling (2)	494,313,867.89
Sum (3) = (1) + (2)	665,744,262.53
Amt. allocable for investment &/or	
exp. of existing programs in excess	
of 20%DF = NAR minus (3) = (4)	104,755,073.86
Tot. amt. allocable for investment =	
20% DF + (4) = (5)	237,842,990.44

F. SETTING SECTORAL/DEPARTMENTAL EXPENDITURE CEILINGS FOR THE TWO OUTER YEARS

Objective

To help introduce the concept of the MTEF in LGUs. To date, LGUs are not yet required to prepare the MTEF, which has already been introduced at the national government level.

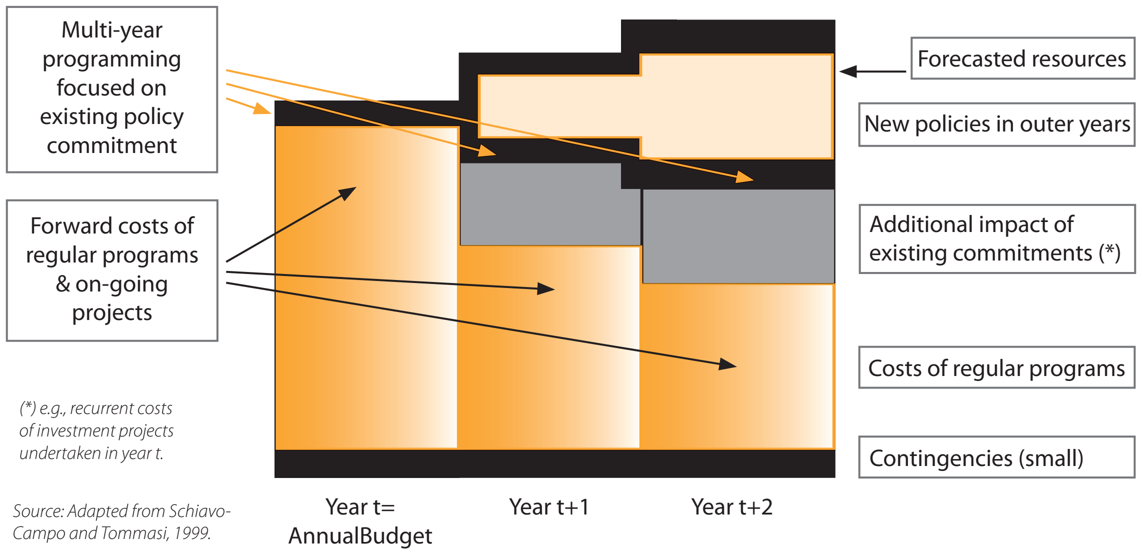
The determination of the sectoral/departmental expenditure ceilings for the two outer years of the multi-year expenditure program essentially follows the same steps as those for the budget year.

It should be emphasized that estimation of the cost of on-going programs of the various departments should include the forward cost of programs introduced during the budget year (i.e., the recurrent cost implied by investment projects and/or policy changes programmed for the budget year). This ensures the predictability of future funding for any new policy that is introduced in the present.

The multi-year program does not cost the implementation of new policies except those that are introduced during the budget year (i.e., year t in Figure 6). Thus, the ceilings for the outer years do not include the cost of future policies that are already being considered but which are not yet put into effect in the budget year.

In other words, the ceilings for the outer years should focus only on "existing" policy commitments. "New policies" should be decided only during the preparation of the annual budget. As such, the forward estimates do not create undue "expectations" on the part of the departments (Figure 6).

Figure 6. Expenditure Planning and Forward Estimates



(*) e.g., recurrent costs of investment projects undertaken in year t.

Source: Adapted from Schiavo-Campo and Tommasi, 1999.

part 3 budget legislation

budget legislation

Objective:

To provide the LFC a simple tool that it can share with the Sanggunian when the latter checks compliance of the executive budget proposal with budgetary requirements and budgetary limitations.

Contents:

Steps in the legislative review of the executive budget proposal

Budget authorization or legislation starts from the time the Provincial Governor presents his or her proposed executive budget to the Sanggunian for its review. The Committee on Appropriation and the Sanggunian at large then deliberates on the executive budget proposal.

"The Sanggunian shall evaluate the proposed executive budget on the basis of its consistency with the approved local development plan. … The Sanggunian shall also ensure that the provisions on Budgetary Requirements and General Limitations prescribed by Sections 324 and 325 of the Local Government Code are complied in the proposed budget" (UBOM 2005, page 63). "The Sanggunian may not increase the proposed amount in the executed budget nor include new items except to provide for statutory and contractual obligations that may not have been considered in the preparation of the budget or that the amounts provided may be deficient. In no case, however, shall such additional provision result in the excess of the total appropriations over the proposal in the executive budget" (UBOM 2005, page 68)

"On or before the end of the current budget year, the Sanggunian shall approve through the enactment of an ordinance the annual budget of the local government unit for the ensuing budget year on the basis of the estimates of income and expenditures submitted by the local chief executive. … An affirmative vote of a majority of the total membership in the local Sanggunian shall be required for the passage of the appropriation ordinance" (UBOM 2005, page 65).

"The appropriation ordinance enacted by the Sanggunian shall be presented to the local chief executive for consideration. If the local chief executive approves the same, he shall affix his signature in each and every page thereof; otherwise, he shall veto the ordinance and return it to the Sanggunian with his objection spelled out in writing" (UBOM 2005, pages 66-67).

"Subsequently, the Sanggunian concerned may proceed to override the veto of the local chief executive by two-thirds (2/3) vote of all its members. The ordinance as revoked shall no longer be presented to the local chief executive for reconsideration as it already becomes effective by operation of law, even without the approval of the latter. … In case the Sanggunian fails to override the veto of the local chief executive, the item or items in the appropriation ordinance of the previous year corresponding to those vetoed, if any, shall be deemed reenacted" (UBOM 2005, page 69).

As indicated above, the legislative debate and deliberation on the proposed executive budget essentially focus on: (1) its consistency with provincial goals and objectives as articulated in its PDPFP; and (2) its conformity with the budgetary provisions of the Local Government Code. In line with this, the tools presented below are aimed at helping the Sanggunian check compliance with the budgetary requirements and general limitations on the provincial budget and summarize the results of the said review.[9]

A. COMPLIANCE WITH BUDGETARY REQUIREMENTS

The Local Government Code provides for the following budgetary requirements:

- The proposed total appropriation shall not exceed the estimates of income (Section 324).
- Full provision shall be made for all statutory and contractual obligations, provided that the amount to be appropriated for debt service shall not exceed 20% of the regular income of the LGU (Section 324).
- Provinces, cities and municipalities shall provide aid to component barangays not less than P1,000 per barangay (Section 324).
- Five percent of the estimated income from regular sources shall be set aside as an annual lump sum appropriation for unforeseen expenditures arising from the occurrence of calamities (Section 324).
- No less than 20% of the IRA must be appropriated for development projects (Section 287).
- The proceeds from the share of the LGU in the utilization and development of national wealth shall be appropriated for local development and livelihood projects, provided that

at least 80% of those coming from the utilization of hydrothermal, geothermal and other sources of energy must be applied to lower the cost of electricity in the LGU concerned (Section 294).

Prepare a Budget Summary Table that puts together the key elements of the proposed executive budget (as shown in Worksheet 6 of Annex B) to facilitate the verification of compliance with the budgetary requirements enumerated above. The first part of this spreadsheet presents the estimates of income and the total amount of resources available for appropriation and is the same as Worksheet 4. The second part presents the allocation of the proposed budget to the different sectors/departments/projects.

Next, copy the values of the key decision variables that are pertinent to the checklist of budgetary requirements which are found in Worksheet 6 to the simple spreadsheet model for the Sanggunian review of budgetary requirements that is shown below (Worksheet 7 in Annex B). The model will then automatically indicate whether the executive budget has "complied" or "not complied" with the budgetary requirements cited above.

Worksheet 7. Budget Review Matrix for Budgetary Requirements

	Proposed Appropriation -1	Budgetary Requirement -2	Deficiency (3) = (1)-(2)	Remarks if (3) is negative, then "not complied"	Parameters	
BUDGETARY REQUIREMENTS						
1. 20% Development Fund	v	a/	= (1) + (2)		est IRA for by	v
2. Loan Repayment	v	b/	= (1) + (2)		act loan repayment due	v
3. Calamity Fund	v	c/	= (1) + (2)		est regular y in by	v
4. Aid to Barangays	v	d/	= (1) + (2)		no. of barangays	v
a/ = 0.2 * IRA						
b/ = Actual Amount Due						
c/ = 0.05 * Regular Income						
d/ = 1000 * # of Barangays						

B. COMPLIANCE WITH GENERAL LIMITATIONS

The Local Government Code also provides the following general limitations on the budget:

- The total appropriations, whether annual or supplemental, for personal services of an LGU for one budget year must not exceed 45% in the case of first- to third-class provinces, cities and municipalities and 55% in the case of fourth- to sixth-class provinces, cities and municipalities, provided that appropriations for salaries, wages, and representation and transportation allowances of officials and employees of LGU public utilities and economic enterprises shall not be included in the annual budget or in the computation of the maximum amount for personal services (Section 325).

- No official or employee shall be entitled to a salary rate higher than the maximum fixed for his or her position (Section 325).
- No local fund shall be appropriated to increase or adjust salaries or wages of officials and employees of the national government except as expressly authorized by law (Section 325).
- Positions in the official plantilla for career positions which are occupied by incumbents holding permanent positions shall be covered by adequate appropriations (Section 325).
- The annual appropriations for discretionary purposes of the LCE shall not exceed 2% of the actual receipts derived from the basic real property tax in the next preceding calendar year (Section 325).

Encode the values of the key decision variables pertinent to the checklist given above in spreadsheet model for budget review of budget limitations which is shown below and which is given as Worksheet 8 in Annex B. It will then automatically indicate whether the executive budget "has complied" or "not complied" with the budgetary requirements cited above.

Worksheet 8. Budget Review Matrix for Budgetary Limitations

	Proposed Appropriation -1	Budgetary Limitation (2)	Excess Estimate (3) = (1) - (2)	Remarks If (3) is positive, then "not complied"		Parameters	
BUDGETARY LIMITATION							
1. Personal Services	v	a/	= (1) - (2)			regular y in py	v
	v	b/	= (1) - (2)			regular y in py	v
2. LCE Discretionary Fund	v	c/	= (1) - (2)			basic RPT in py	v
3. Debt Service	v	d/	= (1) - (2)			est regular y in py	v
4. Total Appropriation	v	e/	= (1) - (2)			total available for approp.	v
a/ = 0.45 * Reg. Income in Previous Year							
b/ = 0.55 * Reg. Income in Previous Year							
c/ = 0.02 * Basic RPT in Previous Year							
d/ = 0.20 * Reg. Income							
e/ = Total Available for Appropriation							

part 4
budget execution

budget execution

Objective

- To provide the province with simple tools to assist it in cash flow forecasting and cash flow analysis.

Contents

- Overview of budget execution phase
- Cash flow forecasting and cash analysis

A. OVERVIEW

Once the budget is passed into an appropriation ordinance and given the stamp of approval by the reviewing authority, the budget enters the budget execution phase. "Budget execution is the fourth phase of the local government budget process. It involves the release and actual disbursement of funds appropriated for the performance of functions and undertaking of projects and activities" (UBOM 2005, page 81).

"The budget is based on the estimated income and program of expenditures for a budget year. .. Since funds will have to be committed and disbursed even as revenues are being collected, there is a need for systems to ensure that obligations and payments will not exceed the approved budget and the amount that will ultimately be collected. … One system of budget control is the allotment system. … Under the system, obligations may be incurred as long as it is within the allotment ceiling even if the total amount of the obligation is not supported by cash in the bank at the time it is incurred. … The control devices used in the allotment system are the: (1) the Local Budget Matrix (LBM) … (which includes the imposition of reserves, non-release of unprogrammed funds, the earmarking of funds for clearance, the non-release of unprogrammed funds, and the withholding of funds for later release to provide for any shortfall in the collection of anticipated revenues); (2) Cash Program which incorporates the use of cash flow schedules; and (3) Physical Performance Targets which contain targeted units of work to implement programs and projects of each department or unit of the LGU. .. The LBM allows the imposition of reserves, non-release of any unprogrammed portion of the appropriation, earmarking of funds for clearance, and the withholding of funds for later release to provide for any shortfall in the collection of anticipated revenues" (UBOM 2005, page 87-88).

"An allotment is the authorization issued by the Local Chief Executive to a department office of the LGU, which allows it to incur obligations for specified amounts within its appropriations. …The allotment system focuses on the control of allotment releases. .. Through the allotment system, the release of funds is based on a predetermined categorization or disaggregation of the approved budget with the use of the LBM. The category of the expenditure in the LBM determines the timing and the magnitude of the release of allotment" (UBOM 2005, page 88).

"However, the allotment system requires a system of cash monitoring and programming through the use of Cash Flow Forecast and Cash Flow Analysis. These are vital in the effective implementation of the system since they ensure that allotments are safely covered by cash and that cash is available when it is needed to pay obligations" (UBOM 2005, page 88).

B. CASH FLOW FORECASTING AND CASH FLOW ANALYSIS

The UBOM requires LGUs to prepare monthly Cash Flow Forecasts (CFF) using the Local Budget Execution (LBE) Forms 4 as shown in Annex D and to monitor their cash flow on a monthly basis using the Cash Flow Analysis table or CFA (LBE Form No. 5) as shown in Annex D. The steps described refer to the preparation of cash flow forecasts using monthly data. The same steps may also be followed using quarterly data (Worksheet 9.2).
"The Cash Flow Forecast or CFF (LBE Form No. 4) is a monthly schedule of anticipated receipts and disbursements of the LGU for the budget year showing the beginning and ending cash balances for each month. The forecast is prepared at the beginning of the year. This enables the LCE and the Local Treasurer to plan for an effective management/utilization of cash of the LGU.

The CFF is supported with the Cash Receipts Forecast (CRF) (see LBE Form No. 4a), a schedule of all income collections and other receipts, and the Cash Disbursements Forecast (CDF) (see LBE Form No. 4b), a schedule of all expenditures to be prepared by the concerned department. The monthly CFF necessitates the conduct of (i) month-to-month estimates of receipts from taxes based on legal schedules and historical trend on payments of taxes imposed by the LGU, (2) a monthly estimate of other revenues considering the seasonality of operations and past performance of the particular sources of revenues, (3) a listing and an assessment of all accounts payable and outstanding obligations to determine when they may be paid legally, 4) a determination and a listing of all regular expenses or those which are payable periodically, and (5) estimates and a monthly schedule of project costs which will be paid and disbursed during the year" (UBOM 2005, pages 91-92).

To aid in the preparation of these forms, this volume provides the Provincial Finance Committee with a spreadsheet model that aids in coming up with forecasts of receipts/ disbursement for each month for each major receipt/disbursement item. It also helps LGUs derive adjusted annual income estimates given actual data on year-to-date collections of each major receipt item. A comparison of the adjusted annual income estimate with the original annual income estimate indicates whether a shortfall or surplus of collections is likely for the entire year.

The steps described below pertain to receipts but could refer just as well to disbursements.

1. Prepare a table showing the historical monthly cash flow of each major item of provincial receipts in the last three to five years.

Encode monthly cash flow data for the major receipt item under consideration in the spreadsheet model for cash flow forecasting (Worksheet 9.1 in Annex B).

2. Analyze the monthly cash flow of each major receipt item in the last five years.

2.1. Compute the share or contribution of collections of each month in total receipts for each year under study. The reader may skip the formulae outlined below since Worksheet 9.1 spreadsheet model automatically generates the results.

If the collection for the month k is denoted by collk, then the share of month k (shrk) in total collections for the year for the item under consideration is denoted by:

$$\mathbf{shr_k = coll_k / total\ revenue.}$$

2.2. Also, compute the year-to-date share of collections for month k in total collections for the year (ytdshrk). This is simply equal to the cumulative share of collections for each month. For instance, the year-to-date share for the month of March is equal to the share of January plus share of February plus share of March.

The electronic copy of Worksheet 9.1 that is provided with this volume already contains the formula for computing both the monthly share and the year-to-date share for each month and the results are automatically generated once actual data is encoded in cells marked by "v" in Worksheet 9.1.

Example 18. Computation of the Share of Any Given Month in Total Collection for the Year

If RPT collections of City B in January 2004 is PhP1.74 million while total RPT collections for the year is PhP16.05 million, then January's share in total RPT collections for year = 1.74 / 16.05 = .1085.

Also, if the monthly share in total RPT collections of City B in 2004 is:
January = 0.1085
February = 0.0946
March = 0.3352,

Then, share of Jan-Mar in total RPT collections in 2004 = 0.1085 + 0.0946 + 0.3352 = 0.5383.

Warning

If monthly or quarterly data for each of the major receipt items is not available for five years, delete the "v" entries in the years when data is not available. Otherwise, the spreadsheet model will not work.

2.3. Compute the arithmetical average of the share of collections for each month in the last five years.

The average share of collections for the month k in last five years may be expressed as:

$$\textbf{aveshrk} = (\textbf{shr}_{k(yr\ 1)} + \textbf{shr}_{k(yr\ 2)} + \textbf{shr}_{k(yr\ 3)} + \textbf{shr}_{k(yr\ 4)} + \textbf{shr}_{k(yr\ 5)})\ /\ 5.$$

Corollary to this, the average year-to-date share of collections for month k in last five years may be denoted as:

$$\textbf{aveytdshr}_k = (\textbf{ytdshr}_{k(yr1)} + \textbf{ytdshr}_{k(yr2)} + \textbf{ytdshr}_{k(yr3)} + \textbf{ytdshr}_{k(yr4)} + \textbf{ytdshr}_{k(yr5)})\ /\ 5.$$

Again, the electronic copy of Worksheet 9.1 that is provided with this volume already contains the formula for computing the average share in total collections as well as the average year-to-date share of each month in last five years and the results are automatically generated once actual data is encoded in cells marked by "v" in Worksheet 9.1.

Example 19. Computation of the Average Share of Any Given Month in Total Collection for the Year Over a Specified Period

If the share of January in total RPT collections of City B in the last 5 years is:

2000 = 0.1344
2001 = 0.1098
2002 = 0.1103
2003 = 0.1233
2004 = 0.1085

Then, the average share of January in total RPT collections for the year in the last five years is equal to: (0.1344 + 0.1098 + 0.1103 + 0.1233 + 0.1085) / 5 = 0.1173

2.4. Forecast monthly cash receipt and monthly year-to-date cash receipt at the start of the budget year given annual income estimates.

Multiply the annual income estimate from item xx for any given budget year, say estYxx, as encoded in last column of (Worksheet 9.1) by the average share of each month in total receipts for the year for that item to arrive at the cash forecast for the month. That is, the cash forecast for collections from receipt item xx in month k ($cfcollx_{xk}$) is given by:

$$\mathbf{cfcollxx_k = aveshrxx_k * estYxx.}$$

On the other hand, the year-to-date cash forecast for the month k of receipts from item xx (cfytdxxk) is estimated as:

$$\mathbf{cfytdxx_k = aveytdshrxx_k * estYxx.}$$

2.5. Compute the adjusted annual income estimate given actual data on year-to-date collections. As the year progresses, adjust the annual estimate of collections from item

Example 20. Estimation of Cash Flow Forecast for Any Given Month

If the estimate for RPT revenues for City B for budget year 2005 is PhP16.89 million and the average share of the month of January in the last 5 years is 0.1173, then the cash flow forecast for January 2005 is equal to:
16.89 * 0.1173 = 1.98

xx given actual data on year-to-date collections. Specifically, if actual monthly collections data are available up to month k, the adjusted annual estimate of collections from item xx may be derived by dividing the actual year-to-date collections for the month k by the average year-to-date share for the month k. The result is given in the third from the last row of Worksheet 9.1.

Example 21. Derivation of Adjusted Annual Revenue Estimate Given Actual Year-to-Date Collection Data

If the actual year-to-date collections for RPT for City B for October 2005 are PhP14.02 million and if the average share of collections from January to October in the last 5 years is 0.8580, then the adjusted annual income estimate for RPT for the full year of 2005 is equal to: **14.02 / 0.8580 = 16.34**

2.6. Interpreting Cash Flow Forecasts. Worksheet 9.1 also computes the variance (or the difference) of the cash flow forecast from the outturns (or actual levels) both for the monthly forecasts and the year-to-date forecasts for each major income item. What are the typical results and what do they indicate?

- If actual collections for any one item exceed monthly forecasts consistently from month to month, the annual income estimate for that item may have been under-estimated. Prospectively, the methodology for arriving at the annual income estimate should be re-evaluated.
- If year-to-date actual collections in the aggregate exceed year-to-date forecasts in the aggregate well into the budget year, then the PFC has basis for reviewing and, perhaps, releasing all or part of the reserve towards the fourth quarter.
- If actual collections for any one item fall short of monthly forecasts consistently from month to month, the PFC should revisit the revenue strategies of the province and work to improve its collection efficiency.
- If actual disbursements for project expenses fall short of monthly forecasts, the PFC should evaluate the situation. Is it because of realized savings relative to original cost estimates? If so, then the PFC should duly note availability of cash for other uses. Is it due to delays in implementation? If so, the PFC should identify cause of delay and remedy the same.
- If actual year-to-date disbursements exceed year-to-date forecasts in the aggregate, the PFC should consider the imposition of further reserves.

The output of Worksheet 9.1 for RPT revenues of City B is shown as Example 22 on the next page.

Example 22. Output of Worksheet 9.1 for City B

The output of Worksheet 9.1 when applied to monthly collections of RPT in City B in the last five years is shown below.

Worksheet 9.1 Cash Receipts Forecast for Item y
City B
For BY____________

Real Property Tax	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Levels													
Monthly cash inflow													
2000	1,634,809	1,288,856	3,663,971	374,021	412,162	901,966	334,960	518,062	1,283,785	442,429	270,887	1,040,371	12,165,468
2001	1,716,368	1,206,280	4,232,614	400,828	266,562	1,332,256	248,364	437,798	2,425,103	2,002,588	204,177	1,153,860	15,626,798
2002	1,731,118	887,894	4,582,580	378,629	410,759	1,198,989	259,472	588,436	1,385,011	285,841	300,826	3,671,197	15,880,760
2003	1,742,768	1,371,354	5,247,368	395,969	386,963	1,226,928	242,366	251,464	1,576,781	337,860	256,454	1,094,812	14,130,046
2004	1,741,557	1,518,126	5,380,423	545,539	322,734	1,341,447	468,761	335,892	1,434,879	288,868	315,064	2,357,966	16,051,247
Monthly share													
year 1	0.1344	0.1059	0.3012	0.0307	0.0339	0.0741	0.0275	0.0426	0.1055	0.0364	0.0222	0.0855	1.0000
year 2	0.1098	0.0772	0.2709	0.0257	0.0171	0.0853	0.0159	0.0280	0.1552	0.1282	0.0131	0.0738	1.0000
year 3	0.1103	0.0566	0.2907	0.0241	0.0262	0.0764	0.0165	0.0375	0.0883	0.0182	0.0192	0.2340	1.0000
year 4	0.1233	0.0971	0.3714	0.0280	0.0273	0.0868	0.0172	0.0178	0.1116	0.0239	0.0181	0.0775	1.0000
year 5	0.1085	0.0946	0.3352	0.0340	0.0201	0.0836	0.0292	0.0209	0.0894	0.0180	0.0196	0.1469	1.0000
monthly average percentage distribution	0.1173	0.0863	0.3143	0.0285	0.0249	0.0812	0.0213	0.0294	0.1100	0.0449	0.0184	0.1235	
average year to date percentage distribution	0.1173	0.2036	0.5178	0.5463	0.5712	0.6525	0.6737	0.7031	0.8131	0.8580	0.8765	1.0000	
monthly forecasts at beginning of by	1,981,040	1,457,302	5,308,464	481,543	420,736	1,372,360	359,194	496,037	1,858,027	758,934	311,549	2,086,892	16,892,100 a/
year to date forecasts at beginning of by	1,981,040	3,438,343	8,746,807	9,228,370	9,649,107	11,021,467	11,380,661	11,876,698	13,734,725	14,493,659	14,805,208	16,892,100	16,892,100 a/
actual monthly collections for budget year	2,115,225	1,776,280	4,799,888	380,506	515,596	1,584,145	399,614	505,486	1,684,935	255,821			
actual year-to-date collections for budget year	2,115,225	3,891,506	8,691,393	9,071,899	9,587,496	11,171,640	11,571,254	12,076,740	13,761,674	14,017,495			
adjusted annual forecasts based on actual ytd collections	18,036,277	19,118,424	16,785,044	16,605,687	16,784,239	17,122,264	17,174,983	17,176,616	16,925,244	16,337,139	0	0	
monthly variance (actual - forecast)	134,185	318,979	-508,596	-101,037	94,858	211,786	40,419	9,449	-173,092	-503,113	-311,549	-2,086,892	
year-to-date variance (actual - forecast)	134,185	453,162	-55,434	-156,471	-61,612	150,173	190,593	200,041	26,949	-476,164	-14,805,208	-16,892,100	

a/ xx refers to annual estimate for the receipt/ disbursement item under consideration

Tips

1. The mechanical approach to cash flow forecasting described above is based on the existence of a seasonal pattern in the flow of collections/disbursements from month to month throughout any given year. As such, it is applicable only to recurring items of income and expenditures. There is no other way to forecast the cash flow of non-recurring items of income and expenditures except by finding out exactly what the projected schedule of receipts and payments is given the province's particular situation.

2. The distribution of disbursements from month to month is not exactly exogenous even for many items of recurring expenditures. This is so because the outflow of disbursements is influenced by the inflow of collections. For instance, disbursements tend to be postponed when no cash is available.

3. Although one has to come up with some aggregation in the end to arrive at a complete picture, it is not prudent to rely solely on an analysis of the cash flow of aggregated items. Instead, prepare cash flow forecasts for each major income and expenditure item before summing up the results to arrive at the aggregate cash flow forecast and aggregate cash flow analysis (Annex D and Annex E, respectively. This occurs because the aggregate monthly cash flow forecasts are dependent on (1) the seasonality of cash inflows/outflows as reflected in the share of each month in total collections/disbursements and (2) the relative magnitude of different components of income/expenditure for the entire year.

   For instance, in the case of provinces, collections from taxpayers may be broken down into: collections from RPT and collections from other local taxes. In the case of cities and municipalities, collections from taxpayers may be disaggregated into: collections from RPT, collections from local business tax and collections from other local taxes. In like manner, other receipts may be broken down into regulatory fees, user charges, and receipts from economic enterprises.

part 5

budget accountability

budget accountability

Objectives

- To present some of the provisions of the Updated Budget Operations Manual (UBOM) on LGU Performance Review and relate the same to the performance measurement tool provided earlier
- To document some examples of good practice on budget reporting to the wider public

Contents

- LGU performance review
- Budget reporting to the wider public

"Budget accountability involves the accurate recording and reporting of LGU's income and expenditures and the evaluation of LGU's physical and financial performance" (UBOM 2005, page 109)

A. PERFORMANCE REVIEW

"Pursuant to the Local Government Code a mid-year or semi-annual review and examination of cost and accomplishments against performance standards shall be conducted. All departments and offices in the LGU are required to submit accountability reports to the Local Finance Committee through the Local Budget Officer in order to effectively monitor the efficiency of the LGU's fund utilization as well as assess their performance in attaining prescribed goals and objectives.... The review and evaluation of performance is an integral part of the accountability function of the LGU, particularly of the LFC. The LCE and Sanggunian shall be furnished with a copy of the LGU performance review report. The same report shall be posted in conspicuous and publicly accessible places in the LGU" (UBOM 2005, pages 111-113).

Beyond assessing provincial performance relative to targets that have been agreed upon during the budget preparation phase, the evaluation of the physical and financial accomplishment of the province mid-year during the budget year (as reported in Local Budget Evaluation (LBEv) Forms No. 1 and 2) may also be used for reviewing and re-evaluating the relevant contribution of the various programs, projects and activities of the different departments of the province to its specific objectives and strategies.

The application of the OPIF (particularly the diagnostic questions pertaining to the definition of the outcomes, MFOs and the link between them) as discussed in detail in Sections D.1- D.3 of Part II will help in the identification of PPAs that are irrelevant or ineffective as well as those that contribute significantly to provincial objectives. The provincial performance review is also a good time to revisit the definition of MFOs and the performance indicators.

B. BUDGET REPORTING TO THE WIDER PUBLIC AND PARTICIPATORY MECHANISM FOR ACCOUNTABILITY

Another way of enhancing accountability at the local level is by promoting mechanisms that allow the province to effectively report the results of budget implementation to their constituents, on the one hand, and by promoting systems that allow their constituents to provide feedback to the province on its performance in delivering services, on the other. Best practice in local budget accountability suggests that the key elements of public participation in budget accountability include:

- The presence of a well-publicized description of services provided by the province with their corresponding standard response time (e.g., Naga City NetServe and Naga City Citizens Charter);
- A system that citizens can use to provide feedback to the province on service delivery of the various departments/offices (e.g., Naga City TextServe) so that stakeholders can see to it that the standards of service delivery are rightly observed;
- The development of a provincial report card system showing how well the province has performed in delivering its MFOs, the gaps in provincial outcomes, and report on budget appropriations and actual spending on various sectors vis-à-vis actual outputs delivered and actual results attained (e.g., Naga City Local School Board experience); and
- Widespread dissemination of the provincial report card to the public.

Endnotes

[1] That is, each "program is an aggregation of government activities/ projects that share a common set of objectives" (UBOM 2005, page 4). A program is "designed to accomplish or implement the mandate, functions, or objectives of an organization" (UBOM 2005, page 42).

[2] This is oftentimes referred to as the Medium-Term Expenditure Framework (MTEF). The DBM has already started to implement the MTEF at the national government level.

[3] The DBM has also started to implement the OPIF at the national government level.

[4] In Australia, this framework is called the outcomes-outputs framework.

[5] The following statement and question is taken from the Department of Treasury and Finance of Western Australia, "Output Based Management Guidelines for Agencies," 1996.

[6] These diagnostic questions are drawn from Diamond (2005), Sharp (2003), Department of Finance and Administration of the Government of Australia (2003), and Western Australia Treasury (1996).

[7] These diagnostic questions are drawn from Diamond (2005), Sharp (2003), Department of Finance and Administration of the Government of Australia (2003), and Western Australia Treasury (1996).

[8] Note that LGUs may also create other departments/offices in relation to their corporate functions, e.g., Provincial Cooperative Office, Provincial Economic Development Office, etc.

[9] The same tools are used in the province's review, with assistance from the Provincial Finance Committee, of the budgets of its component cities and municipalities as well as in DBM's review of the appropriation ordinances of provinces, highly-urbanized and independent component cities, and Metro Manila LGUs.

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annexes

Annex A. AIP Summary Form

Annex A
AIP Summary Form

CY _____ Annual Investment Program (AIP)
By Program/Project/Activity by Sector
As of ___________________

Province/City/Municipality/Barangay:___________________________

AIP REFERENCE CODE (1)	PROGRAM/PROJECT/ACTIVITY DESCRIPTION (2)	IMPLEMENTING OFFICE/ DEPARTMENT	SCHEDULE OF IMPLEMENTATION		EXPECTED OUTPUTS (6)	FUNDING SOURCE (7)	AMOUNT (in thousand pesos)			
			STARTING DATE (4)	COMPLETION DATE (5)			Personal Services (PS) (8)	Maintenance and Other Operating Expenses (MOOE) (9)	Capital Outlay (CO) (10)	TOTAL (11)
General Public Services (10)										
Economic Services (80)										
Social Services (30)										

Prepared By:

____
Local Planning and Development Coordinator
Date: ___________

____
Local Budget Officer
Date: ___________

Attested by:

____
Local Chief Executive
Date: ___________

Instructions:

The AIP form shall be prepared by the planning and budget offices of the local government unit based on the approved Local Development Plan of the LGU as approved by the Local Sanggunian. The annual component of the Capital Expenditure (Capex) shall be inputted by the Planning Officer and shall be integrated by the Budget Officer together with the Personal Services (PS), Maintenance and Other Operating Expenses (MOOE) and other Capital Outlay (CO) into the total resource Annual Investment Program as basis for the preparation of the Annual Budget.

Column 1. Indicate the reference code for the sector/sub-sector as per UBOM in order to facilitate consolidation of requirements.

Column 2. Describe briefly the program/project/activity to be implemented and accomplished by the LGU

Column 3. Identify the office/department that will implement the program/project/activity.

Columns 4&5. Specify the targeted starting and completion date.

Column 6. Describe the output or results in quantified terms (e.g. 3 kilometers of concrete road, 200 cavans of palay per hectare,10 hectares of reforested area, 400 pupils functionally literate, 5% reduction in infant mortality rate).

Column 7. Indicate the funding source of the program/project/activity. Specify if sourced locally from the General Fund or grant/loan from outside sourcing or subsidy from the national government.

Column 8. Indicate the estimated amount of the program/project/activity broken down into PS, MOOE and CO.

This form has to be signed by the Local Development and Planning Coordinator and Budget Officer and attested by the Local Chief Executive or his duly authorized representative.

Annex B: Analysis of Provincial Income Trend and Composition

Worksheet 1.1. Levels of LGU Income (in pesos)

Worksheet 1. Sources of LGU Income

LGU name	Year 0	Year 1	Year 2	Year 3	Year 4	Average
WORKSHEET 1.1. LEVELS OF LGU INCOME (in pesos)						
A. OWN-SOURCE REVENUES (1) = (2) + (7)	0	0	0	0	0	0
1. Tax Revenues (2) = (3) + (6) + (7)	0	0	0	0	0	0
Real Property Tax: (3) = (4) + (5)	0	0	0	0	0	0
General Fund (GF) (4)	v	v	v	v	v	#DIV/0!
Special Education Fund (5)	v	v	v	v	v	#DIV/0!
Business Tax (6)	v	v	v	v	v	#DIV/0!
Other Taxes (7)	v	v	v	v	v	#DIV/0!
2. Non-tax Operating Income (8) = (9) + (10) + (11) + (12)	0	0	0	0	0	0
Regulatory Fees from Permits, License, etc. (9)	v	v	v	v	v	#DIV/0!
Service/ User Charges e.g., garbage fees, hospital fees (10)	v	v	v	v	v	#DIV/0!
Receipts from Economic Enterprise (11)	v	v	v	v	v	#DIV/0!
Other Operating Income (12) = (13) + (14)	0	0	0	0	0	0
General Fund (13)	v	v	v	v	v	#DIV/0!
Special Education Fund (14)	v	v	v	v	v	#DIV/0!
B. EXTERNAL SOURCES (15) = (16) + (17) + (18)	0	0	0	0	0	0
1. Internal Revenue Allotment (16)	v	v	v	v	v	#DIV/0!
2. Share in National Wealth/Eco. Zones/etc. (17)	v	v	v	v	v	#DIV/0!
3 Other Income from External Sources (18)	v	v	v	v	v	#DIV/0!
TOTAL OPERATING INCOME (19) = (1) + (15)	0	0	0	0	0	0
General Fund (20) = (4) + (6) + (7) + (9) + (10) + (11) + (13) + (15)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund (21) = (5) + (14)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Capital Revenue (22)	v	v	v	v	v	#DIV/0!
TOTAL INCOME (23) = (19) + (22)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund (24) = (20) + (22)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund (25) = (21)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Income from Grants and Donations (26)	v	v	v	v	v	#DIV/0!
Interlocal Government Transfers (27)	v	v	v	v	v	#DIV/0!
Borrowings (28)	v	v	v	v	v	#DIV/0!
TOTAL RECEIPTS (29) = (23) + (26) + (27) + (28)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund (30) = (24) + (26) + (27) + (28)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund (31) = (25)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
MEMO ITEM:						
Regular Income: GF (32) = (4) + (6) + (7) + (9) + (10) + (11) + (16)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Non-Recurring Income: GF (33) = (13) + (17) + (18) + (22) + (26)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

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Worksheet 1.2. Percent Distribution of LGU Income (in %)

WORKSHEET 1.2. PERCENT DISTRIBUTION OF LGU INCOME (in %)	Year 0	Year 1	Year 2	Year 3	Year 4	average
A. OWN-SOURCE REVENUES	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
1. Tax Revenues	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Real Property Tax:	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund (GF)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Special Education Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Business Tax	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Other Taxes	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
2. Non-tax Operating Income	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Regulatory Fees from Permits, License, etc.	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Service/User Charges	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Receipts from Economic Enterprise	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Other Operating Income	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Special Education Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
B. EXTERNAL SOURCES	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
1. Internal Revenue Allotment	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
2. Share in National Wealth/Eco. Zones/Tobacco Excise Tax /EVAT	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
3 Other Income from External Sources	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
TOTAL OPERATING INCOME	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Capital Revenue	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
TOTAL INCOME	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Income from Grants and Donations	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Interlocal Government Transfers	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Borrowings	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
TOTAL RECEIPTS	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
MEMO ITEM:	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Regular Income: GF	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Non-Recurring Income: GF	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

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Worksheet 1.3. Growth Rate of LGU Income (in %)

WORKSHEET 1.3. GROWTH RATE OF LGU INCOME (in %)	Year 0	Year 1	Year 2	Year 3	Year 4	Geometric Ave. (0-4)	Arithmetic Ave. (0-4)
A. OWN-SOURCE REVENUES		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
1. Tax Revenues		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Real Property Tax:		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
General Fund (GF)		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Business Tax		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Other Taxes		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
2. Non-tax Operating Income		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Regulatory Fees from Permits, Licenses, etc.		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Service/User Charges		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Receipts from Economic Enterprise		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Other Operating Income		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
General Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
B. EXTERNAL SOURCES		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
1. Internal Revenue Allotment		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
2. Share in National Wealth/Eco. Zones/Tobacco Excise. Tax /EVAT		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
3 Other Income from External Sources		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
TOTAL OPERATING INCOME		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
General Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Capital Revenue		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
TOTAL INCOME		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Income from Grants and Donations		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Interlocal Government Transfers		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Borrowings		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
TOTAL RECEIPTS		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Special Education Fund		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
MEMO ITEM:							
Regular Income: GF		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Non-Recurring Income: GF		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

Worksheet 2. LGU Expenditure, by function

Worksheet 2. LGU Expenditure, by function						
LGU name	Year 0	Year 1	Year 2	Year 3	Year 4	average
WORKSHEET 2.1. LEVELS of LGU Expenditure (in pesos)						
GRAND TOTAL	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Total Economic Services	0	0	0	0	0	0
Agriculture/ Veterinary Services	v	v	v	v	v	#DIV/0!
Environment/ Natural Resource Services	v	v	v	v	v	#DIV/0!
Cooperative Services	v	v	v	v	v	#DIV/0!
Architechtural Services	v	v	v	v	v	#DIV/0!
Engineering Services	v	v	v	v	v	#DIV/0!
Tourism Projects	v	v	v	v	v	#DIV/0!
Commercial/ Industrial Devt Projects	v	v	v	v	v	#DIV/0!
Energy Development Projects	v	v	v	v	v	#DIV/0!
Livelihood Projects	v	v	v	v	v	#DIV/0!
Other Economic Services	v	v	v	v	v	#DIV/0!
Economic Enterprise	0	0	0	0	0	0
Operation of Waterworks System	v	v	v	v	v	#DIV/0!
Operation of Electric/ Power System	v	v	v	v	v	#DIV/0!
Operation of Telephone System	v	v	v	v	v	#DIV/0!
Operation of Toll Roads, Bridges & Ferries	v	v	v	v	v	#DIV/0!
Operation of Markets	v	v	v	v	v	#DIV/0!
Operation of Slaughterhouses	v	v	v	v	v	#DIV/0!
Operation of Cemeteries	v	v	v	v	v	#DIV/0!
Operation of Other Economic Enterprises	v	v	v	v	v	#DIV/0!
Total Social Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Education, Culture, Sports & Manpower Services	v	v	v	v	v	#DIV/0!
Health Services	0	0	0	0	0	0
Hospital Services	v	v	v	v	v	#DIV/0!
Other Health Services	v	v	v	v	v	#DIV/0!
Social Welfare Services (incl. Population Office)	v	v	v	v	v	#DIV/0!
Labor & Employment Services	v	v	v	v	v	#DIV/0!
Housing &Community Development Services	v	v	v	v	v	#DIV/0!
General Public Services	0	0	0	0	0	0
Office of Governor/ Mayor	v	v	v	v	v	#DIV/0!
Office of Vice Governor/ Mayor	v	v	v	v	v	#DIV/0!
Legislative Services	v	v	v	v	v	#DIV/0!
Administrative Services	v	v	v	v	v	#DIV/0!
Planning and Devt Office	v	v	v	v	v	#DIV/0!
Civil Registry	v	v	v	v	v	#DIV/0!
General Services	v	v	v	v	v	#DIV/0!
Budgeting Services	v	v	v	v	v	#DIV/0!
Accounting Services	v	v	v	v	v	#DIV/0!
Treasury Services	v	v	v	v	v	#DIV/0!
Assessor's Office	v	v	v	v	v	#DIV/0!
Legal Services	v	v	v	v	v	#DIV/0!
Land Registration Services	v	v	v	v	v	#DIV/0!
Police & Fire Protection Services	v	v	v	v	v	#DIV/0!
Other General Public Services	v	v	v	v	v	#DIV/0!
Other Purposes	0	0	0	0	0	0
Debt Service	v	v	v	v	v	#DIV/0!
Retirement and Other Benefits	v	v	v	v	v	#DIV/0!
Misc. Other Purposes	v	v	v	v	v	#DIV/0!
20% Development Fund	0	0	0	0	0	0
Economic Services	v	v	v	v	v	#DIV/0!
Social Services	v	v	v	v	v	#DIV/0!
General Public Services	v	v	v	v	v	#DIV/0!

Worksheet 2.2. Percentage Distribution

WORKSHEET 2.2. PERCENTAGE DISTRIBUTION (in %)	Year 0	Year 1	Year 2	Year 3	Year 4	average
GRAND TOTAL	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Total Economic Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Agriculture/ Veterinary Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Environment/ Natural Resource Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Cooperative Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Architechtural Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Engineering Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Tourism Projects	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Commercial/ Industrial Devt Projects	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Energy Development Projects	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Livelihood Projects	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Other Economic Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Economic Enterprise	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Waterworks System	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Operation of Electric/ Power System	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Operation of Telephone System	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Operation of Toll Roads, Bridges & Ferries	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Operation of Markets	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Operation of Slaughterhouses	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Operation of Cemeteries	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Operation of Other Economic Enterprises	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Total Social Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Education, Culture, Sports & Manpower Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Health Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Hospital Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Other Health Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Social Welfare Services (incl. Population Office)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Labor & Employment Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Housing &Community Development Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
General Public Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Office of Governor/ Mayor	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Office of Vice Governor/Mayor	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Legislative Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Administrative Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Planning and Devt Office	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Civil Registry	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
General Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Budgeting Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Accounting Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Treasury Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Assessor's Office	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Legal Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Land Registration Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Police & Fire Protection Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Other General Public Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Other Purposes	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Debt Service	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Retirement and Other Benefits	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Misc. Other Purposes	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
20% Development Fund	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Economic Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
Social Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
General Public Services	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!

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Worksheet 2.3. Growth Rate

WORKSHEET 2.3. GROWTH RATE (in %)	Year 0	Year 1	Year 2	Year 3	Year 4	Geometric ave (0-4)	Arithmetic ave (0-4)
GRAND TOTAL		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Total Economic Services		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Agriculture/ Veterinary Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Environment/ Natural Resource Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Cooperative Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Architechtural Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Engineering Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Tourism Projects		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Commercial/Industrial Devt Projects		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Energy Development Projects		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Livelihood Projects		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Other Economic Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Economic Enterprise		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Operation of Waterworks System		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Electric/Power System		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Telephone System		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Toll Roads, Bridges & Ferries		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Markets		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Slaughterhouses		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Cemeteries		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Operation of Other Economic Enterprises		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Total Social Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Education, Culture, Sports & Manpower Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Health Services		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Hospital Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Other Health Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Social Welfare Services (incl. Popn Office)		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Labor & Employment Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Housing &Community Development Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Public Services		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Office of Governor/Mayor		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Office of Vice Governor/Mayor		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Legislative Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Administrative Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Planning and Devt Office		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Civil Registry		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Budgeting Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Accounting Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Treasury Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Assessor's Office		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Legal Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Land Registration Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Police & Fire Protection Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Other General Public Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Other Purposes		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Debt Service		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Retirement and Other Benefits		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Misc. Other Purposes		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
20% Development Fund		#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!	#DIV/0!
Economic Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Social Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!
General Public Services		#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!

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Worksheet 3. LGU Medium-Term Revenue Forecasts

Worksheet 3. LGU Medium-Term Revenue Forecasts

Main Panel LGU name	actual 2004 py	estimate 2005 cy	forecast 2006 by	forecast 2007 by +1	forecast 2008 by + 2	Right-hand panel Growth rate by (in %)		Growth rate by + 1 (in %)		Growth rate by + 2 (in %)		Revenue from New Measures (in pesos)
I. LEVEL (in pesos)												
A. OWN-SOURCE REVENUES (1) = (2) + (7)	0	0	#VALUE!	#VALUE!	#VALUE!							
1. Tax Revenues (2) = (3) + (6) + (7)	0	0	#VALUE!	#VALUE!	#VALUE!							
Real Property Tax: (3) = (4) + (5)	0	0	#VALUE!	#VALUE!	#VALUE!							
General Fund (4)	v	v	#VALUE!	#VALUE!	#VALUE!	grRPTgf	a/	grRPTgf	a/	grRPTgf	a/	v
Special Education Fund (5)	v	v	#VALUE!	#VALUE!	#VALUE!	grRPTsef	a/	grRPTsef	a/	grRPTsef	a/	v
Business Tax (6)	v	v	#VALUE!	#VALUE!	#VALUE!	grRPTlbt	a/	grRPTlbt	a/	grRPTlbt	a/	v
Other Taxes (7)	v	v	#VALUE!	#VALUE!	#VALUE!	grOTHTX	a/	grOTHTX	a/	grOTHTX	a/	v
2. Non-tax Operating Income (8) = (9) + (10) + (11) + (12)	0	0	#VALUE!	#VALUE!	#VALUE!							
Regulatory Fees from Permits, License, etc. (9)	v	v	#VALUE!	#VALUE!	#VALUE!	grFEES	a/	grFEES	a/	grFEES	a/	v
Service/ User Charges e.g., garbage fees, hospital fees (10)	v	v	#VALUE!	#VALUE!	#VALUE!	grCHRGS	a/	grCHRGS	a/	grCHRGS	a/	v
Receipts from Economic Enterprise (11)	v	v	#VALUE!	#VALUE!	#VALUE!	grEconEnt	a/	grEconEnt	a/	grEconEnt	a/	v
Other Operating Income (12) = (13) + (14)	0	0	0	0	0							
General Fund (13)	v	v	v	v	v							
Special Education Fund (14)	v	v	v	v	v							
B. EXTERNAL SOURCES (15) = (16) + (17) + (18)	0	0	#VALUE!	#VALUE!	#VALUE!							
1. Internal Revenue Allotment (16)	v	v	#VALUE!	#VALUE!	#VALUE!	#DIV/0!	b/	#DIV/0!	b/	#DIV/0!	b/	
2. Share in National Wealth/ Eco. Zones/ etc. (17)	v	v	v	v	v							
3 Other Income from External Sources (18)	v	v	v	v	v							
TOTAL OPERATING INCOME (19) = (1) + (15)	0	0	#VALUE!	#VALUE!	#VALUE!							
General Fund (20) = (4) + (6) + (7) + (9) + (10) + (11) + (13) + (15)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
Special Education Fund (21) = (5) + (14)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
Capital Revenue (22)	v	v	v	v	v							
TOTAL INCOME (23) = (19) + (22)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
General Fund (24) = (20) + (22)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
Special Education Fund (25) = (21)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
Income from Grants and Donations (26)	v	v	v	v	v							
Interlocal Government Transfers (27)	v	v	v	v	v							
Borrowings (28)	v	v	v	v	v							
TOTAL RECEIPTS (29) = (23) + (26) + (27) + (28)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
General Fund (30) = (24) + (26) + (27) + (28)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
Special Education Fund (31) = (25)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
MEMO ITEM:												
Regular Income: GF (32) = (4) + (6) + (7) + (9) + (10) + (11) + (16)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
Non-Recurring Income: GF (33) = (13) + (17) + (18) + (22) + (26)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							
20% Development Fund (34) = 0.2 * (16)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!							

Bottom Panel					
BIR revenues	act 2002	act 2003	act 2004	est 2005	
BIR revenues (in millions)					
BIR revenues growth rate		#DIV/0!	#DIV/0!	#DIV/0!	

a/ refer to trend analysis of LGU income in Worksheet 1.3
b/ pick up values from computation of growth of BIR revenues in row 67 above

Worksheet 4. Determination of Resources Available for Appropriation Proposed Budget Summary - Part I (General Fund)

Worksheet 4. Determination of Resources Available for Appropriation Proposed Budget Summary - Part I (General Fund)

Main Panel LGU Name (in pesos)	Previous Year Actual	Current Year Estimate	Budget Year Estimate	
Beginning Balance (1)	v	v	v	
Regular Income (2) = (3)+(4)+(5)+(6)+(7)+(8)	0	0	0	
IRA (3)	v	v	v	
Basic RPT (4)	v	v	v	
Business Tax (5)	v	v	v	
Other Local Taxes (6)	v	v	v	
Regulatory Fees (7)	v	v	v	
Service/ User Charges (8)	v	v	v	
Receipts from Economic Enterprise (9)	v	v	v	
Non-Recurring Income (10)	v	v	v	
Total Available Resources (11) = (1)+(2)+(10)	#VALUE!	#VALUE!	#VALUE!	
Less: Continuing Appropriation (12)	v	v	v	
Net Available Resources for Approp. (13) = (11) - (12)	#VALUE!	#VALUE!	#VALUE!	
Less: Budgetary req. (14) = (15)+(16)+(17)+(18)+(19)	0	0	#VALUE!	
20% Development Fund (15)	v	v	#VALUE!	a/
Debt service (16)	v	v	v	b/
5% calamity fund (17)	v	v	#VALUE!	c/
Aid to barangays (18)	v	v	#VALUE!	d/
Other contractual obligations (19)	v	v	v	
Unapprop. Bal. Still Avail. for All. (20) = (13) - (14)	#VALUE!	#VALUE!	#VALUE!	

a/ = 0.2 * IRA
b/ = Actual Amount Due
c/ = 0.05 * Regular Income
d/ = 1000 * no. of Barangays

Parameters	
est IRA for by	v
act loan repayment due	v
est reg. inc. in by	v
no. of barangays	v

Comparison of net amount of resources (NAR) & total baseline ceiling/Estimation of amount allocable for investment

Total budgetary req. (1)	#VALUE!
Total baseline ceiling (2)	#VALUE!
Sum (3) = (1) + (2)	#VALUE!
Amt. allocable for investment &/or exp. of existing progrms in excess of 20%DF = NAR minus (3) = (4)	#VALUE!
Tot. amt. allocable for investment = 20% DF + (4) = (5)	#VALUE!

Worksheet 5. Allocation of Sectoral/Departmental Expenditure Ceiling

Worksheet 5. Allocation of Sectoral/Departmental Expenditure Ceiling				
LGU name	**General (a)**	**Social (b)**	**Economic (c)**	**Total (a)+(b)+(c)**
Personnel services (1)	v	v	v	#VALUE!
Basic MOOE offices,				
services and facilities (2)	v	v	v	#VALUE!
Indicative Ceiling for Regular				
Functions (3) = (1) + (2)	#VALUE!	#VALUE!	#VALUE!	#VALUE!
Add:				
Additional ceiling based on				
priorities in LDP / LDIP / AIP (4)	v	v	v	v
Final Sectoral Ceiling (3)+(4)	#VALUE!	#VALUE!	#VALUE!	#VALUE!

Source: Adopted from Celestino, et.al.

Worksheet 6. Proposed Budget Summary - Part I (General Fund)

Worksheet 6. Proposed Budget Summary - Part I (General Fund)							
Part I LGU Name	Previous Year	Current Year Actual (1)	Current Year Estimate (2)	Budget Year Estimate			
Beginning Balance (1)	v	v	v	v			
Regular Income (2) = (3)+(4)+(5)+(6)+(7)	0	0	0	0			
IRA (3)	v	v	v	v			
Basic RPT (4)	v	v	v	v			
Other Local Taxes (5)	v	v	v	v			
Fees from Permits, etc. (6)	v	v	v	v		**Parameters**	
Business Income (7)	v	v	v	v			
Non-Recurring Income (8)	v	v	v	v			
Total Available Resources (9) = (1)+(2)+(8)	#VALUE!	#VALUE!	#VALUE!	#VALUE!			
Less: Continuing Appropriation (10)	v	v	v	v			
Net Available Resources for Approp. (11) = (9) - (10)	#VALUE!	#VALUE!	#VALUE!	#VALUE!			
	0	0	0	#VALUE!			
20% Development Fund (13)	v	v	v	#VALUE!	a/	est IRA for by	v
Debt service (14)	v	v	v	v	b/	act loan repayment d	v
5% calamity fund (15)	v	v	v	#VALUE!	c/	est reg. inc. in by	v
Aid to barangays (16)	v	v	v	#VALUE!	d/	no. of barangays	v
Other contractual obligations (17)	v	v	v	v			
Unapprop. Bal. Still Avail. for All. (18) = (11) - (12)	#VALUE!	#VALUE!	#VALUE!	#VALUE!			

a/ = 0.2 * IRA
b/ = Actual Amount Due
c/ = 0.05 * Regular Income
d/ = 1000 * no. of Barangays

Worksheet 6. Proposed Budget Summary - Part II (General Fund)

Worksheet 6. Proposed Budget Summary - Part II (General Fund)

LGU Name (in pesos)	Appropriation in Current Year Levels	% Distribution of Total	Proposed Appropriation in Budget Year PS	MOOE	CO	Total	% Distribution of Total
Part II - PROPOSED APPROPRIATION							
GRAND TOTAL	**0**	**#DIV/0!**	**0**	**0**	**0**	**0**	**#DIV/0!**
Total Economic Services	0	#DIV/0!	0	0	0	0	#DIV/0!
Agriculture/ Veterinary Services	v	#VALUE!	v	v	v	0	#DIV/0!
Environment/ Natural Resource Services	v	#VALUE!	v	v	v	0	#DIV/0!
Cooperative Services	v	#VALUE!	v	v	v	0	#DIV/0!
Architechtural Services	v	#VALUE!	v	v	v	0	#DIV/0!
Engineering Services	v	#VALUE!	v	v	v	0	#DIV/0!
Tourism Projects	v	#VALUE!	v	v	v	0	#DIV/0!
Commercial/ Industrial Devt Projects	v	#VALUE!	v	v	v	0	#DIV/0!
Energy Development Projects	v	#VALUE!	v	v	v	0	#DIV/0!
Livelihood Projects	v	#VALUE!	v	v	v	0	#DIV/0!
Other Economic Services	v	#VALUE!	v	v	v	0	#DIV/0!
Economic Enterprise	0	#DIV/0!	0	0	0	0	#DIV/0!
Operation of Waterworks System	v	#VALUE!	v	v	v	0	#DIV/0!
Operation of Electric/ Power System	v	#VALUE!	v	v	v	0	#DIV/0!
Operation of Telephone System	v	#VALUE!	v	v	v	0	#DIV/0!
Operation of Toll Roads, Bridges & Ferries	v	#VALUE!	v	v	v	0	#DIV/0!
Operation of Markets	v	#VALUE!	v	v	v	0	#DIV/0!
Operation of Slaughterhouses	v	#VALUE!	v	v	v	0	#DIV/0!
Operation of Cemeteries	v	#VALUE!	v	v	v	0	#DIV/0!
Operation of Other Economic Enterprises	v	#VALUE!	v	v	v	0	#DIV/0!
Total Social Services	0	#DIV/0!	0	0	0	0	#DIV/0!
Education, Culture, Sports & Manpower Services	v	#VALUE!	v	v	v	0	#DIV/0!
Health Services	0	#DIV/0!	0	0	0	0	#DIV/0!
Hospital Services	v	#VALUE!	v	v	v	0	#DIV/0!
Other Health Services	v	#VALUE!	v	v	v	0	#DIV/0!
Social Welfare Services (incl. Popn Office)	v	#VALUE!	v	v	v	0	#DIV/0!
Labor & Employment Services	v	#VALUE!	v	v	v	0	#DIV/0!
Housing &Community Development Services	v	#VALUE!	v	v	v	0	#DIV/0!
General Public Services	0	#DIV/0!	0	0	0	0	#DIV/0!
Office of Governor/ Mayor	v	#VALUE!	v	v	v	0	#DIV/0!
Office of Vice Governor/ Mayor	v	#VALUE!	v	v	v	0	#DIV/0!
Legislative Services	v	#VALUE!	v	v	v	0	#DIV/0!
Administrative Services	v	#VALUE!	v	v	v	0	#DIV/0!
Planning and Devt Coordination	v	#VALUE!	v	v	v	0	#DIV/0!
Civil Registry	v	#VALUE!	v	v	v	0	#DIV/0!
General Services	v	#VALUE!	v	v	v	0	#DIV/0!
Budgeting Services	v	#VALUE!	v	v	v	0	#DIV/0!
Accounting Services	v	#VALUE!	v	v	v	0	#DIV/0!
Treasury Services	v	#VALUE!	v	v	v	0	#DIV/0!
Assessor's Office	v	#VALUE!	v	v	v	0	#DIV/0!
Legal Services	v	#VALUE!	v	v	v	0	#DIV/0!
Land Registration Services	v	#VALUE!	v	v	v	0	#DIV/0!
Police & Fire Protection Services	v	#VALUE!	v	v	v	0	#DIV/0!
Other General Public Services	v	#VALUE!	v	v	v	0	#DIV/0!
Other Purposes	0	#DIV/0!	0	0	0	0	#DIV/0!
Debt Service	v	#VALUE!	v	v	v	0	#DIV/0!
Retirement and Other Benefits	v	#VALUE!	v	v	v	0	#DIV/0!
Misc. Other Purposes	v	#VALUE!	v	v	v	0	#DIV/0!
20% Development Fund	0	#DIV/0!	0	0	0	0	#DIV/0!
Economic Services	v	#VALUE!	v	v	v	0	#DIV/0!
Social Services	v	#VALUE!	v	v	v	0	#DIV/0!
General Public Services	v	#VALUE!	v	v	v	0	#DIV/0!

Worksheet 7. Budget Review Matrix for Budgetary Requirements

Worksheet 7. Budget Review Matrix for Budgetary Requirements

LGU name	Proposed Appropriation (1)	Budgetary Requirement (2)		Deficiency (3) = (1)-(2)	Remarks if (3) < 0 then "not complied"	Parameters	
BUDGETARY REQUIREMENTS							
1. 20% Development Fund	v	#VALUE!	a/	#VALUE!	#VALUE!	est IRA for by	v
2. Loan Repayment	v	v	b/	#VALUE!	#VALUE!	act loan repayment due	v
3. Calamity Fund	v	#VALUE!	c/	#VALUE!	#VALUE!	est regular y in by	v
4. Aid to Barangays	v	#VALUE!	d/	#VALUE!	#VALUE!	no. of barangays	v

a/ = 0.2 * IRA
b/ = Actual Amount Due
c/ = 0.05 * Regular Income
d/ = 1000 * # of Barangays

Worksheet 8. Budget Review Matrix for Budgetary Limitations

Worksheet 8. Budget Review Matrix for Budgetary Limitations							
LGU name	Proposed Appropriation (1)	Budgetary Limitation (2)		Excess Estimate (3) = (1) - (2)	Remarks If (3) ≥ 0 then "not complied"	Parameters	
BUDGETARY LIMITATION							
1. Personal Services	v		a/	#VALUE!	#VALUE!	regular y in py	v
	v		b/	#VALUE!	#VALUE!	regular y in py	v
2. LCE Discretionary Fund	v		c/	#VALUE!	#VALUE!	basic RPT in py	v
3. Debt Service	v		d/	#VALUE!	#VALUE!	est regular y in py	v
4. Total Appropriation	v		e/	#VALUE!	#VALUE!	total available for approp.	v

a/ = 0.45 * Reg. Income in Previous Year
b/ = 0.55 * Reg. Income in Previous Year
c/ = 0.02 * Basic RPT in Previous Year
d/ = 0.20 * Reg. Income
e/ = Total Availabe for Appropriation

Worksheet 9.1. Cash Receipts Forecast for Item x

Worksheet 9.1. Cash Receipts Forecast for Item x
LGU name
For BY ____________________

Receipt Item x	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Levels													
Monthly cash inflow													
year 1	v	v	v	v	v	v	v	v	v	v	v	v	0
year 2	v	v	v	v	v	v	v	v	v	v	v	v	0
year 3	v	v	v	v	v	v	v	v	v	v	v	v	0
year 4	v	v	v	v	v	v	v	v	v	v	v	v	0
year 5	v	v	v	v	v	v	v	v	v	v	v	v	0
Monthly share													
year 1	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 2	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 3	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 4	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 5	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
monthly average percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
average year to date percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
monthly forecasts at beginning of budget year	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	x a/
year to date forecasts at beginning of by	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	xx a/
actual monthly collections for budget year	v	v	v	v	v	v	v	v	v	v	v	v	
actual year-to-date collections for by	v	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
adjusted annual forecasts													
based on actual ytd collections	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
monthly variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
year-to-date variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	

a/ xx refers to annual estimate for the receipt/ disbursement item under consideration

Worksheet 9.2. Cash Receipts Forecast for Item x

Worksheet 9.2. Cash Receipts Forecast for Item x
LGU name
For BY________________

Receipt Item x	Mar.	June	Sept.	Dec.	Total
Levels					
Quarterly cash inflow					
2000	v	v	v	v	0
2001	v	v	v	v	0
2002	v	v	v	v	0
2003	v	v	v	v	0
2004	v	v	v	v	0
Quarterly share					
2000	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2001	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2002	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2003	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2004	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
Quarterly average percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Average year to date percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Quarterly forecasts at beginning of BY 2005	#VALUE!	#VALUE!	#VALUE!	#VALUE!	11,800,000 a/
Year to date forecasts at beginning of BY 2005	#VALUE!	#VALUE!	#VALUE!	#VALUE!	11,800,000 a/
Actual quarterly collections for BY 2005	v	v	v		
Actual year-to-date collections for BY 2005	v	#VALUE!	#VALUE!	#VALUE!	
Adjusted annual forecasts					
Based on actual ytd collections for BY 2005	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Quarterly variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Year-to-date variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	

a/ xx refers to annual estimate for the receipt/ disbursement item under consideration

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Worksheet 10.1. Cash Disbursements Forecast for Item y

Worksheet 10.1. Cash Disbursements Forecast for Item y
LGU name
For BY____________

Disbursement Item y	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Levels													
Monthly cash outflow													
year 1	v	v	v	v	v	v	v	v	v	v	v	v	0
year 2	v	v	v	v	v	v	v	v	v	v	v	v	0
year 3	v	v	v	v	v	v	v	v	v	v	v	v	0
year 4	v	v	v	v	v	v	v	v	v	v	v	v	0
year 5	v	v	v	v	v	v	v	v	v	v	v	v	0
Monthly share													
year 1	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 2	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 3	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 4	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
year 5	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#DIV/0!
monthly average percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
average year to date percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
monthly forecasts at beginning of budget year	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	xx a/
year to date forecasts at beginning of by	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	xx a/
actual monthly collections for budget year	v	v	v	v	v	v	v	v	v	v	v	v	
actual year-to-date collections for by	v	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
adjusted annual forecasts													
based on actual ytd collections	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
monthly variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
year-to-date variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	#VALUE!	

a/ xx refers to annual estimate for the receipt/ disbursement item under consideration

Worksheet 10.2. Cash Disbursement Forecast for Item y

Worksheet 10.2. Cash Disbursement Forecast for Item y
LGU name
For BY ____________

Disbursement Item x	Mar.	June	Sept.	Dec.	Total
Levels					
Quarterly cash outflow					
2000	v	v	v	v	0
2001	v	v	v	v	0
2002	v	v	v	v	0
2003	v	v	v	v	0
2004	v	v	v	v	0
Quarterly share					
2000	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2001	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2002	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2003	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
2004	#VALUE!	#VALUE!	#VALUE!	#VALUE!	1.0000
Quarterly average percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Average year to date percentage distribution	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Quarterly forecasts at beginning of BY2005	#VALUE!	#VALUE!	#VALUE!	#VALUE!	11,800,000 a/
Year to date forecasts at beginning of BY2005	#VALUE!	#VALUE!	#VALUE!	#VALUE!	11,800,000 a/
Actual quarterly collections for BY2005	v	v	v		
Actual year-to-date collections for BY2005	v	#VALUE!	#VALUE!	#VALUE!	
Adjusted annual forecasts					
Based on actual ytd collections for BY2005	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Quarterly variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	
Year-to-date variance (actual - forecast)	#VALUE!	#VALUE!	#VALUE!	#VALUE!	

a/ xx refers to annual estimate for the receipt/ disbursement item under consideration

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Annex C. Local Budget Matrix

Annex C. Local Budget Matrix LBEF No.1

BY ____________

Local Government Unit: ______________________ ☐ Annual Budget

Fund: ______________________ ☐ Supplemental Budget

Program/Project/Activity (Department/Office)	Authorized Appropriation				Reserved	Unprogrammed Appropriation	Not Needing Clearance						Needing Clearance			
	PS	MOOE	CO	Total			PS	MOOE	CO	Total	This Release	For Later Release	PS	MOOE	CO	Total
a.																
b.																
c.																
d.																
GRAND TOTAL																

Recommending Approval: Approved:

______________________ ______________________

Local Budget Officer Local Chief Executive

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Annex D. Cash Flow Forecast

Annex D. Cash Flow Forecast
LGU X
For BY ____________________

Particulars	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
Cash at the beginning of the period													
Cash Flows from Operating Activities													
Cash inflows													
collections from taxpayers													
Internal Revenue Allotments													
receipts from sale of goods and services													
interest income													
other receipts													
Total cash inflow													
Cash outflows													
personal services													
MOOE													
capital outlays													
other expenses													
Total cash outflow													
Net cash from operating activities													
Cash Flows from Investing Activities													
Cash inflows													
from sale of property, plant and equipment													
from sale of debt securities of other entities													
from coll. of principal on loans to other entities													
Total cash inflow													
Cash outflows													
to purchase property, plant and equipment													
to purchase debt security of other entities													
to grant/ make loans to other entities													
Total cash outflow													
Net cash from investing activities													
Cash Flows from Financing Activities													
Cash inflows													
from issuance of debt securities													
from acquisition of loans													
Total cash inflows													
Cash outflows													
retirement/ redemption of debt securities													
payment of loan amortization													
Total cash ourflows													
Net cash from financing activities													
Net increase in cash													
Cash at the end of the period													

Annex E. Cash Flow Analysis

Annex E. Cash Flow Analysis
LGU X
As of End of Month of __________, 200_

Particulars	Actual			Forecast Year-to-Date (4)	To-Date Variance Over (Under) (5=4-3)	Adjusted Estimates Annual (6)	Original Forecast Annual (7)	Annual Variance Over (Under) (8=7-6)
	Prior Month Balance (1)	This Month (2)	Year-to-Date (3=1+2)					
Cash at the beginning of the period								
Cash Flows from Operating Activities								
Cash inflows								
collections from taxpayers								
Internal Revenue Allotments								
receipts from sale of goods and services								
interest income								
other receipts								
Total cash inflow								
Cash outflows								
personal services								
MOOE								
capital outlays								
other expenses								
Total cash outflow								
Net cash from operating activities								
Cash Flows from Investing Activities								
Cash inflows								
from sale of property, plant and equipment								
from sale of debt securities of other entities								
from coll. of principal on loans to other entities								
Total cash inflow								
Cash outflows								
to purchase property, plant and equipment								
to purchase debt security of other entities								
to grant/ make loans to other entities								
Total cash outflow								
Net cash from investing activities								
Cash Flows from Financing Activities								
Cash inflows								
from issuance of debt securities								
from acquisition of loans								
Total cash inflows								
Cash outflows								
retirement/ redemption of debt securities								
payment of loan amortization								
Total cash ourflows								
Net cash from financing activities								
Net increase in cash								
Cash at the end of the period								

gems in lgu fiscal management:

a compilation of good practices

Gems in LGU Fiscal Management:

A Compilation of Good Practices*

Rosario G. Manasan and Eden C. Villanueva

* *Preliminary version of this paper first appeared at PIDS Discussion Paper No. 2006-10*

INTRODUCTION

The lack of financial resources to support the provision of basic services and to fund local development plans is a critical concern at the local level if improvements in key human development outcomes are to be attained. On the one hand, revenue generation and resource mobilization at the local level are hampered by complex tax structures, poor systems and procedures, and weak local capabilities. On the other hand, planning and budgeting at the local level are bedeviled by the short political tenure of local officials, and the lack of a clear mandate supporting the linkage between the Local Development Plan, the Local Development Investment Program, and the Annual Investment Program. Consequently, there is a need to help LGUs develop strategies and systems that will enable them to increase their financial resources and to allocate their resources in a manner that is consistent with their goals and objectives as articulated in their medium-term development plans.

“there is a need to help LGUs develop strategies and systems that will enable them to increase their financial resources and to allocate their resources in a manner that is consistent with their goals and objectives”

Undeniably, efficient revenue generation/mobilization and allocation at the local level is stymied by poor incentives arising from structural problems in the way central-local relations have been defined (e.g., mismatch in revenue and expenditure assignment across levels of government, short term of office of local elected officials). Nonetheless, experience almost everywhere in the world suggests that even when incentives facing local governments are inappropriate, there is some scope for local initiative and for some LGUs to do better than others even under the most difficult situations (Bird and Smart 2001). Numerous examples of LGU “good practices” are available all over the country. This study draws extensively from this list in putting forward a menu of policy actions that is aimed at enhancing not just LGU revenue generation and mobilization but also the strategic allocation of the same (Table 1).

Table 1. Policy and Action Framework for Improving LGU Finance

1. Local taxes
   - Update Local Tax Code
   - Computerization
   - Improve tax payer services – make it easier for taxpayers to pay, comfortable tax offices
   - Recognition of top taxpayers

   1.1. Real property tax
      - Conduct general revision of assessment
      - Reduce forms/redesign forms to reduce cost
      - Computerization of records
      - Linking up with Register of Deeds
      - Strengthen enforcement (auctions, publication of delinquent properties)
      - Engage with stakeholders (e.g., barangay officials) to help in registration and collection

   1.2. Local business tax
      - Tax mapping – operation suyod, GIS-aided approach
      - Use of presumptive income levels
      - Use of information from other agencies
      - One-stop shops, flow chart of how to pay taxes

2. Economic enterprise management
   - Application of suitable rate setting model/s
   - Income retention to provide incentives to improve collection efficiency

3. Cost recovery in locally provided services
   - Application of suitable rate setting model/s
   - Increasing of fees and crafting of local ordinance
   - Installation of appropriate institutional arrangements for income retention, (e.g., sanggunian ordinance to effect this and/or the establishment of a trust fund for this purpose and/or designating government facility as economic enterprise)
   - Addressing equity concerns in the event that fees for services provided by lgus are increased
   - Experience with community based health insurance schemes

4. Non-traditional sources of financing
   - Access to non-traditional sources of financing like bank credit, issuance of bonds, bot, joint venture

5. Public expenditure management
   - Government reorganization
   - Retrenchment
   - Performance based budgeting
   - Reinventing Local School Board – to encourage constituency for education with once a year reporting of performance to stakeholders, commit ideas to budget

TRADITIONAL SOURCES OF LGU REVENUE: RESOURCE GENERATION

Local Taxation

The power of LGUs to raise revenues is inherent in their being a political subdivision of the government and in their corporate character. As such, they are charged not only with governmental functions, such as those related to taxation, regulation and service delivery, but also with proprietary functions, i.e., to enter into contracts, to own and manage economic enterprise, and the like.

The literature on fiscal federalism suggests that the mismatch between revenue and expenditure assignment may engender poor incentives for local revenue effort (something that appears to be supported by quantitative analysis in earlier studies). On the one hand, some LGUs have no incentive to utilize their revenue raising authorities fully, precisely because more resources have been transferred to them relative to their needs. On the other hand, other LGUs likewise tend not to maximize the use of their revenue powers because they can always point to the central government as the culprit for not allowing finance to follow function. At the same time, this situation also tends to weaken local accountability as local communities tend not to complain about the inadequacy of local services because they do not pay much in terms of local taxes anyway.

This tendency may explain the widespread perception that many LGUs have not fully utilized their revenue raising powers because of resistance on the part of either the local chief executive or the local Sanggunian (or both) to increase local tax rates for fear of a backlash from their constituents during elections. Related to this, only a few LGUs have revised their local tax codes since 1992 despite the fact that the rate of some local taxes is not indexed to inflation. Very often efforts to update/amend local tax ordinances have been thwarted by the Sanggunian. For instance, the City Treasurer of Iligan City submitted a draft amendment of its Revenue Code (that seeks to increase the local business tax rate and to levy previously untapped taxes and fees) to its Sanggunian in 2002. As of April 2004, the proposal is yet to be approved. Moreover, many provinces and cities undertook a general revision of the schedule of market values of real property only once since 1991 though the Code mandates LGUs to conduct a general revision of market values once every three years, thus, the decline of collections in real terms. Often, the Sanggunian refuses to provide the budget support that is needed for the conduct of the general revision of assessment (GRA).

The power of LGUs to raise revenues is inherent in their being a political subdivision of the government and in their corporate character

Moreover, the Sanggunian-approved schedule of real property values is generally reported to be lower than the BIR zonal value (which is used as the basis of the centrally-imposed capital gains tax). Celestino et al. (1998) noted that this practice tend to give rise to petty graft as the low schedule of values is sometimes taken advantage by some local assessment personnel who pretend to assist taxpayers in obtaining "lower" assessments for their property for a fee.

At the same time, very few LGUs have imposed the idle land tax (In contrast, the provinces of Cavite and Negros Oriental impose a tax on idle lands). Also, no LGUs have so far imposed a benefit levy that they could, in principle, charge to recover the cost of infrastructure investments directly from beneficiaries. To make matters worse, tax administration is weak in many LGUs. Thus, many LGUs are not able to maximize the revenue potential of the taxes that they do impose. Table 2 vividly illustrates this point. It shows that the collection efficiency of provinces and cities with respect to the RPT has declined somewhat from 58% in the pre-Code period to 55% in the post-Code period. While the collection efficiency of cities with respect to the RPT is consistently higher than that of provinces, a deterioration in the collection efficiency is evident at both levels of local government.

In general, local tax administration is weighed down by: (1) complex tax structure and administration procedures, (2) poor tax registration systems and procedures which result in delinquent payments and accumulation of arrears, (3) infrequent exercise of LGU audit and enforcement authority erodes the credibility of the system and results in low compliance; (4) limited availability of taxpayer services which increase taxpayer compliance costs, and (5) low professional qualification of staff (Taliercio 2003).

Table 2. Collection Rate of Current Year for Basic RPT, 1983-1999

	All LGUs	Provinces	Cities
1989	58.0	55.6	61.0
1991	58.9	54.1	65.1
1994	60.7	54.0	66.3
1997	57.4	50.0	62.0
1999	54.1	52.4	54.9
2000	54.6	44.7	57.1
Average			
1989-1991	58.2	54.4	63.1
1992-2000	55.4	49.0	59.7

The ability of cities and municipalities to administer the taxes that are under their authority is hampered by the tax structure specified under the Local Government Code, as this increases both administrative and compliance costs. For instance, the Code specifies a highly complex structure for the local business tax, one that prescribes a different graduated rate schedule for each of a large number of different types of activities, sectors, and/or transactions.

Also, many LGUs balk at revising their schedule of assessments because of the high costs that is associated with this exercise. The existing rules and regulations governing the conduct of the GRA necessitate the revision of numerous assessment forms and tax records (some of which are redundant). This makes the process “form-and-labor” intensive, and therefore, very expensive such that in some places the cost of administering the RPT is even greater than the revenues that are generated (Celestino et al. 1998). The province of Nueva Vizcaya, however, has shown that the number of forms could be reduced from 7 to 4 without sacrificing the integrity of records management (Box 1). Celestino et al. (1998) also pointed out that there is an increasing pressure for automation because of the existing rule requiring Assessment Offices to maintain all assessment records since the initial assessment of the real property. In this regard, the experience of some LGUs (notably Mandaluyong, Iligan, Marikina, and Caloocan) suggests that an alternative way of lowering the cost of the GRA is by computerizing RPT assessment and collection records (Box 2).

Tax registration systems and procedures in many LGUs are inadequate. Taliercio (2003) attributed this to the lack of regular maintenance/validation of RPT and business registries, lack of computerized registries, and low quality record keeping. One manifestation of this problem is the considerable fluctuation in the number of registered business establishments from year to year. Tax mapping both of business establishments and real properties, done with the help of the GIS (e.g., Cabanatuan and Naga as described in Box 3; Iligan as described in Box 4) or manually (e.g., San Fernando, Pampanga as described in Box 5), was found to have greatly improved local revenue performance in this regard.

Box 1. Reforming the Real Property Tax System: Nueva Vizcaya

The experience of Nueva Vizcaya highlights how seemingly simple yet effective strategies can go a long way in improving RPT performance. Eighty percent of the province is mountainous and many of its barangays are not only poor economically but also difficult to reach. Prior to reform, the cost of administering the RPT is even greater than the revenues it generates. It costs PhP1.39 to collect every PhP1 of revenue. There is a high incidence of tax delinquency and tax resistance especially amongst occupants of Integrated Social Forestry (ISF) and Community-Based Forest Management (CBFM) areas. Moreover, valuation of real property for tax purposes is unduly low.

With assistance from the Governance and Local Democracy (GOLD) Project, the province adopted a number of processes and strategies to address their problems with the RPT. These included:

- Engaging with the stakeholders/beneficiaries of the RPT system (like barangay officials, heads of the Integrated Social Forestry and Community-Based Social Management areas, and members of the Local School Board) to get them involved in tax administration in terms of identification of occupants, assistance in the distribution of assessment notices, assistance in field collection, and raising tax consciousness among students and parents;
- Adopting "door-to-door" service for taxpayers in remote barangays whereby property assessments from the filing of the tax declaration, appraisal and collection is done in the field on the spot by roving assessment teams;
- Delegating to municipal assessors the authority of the provincial assessor to approve/sign transactions;
- Greater coordination between the assessor and the treasurer in the collection of the RPT;
- Redesigning assessment forms and tax records to eliminate redundancies and reduce the cost of general revision of schedule of market values;
- Updating the schedule of fair market values to reflect increase in prices; and
- Computerization of RPT records.

As a result of these interventions,

- The number of forms used was reduced from 7 to 4;
- The structure of office was improved and manpower requirement was cut from 28 to 18;
- Tax delinquency was reduced as occupants/beneficiaries of isf/cbfm programs began paying their rpt dues;
- RPT collection efficiency went up from 42% to 54%; and
- The cost of administering the rpt was cut such that it now only takes PhP0.87 to collect every Php1 of revenue.

Source: Gawad Galing Pook, A Tribute to Innovation and Excellence in Local Governance, 2002

Box 2. Real Property Tax Computerization and Administration Technology: Muntinlupa's Replication Efforts

The thrust of the Muntinlupa City's RPTA is twofold: to harness the power of technology for better service delivery and to provide technical assistance to other local government units who intend to do the same. The city government has already computerized its real property tax base successfully. Assessment tools like tax maps and cadastral surveys have been used to develop a master list of all real properties within the locality. It contains a description and location of each property, the market and taxable value, the amount of taxes that were paid and the list of delinquent payers. Monthly tax reports were generated and collection bills are sent promptly to concerned citizens.

The system which covers both the RPTA operations of the City Assessor's Office and the Property Billing and Collection of the City Treasurer's Office is recommended by the BLGF as a model system worth replicating by other local units. It is not only cheap but it also works.

Transaction time has been reduced dramatically from 30-45 minutes to barely 3-10 minutes, done in a friendly and personalized manner thus, establishing good linkage with taxpayers. A computer is always available with an easy manual to follow for instructions. Likewise, a flyleaf is provided by the Assessor's Office outlining the correct sequence to transactions to complete payments.

As a result, collection for 1999 grew by 15% despite the absence of a revaluation in values or increase in tax rates. The city's RPT base grew from PhP2.6 billion in 1988 to PhP19.5 billion in 2000.

As of 2000, the system has been replicated in 21 municipalities since 1997. To systematize the replication process, the office instituted the following steps: (1) memorandum of agreement is drawn between the two LGUs; (2) Muntinlupa City provides the training and the software is provided for free while the host LGU provides the hardware; and (3) an on-site evaluation is done aside from follow-up visits and consultations provided by Muntinlupa. Installation typically takes up to 6 month.

Source: Innovations and Excellence in Local Governance: Galing Pook Awards 2000

Box 3. Use of GIS in Mapping of Real Property: Naga City and Cabanatuan City

Naga City developed a pilot geographic information system (GIS) at the request of Mayor Roco Suplicio and with the assistance of USAID's GOLD project. The project started out on a pilot basis with surveys of several central city blocks. The pilot data set was used to develop a DOS-based Fox Pro system called the Building Information Database System, in which each building is assigned a unique property index number so that all city information about that building—including whether the building has a permit—can be easily accessed.

Cabanatuan City's GIS system, based on aerial photography maps, doubled the number of registered properties and thus improved revenues significantly. The city has also assigned each building a unique number and undertaken a door to door campaign to register taxpayers under the leadership of Mayor Jay Vergara.

Source: Taliercio 2005.

Box 4. Revenue Enhancement Measures in Iligan City

To cope with the loss of its biggest taxpayer and the general weakening of the industrial tax base, Iligan City installed a number of revenue enhancement measures.

Systematization of tax records. The local government began to systematize its tax records. This objective was greatly aided by the Philippine Regional Municipal Development Project (PRMDP), a project funded by the Asian Development Bank (ADB) and the Australian Assistance for International Development (AusAID). Through the PRMDP, Iligan City government developed the Tax Revenue Assessment and Collection System (TRACS). It is a system which computerizes and integrates the tax records for the local government. Iligan's TRACS was made the pilot system for other cities under the PRMDP.

The orientation for TRACS involved three modules: real property assessment, collection, and business permit modules. Computerized tax registration started in 2001. The TRACS summarizes a taxpayer's records covering real property, business, and permits, including building permits, clearance from the fire department, sanitation compliance, and even community tax certificate (CTC). For instance, a City Hall officer could easily verify from a computer if an individual applying for a business permit have already obtained a CTC (unless the individual got the CTC from a barangay unit which are not yet linked to the system). If not, the person would be asked to get a CTC first before being issued a business permit. The TRACS also consists of assessment calculations and issuance of billing receipts.

Intensification of tax mapping. The city government conducts business mapping in most areas of the city. This aims to identify new businesses that have been put up, know whether there has been a conversion or use of a residential area for business purposes, verify and update (if necessary) the true value of existing businesses, and validate the line of businesses as registered. The Treasurer's Office coordinates with the Planning Office by linking to the geographic information system (GIS) in order to identify new business and commercial areas more easily. One remarkable result of this was the registration of more small establishments. In 2001, the number of sari-sari stores, general merchandise, and dry goods shops was 35, 3 and 2, respectively. In 2002, these numbers went up to 2,490, 239, and 243. The local government, through the Assessor's Office, also updated land classification and valuation of properties. This covers 44 barangays although some barangays would not be surveyed in entirety. The Assessor's Office coordinates with the Department of Environment and Natural Resources (DENR), CREBA, and other agencies for additional information.

Easier ways for tax payments. To motivate tax compliance, the city government set up a "one-stop shop" so the taxpayers would just need to be in one complex to get all the documents they need to pay taxes, and they could make all the necessary payments in the complex. This scheme is also applied to business registration and renewal of permits. Participating units include the departments of the city government like the offices of the Treasurer, Assessor, Engineer, Health, Fire Department, and others. There are also representatives from local branches of national agencies like the Department of Trade and Industry, Bureau of Internal Revenue, DENR, and the Social Security System.

Tax payment advisories or reminders are also intensified before the tax payment period or permit renewal. This is done through advertisements like posters, radio and television ads, a government vehicle touring the barangays making public announcements, and other schemes.

Updating of property assessment. The City Assessor's Office (CAO) recommended new assessment levels of properties based on new land classification and market values. The schedule of market values for properties was revised in 2002. Before this, it had skipped two revision years and had no adjustments since 1997 due mainly to political reasons. The CAO forwarded the recommendations to the Sangguniang Panglunsod (SP) which approved the proposal as is. However, there was strong public opposition to the ordinance because the increase would be too high given that there had been no prior adjustments since 1997. The SP then suspended the implementation of the ordinance. Later in order to compromise, the new assessment was made based on the classification rates of 1997 but adopting the new market values. The recommendation would have been closer to the real property values but nevertheless, with the new scheme, the government managed to get some increases.

Innovative Financing Strategies

R**econstruction of the public market.** The city market was destroyed by fire in year 2000. Two hundred forty (240) stalls had to be rebuilt. The city government tried to source out funding from government financial institutions but interest payments were too high and would have eaten up the city's finances. The government thought that it could work with the stall owners to raise resources for the re-construction.

The city government then entered into an agreement with the stall owners so that they would initially shoulder part of the cost of the reconstruction of their respective stalls. The expenses could not exceed P20,000 for each stall and all the receipts had to be submitted to the Treasurer's Office. This initial investment exempted the stall owners from tax payment and rental for five years. After five years, ownership of the stalls would be transferred to the city government.

Construction of the Integrated Bus-Jeepney Terminal. To maximize revenues from the terminal, a commercial center was also built inside it. Allocation of stalls in the complex was done through a bidding process. Stalls were priced according to their locations, reflecting their expected profitability. The city government gave a minimum price for each stall and the bidding started from there. This process generated prices that were more reflective of the stalls' market values.

Source: Basilio, Lani. 2004.

Box 5. Fiscal Management Reform in San Fernando, Pampanga

The Mount Pinatubo eruption in June 1991, the second largest volcanic eruption of the 20th century, inflicted damage on the City of San Fernando which was a municipality at that time. In 1995, a massive lahar flow due to Typhoon Sybil submerged six of the city's most thickly populated barangays including a portion of the commercial district. The devastation caused the outflow of investments and businesses.

To confront the problems of inadequate delivery of basic services and lack of funds to perform its devolved functions and pay its long overdue debts, the city government ventured on a strategy that would sustain the fiscal requirements of various programs which gave birth to the program "Breaking Financial Barriers". Its main thrust was to generate more financial resources for the local government by adopting two approaches: saving on expenditures and improving tax collection.

Reducing Expenditures:

1. To minimize administrative overhead expenses, the city started with personal services by terminating the services of more than 200 casuals whose services were not needed by the bureaucracy. (This resulted in a PhP700,000 savings per month or PhP8.4 million a year.)
2. Austerity measures were imposed in the use of utilities and office supplies.
3. Budgets were prepared by the departments which must be followed strictly and strong justifications were demanded for any change to prevent arbitrariness, inefficiency, and sloppy budgeting.
4. These internal housekeeping efforts sent a strong signal to the community that the city was serious, sincere, and committed in its desire to reinvent itself. Thus, people responded positively to the city's campaign to increase collection.

Creation of Special Project Operations Unit :

1. A special unit under the Office of the Engineer was established to implement the infrastructure projects of the city. The Special Project Operations Unit is headed by an engineer with some technical staff and drivers and operators of heavy equipment. In the construction of roads, for instance, laborers from the area where the road was being constructed were employed.
2. The implementation of the infrastructure projects by the Unit had resulted in a 30% savings in the construction cost compared with the cost estimates of DPWH.

Improving Tax Collection:

1. Creation of a Tax Enforcement Unit (TEU) instead of relying solely on the Office of the Treasurer.

- The unit was composed of staff from selected departments.
- Surveys were done to come up with a list and basic information on the establishments operating in the city. Tax mapping was done by all the barangays with the help of the residents. The master list served as a reference in determining those who paid and who did not pay taxes and if they paid the right amount. Business that paid their taxes were given a number a strip containing the year when the business firm paid its taxes. The plate was prominently displayed by the firm in their office for easy monitoring.
- A report was made by the TEU to the Treasurer of all those firms operating without business permits and those who had not paid their taxes. The Treasurer then issued a demand letter to delinquent taxpayers requesting them to pay their obligations within ten days from the receipt of the letter. The PNP Investigator then filed a criminal complaint in city trial court against the taxpayers with delinquent accounts.

2. Conducting information campaigns: Pay your taxes, fees and charges for better public service.

- The city government made a promise to its citizens that the increase in resources would be used to undertake flood prevention measures, develop the infrastructure of the city which had been destroyed by Mt. Pinatubo's lahar flow, construct school buildings and day care centers, and develop its human resource pool to supply the skills needed by industries, among others.
- A regular dialogue with the accountants of major business firms was set every month of December to inform them that in preparing the declaration of gross income of their respective companies, the reported amount must be as close as possible to their actual gross earnings. This also served as a good forum for the discussion of problems and concerns affecting the business sector as well as the discussion of recommendations on improving the business climate in the city.
- Arrangements with banks were also made so that income from loans which were generated in San Fernando was declared in the city and not in the loaning center which was located in another locality.

- For payment of annual community tax, coordination was made with the personnel officer of the big firms in the city. Hence, actual income received by each employee served as the basis for the computation of community tax.

3. Improving Systems and Procedures and Establishing a One-Stop-Shop
- A one-stop-shop was set up in the Treasurer's Office where all the offices of the city which collect taxes, fees or charges are represented so that taxpayer need not go from office to office.
- The city government embarked on a computerization program to come up with an integrated system on accounting and finance; the civil registry system; the payroll and personnel system; real property taxes; and business licenses.

4. Communicating with the citizenry
- The city published a quarterly and yearly accomplishment and financial report summarizing the income and expenditures and the list of the projects implemented, the cost of each project, the status of implementation and the implementing agency for each project.

5. Recognizing the Taxpayers
- There was creation of recognition rites for the "Top 50 Biggest Business Taxpayers" and the "Top 50 Biggest Real Property Taxpayers" where each awardee received a plaque from the mayor.

Sources:
Guiza, Edel. "Transforming a Ravaged City into a Model in Local Revenue Generation: The Case of San Fernando, Pampanga, Philippines." Center for Development Management, Asian Institute of Management, July 2002.

Legaspi, Perla. "The Changing Role of the Local Governments Under a Decentralized State: Some Cases in the Philippine Local Governance." National College of Public Administration and Governance, University of the Philippines, 2001.

Despite large numbers of delinquent taxpayers (particularly with respect to the RPT), not many LGUs actually implement the appropriate civil and administrative remedies that are available (e.g., warrant of levy or auction of delinquent property). In like manner, many LGUs do not actually impose the sanctions found in their revenue codes (typically, closure of firms) that are applicable to firms which are delinquent in paying the local business tax and licenses. For instance, Taliercio (2003) reported how an ocular inspection of several individual tax accounts in one LGU revealed that some firms, including a large multinational company and a large national bank, operated without licenses due to delinquencies. In contrast, some LGUs (like Quezon City as described in Box 6) initially threatened and later actually conducted auctions of delinquent real properties as part of their enforcement menu and achieved positive results.

Box 6. Improving Tax Administration in Quezon City

Quezon City, the largest city in Metro Manila in land area and population, was faced with a serious budget deficit in 2001. The incoming city administration of Mayor Feliciano Belmonte, Jr., who assumed office in July 2001, inherited outstanding obligations of PhP1.4 billion and bank debts of PhP1.2 billion. The city decided to take the bull by the horns and improve its revenue collections.

The mayor's first step was to convene a search committee, headed by the UP Dean of the College of Public Administration, to recommend candidates for City Treasurer. The mayor settled on Dr. Victor Endriga, who quickly implemented a set of reforms over the next 18 months that would reverse the city's fiscal course. Treasurer Endriga adopted a "carrot and stick approach."

The "sticks" included:

1. Property auctions for delinquent RPT taxpayers (three auctions were conducted in 2002 and four were planned for 2003; these were the first post-Code auctions in Quezon City), in spite of the fact that the city had been sued by delinquent taxpayers (the treasurer unfazed by the suits which he considered part of the game";
2. Delinquency letters sent out by staff (each staff member was required to send out at least 20/day, whereas very few had been sent before) to address the estimated PhP10.7 billion owed the city;
3. The use of presumptive minimum gross sales/receipts levels for the business tax and for markets;
4. A requirement that all business establishments with gross receipts over PhP500,000 submit their previous year's financial statement and monthly payments of VAT and non-VAT information from the BIR;
5. A requirement that all real estate transfer tax payments must be accompanied by confirmation of payment of other taxes, including the business tax and mayor's permit fees; and
6. Direct withholding (from 12% to 75% of gross collections) of taxes due to the city from the city's contractors.

On the other hand, the "carrots" included:

1. An increase in the discount on early payment of the RPT from 10% to 20% for annual payers and from 5% to 10% for quarterly payers;
2. Improved taxpayer facilities, including modern air-conditioned lounges with automatic queuing systems, free coffee and tea, free local telephone calls and television; and
3. Plaques from the mayor presented in a public ceremony to the ten most "outstanding" taxpayers.

In addition, the city: (a) computerized its RPT and business tax registries and collection processes, while hiring an outside firm to input all paper records into the system; (b) raised tax rates; (c) reassigned employees within the treasurer's office to avoid familiarization; (d) instituted new official receipts with security features that show up under black light; (e) rewards (e.g., trip overseas) and punishments for revenue examiners based on actual collections; and (f) house to house visits for delinquent taxpayers.

The reform paid off: total own-source revenue (OSR) rose from PhP2.3 billion in 2001 to PhP3.9 billion in 2002. The city closed the year 2002 with a surplus of PhP0.5 billion.

Source: Endriga (2003) as cited in Taliercio (2005)

On the other hand, it is not uncommon among LGUs to merely require firms or business establishments for a sworn statement from the manager or owner as to their gross receipts. More often than not, there is no attempt to cross-check this with relevant information that may be available in other government agencies like the BIR. This practice has been known to result in grave under-declaration of income and/or taxpayer harassment. This "common practice" stands in sharp contrast with one of the reforms instituted in Quezon City whereby the City Treasurer required all business establishments with gross receipts over PhP500,000 to submit their previous year's financial statement and monthly payments of VAT and non-VAT information from the BIR. For smaller firms, Quezon City made use of presumptive income levels (Box 6). In like manner, use of third party information has helped San Fernando, Pampanga improve its collection of the community tax (Box 5).

Also, information on rules and procedures governing tax matters (i.e., when, where, how much taxes to pay) is not easily accessible to taxpayers in many LGUs. Thus, Taliercio (2003) observed that taxpayer services are virtually non-existent in many LGUs. However, there appears to be a trend in an increasing number of cities to install a "one-stop shop" complete with simplified and well-documented flow chart of steps involved in securing the local business permit and paying all local taxes (e.g., Mandaue, Lapu-Lapu). On the other hand, other LGUs have established comfortable taxpayer lounges and provided taxpayers with various amenities (like free coffee/tea, television) in an attempt to make the actual act of paying taxes at city hall more pleasant and, thus, encourage taxpayer compliance (e.g., Quezon City as described in Box 6).

Lastly, very few LGUs have certified public accountants in their rolls, thereby impairing their audit capability. This point is particularly relevant to provinces with respect to the problems they encounter when they try to collect the franchise tax or to determine the "situs" of the local business tax. In this regard, San Fernando, Pampanga made arrangements with banks operating in the LGU so that income from loans which were generated in the city are booked at the local branch (Box 5).

Management of LGU Economic Enterprises

The management of LGU economic enterprises in many cities and municipalities is weak. Thus, most of these economic enterprises lose money and become cost centers rather than revenue centers. In the aggregate, total receipts of LGU economic enterprises amounted to PhP5.9 billion while their expenditures reached PhP7.0 billion in 2002, resulting in a PhP1.1 billion deficit.

Current accounting practice does not provide a clear appreciation of the true cost of the local economic enterprise. For instance, market management costs are sometimes charged to the office of the mayor, collection costs budgeted under the Treasurer's Office, and loan repayment treated as another special account (Pardo, LGSP presentation Oct. 12, 2004). Also, economic enterprise is oftentimes used as the vehicle for charging casual employees who are utilized elsewhere in the LGU system so as to circumvent the 45%-55% limitations on PS expenditures of LGUs. Consequently, the incentives for cost recovery are poor.

Key to addressing this problem is the accurate determination of cost of operations, proper price and rate setting using principles of cost recovery, drafting of ordinance to increase fees and charges, elimination of leakages, rationalization of operating cost, good records management to improve collection of fees, and, perhaps most important, retention of income. Olongapo City successfully turned its solid waste management program into a sustainable public enterprise by charging garbage fees (Box 7). To facilitate collection of the garbage fees, it integrated said fees in the electricity bill (it is able to do this since it also operates the power firm). In contrast, Iligan City (Box 4) raised more revenues from the operation of its bus terminal complex than it would have done otherwise by auctioning off the stall rights there.

Box 7. Charging User Fees: Olongapo's Solid Waste Management Program

The Olongapo's Solid Waste Management Program was garbage collection and disposal program designed to make residents responsible in their handling of solid wastes. In 1989, the integrated garbage collection program was formally launched after a massive IEC campaign.

A central feature of the program was the collection of garbage fees. Initially, many residents objected to the garbage fees. Despite this, however, the city government proceeded with the program. Over time, as the residents saw how efficient the collection was and how clean the city had become, their opposition softened.

Features of the program
Residents are compelled to put their garbage in plastic bags. The bags make the collection neater and faster. No garbage is collected unless it is placed in the prescribed garbage bags.
The collection schedule is strictly followed. Garbage collection is done twice weekly in residential areas and daily in commercial zones and markets.

The city charges service fees ranging from PhP10 to PhP20 per month for households and from PhP30 to PhP300 per month for business establishments. To make billing and collection easier, garbage fees are incorporated in the electricity bill.

Sanitary inspectors from the City Health Office regularly inspect their assigned areas. Citation tickets are issued to residents and owners of business establishments whose premises are found to be violating sanitation ordinances.

Financing the program
The program operated on a budget of PhP4 million a year. It generated an income of PhP6 million annually from garbage fees, thus ensuring the sustainability of the program.

Source: Kaban ng Galing, Promoting Excellence in Urban Governance, 2001

Charging for LGU-provided services

Charging of fees for some of the services they provide can also be tapped by LGUs for sustainable delivery of services. This can be done even for some services that many LGUs have always deemed should be provided free of charge. For instance, a number of provinces (e.g., La Union Medical Center) have started to rationalize their hospital fees (Box 8). Some municipalities have also explored charging for some of the services provided in their rural health units (RHUs). In the case of Malalag, Davao del Sur, the municipality introduced a graduated socialized payment scheme for health services based on the annual family income of patients (Box 9). Recognizing that its tax base is limited and, therefore, not sufficient to sustain the provision of free health services, the municipality initiated the program by authorizing the collection of fees in its revenue code. The experience of Malalag also highlights the importance of a good public information campaign to break down initial resistance from the local community and make the program a success.

Box 8. La Union: Health Programs and Services,

Medical and health services are so expensive that many Filipinos cannot afford to get sick. But in La Union, poor residents can worry less about getting sick because there is a hospital that wouldn't turn them away—the La Union Medical Center.

However, the hospital has a system to discourage the doleout mentality and enable indigent patients to pay in kind. Patients are categorized from Class A to D. Class A and B patients pay their bills. Class C patients get discounts of 25-75%. Class D patients get charity and pay in kind. The amount not paid is considered "quantified free service." Since 2002, the quantified free service had amounted to P36 million.

From April 2002 to December 2003, the hospital rendered services to 77,308 patients (including those from Pangasinan and Benguet), 66% of whom were charity patients, 26% Philhealth-covered patients, and 8% private pay patients. As of September 2004, it had served 122,100 patients, consisting of 98,268 out-patient consultations and 23,832 hospital admissions.

A paradigm shift in the hospital's services came after a P650-million donation from the European Union. The hospital was transformed in April 2002 into a world class 100-bed medical center with 16 air-conditioned rooms and several state-of-the-art machines, including a CT Scan unit worth P14 million, a hemodialysis unit worth P5 million, and a reagent/solution machine worth P3 million. These equipment are operated in joint venture with the private sector.

To operate, manage, and sustain the hospital as a medical center, the provincial government turned it into an "Economic Enterprise for Sustainability and Development" through Executive Order No. 4 series of 2002. It formulated a private-public mix type of cost recovery and revenue enhancement program involving joint ventures with the private sector, which invested on the CT scan and home dialysis units.

The investors pay for the rent, electricity, and employees. Of the gross revenue, 15% goes to the hospital. The income is placed in a trust fund to subsidize indigent patients who use the machines.

The Department of Health-Region I also granted P1.5 million to the trust fund for a retail pharmacy. Of the net income, 60% goes to the charity fund, 20% to capital build-up, and 20% to miscellaneous expenses. In 29 months of operation, the pharmacy earned a net income of P2.17 million.

The medical center implements an Integrated Hospital Operation-Management Information System (HOMIS). Through a network of 33 computers, the system links the cost resource areas, the billing and cash sections, for easy access to the hospital's cash flow.

The hospital increased its employees from 139 to 238, including part-time or contractual specialists in the fields of neurosurgery, thoracic surgery, orthopedic surgery, urology, gastroenterology, ophthalmology, radiology, ENT, internal medicine, cardiology, diabetology, nephrology, and anesthesiology.

The hospital's growing economic viability reduced its dependence on subsidy from the provincial government. Its actual cash collection from April 2002 to September 2004 representing regular hospital services was P64.66 million. There were also accounts receivable from Philhealth amounting to P5.5 million.

The medical center's sustainability was ensured by the continuing partnership with stakeholders and the signing of Republic Act No. 9259 by President Macapagal-Arroyo, transforming it into a non-stock, non-profit local government owned and controlled corporation.

Source: Galing-pook website: http://www.galingpook.org

Box 9. Socialized Health Payment Scheme for Health Services in Malalag, Davao del Sur

Malalag is a fifth-class municipality in Davao del Sur of some 40,000 people. Faced with the difficulties in funding devolved health services, it introduced a socialized payment scheme for services in 1993.

Graduated service fees for health services were determined based on households' annual income:

1. Those with family income below PhP15,000 could avail themselves of free medical services
2. Those with family income of PhP15,000 were made to pay 25% of a fixed service charge;
3. Those with family income between PhP15,000 and PhP50,000 were charged 50% of the actual service charge; and
4. Those with family income above PhP50,000 paid the full service charge.

The payment scheme was approved by the Sanggunian Bayan and included in the Malalag Revenue Code which was enacted in December 1993. Initially there was strong opposition to the scheme. In fact, opponents of the administration exploited the issue and defeated the Sanggunian members in the ensuing elections. However, the opposition was not able to remove the measure as the Malalag Revenue Code was protected from any amendments until 1998.

Over time, the public came to accept that fact that health services were no longer free. A massive information campaign at the purok level with the Barangay Health Workers (BHWs) broke the resistance to the payment scheme and facilitated its acceptance.

With the scheme, the LGU was able to provide services which had been unavailable to the citizens before. Moreover, the quality of medical care improved as the local community (in their role as customers rather than beneficiaries) did not tolerate poor service or shabby treatment from public health personnel.

Source: Kaban ng Galing: Transforming the Local Economy, 2001

The Makati Health Program (MHP), popularly known as the "Yellow Card", is another good example of harnessing additional resources for the health sector from the beneficiaries themselves (Box 10). Though the bulk of the cost of the program is supported by the city government and Makati Medical Center, the patients share in its cost. A classification system based on the MHP beneficiaries' gross family income is used to determine each member's category for the "maximum service fee" they are required to give for whatever health or medical services they availed of. The payment scheme has changed the people's perception of themselves from mere beneficiaries to program partner. Because they are required to pay service fees, beneficiaries become aware of their obligations and the importance of sharing in the program's sustainability.

Box 10. Makati City's Yellow Card: Another Example of Socialized Health Care

The unique feature of the Makati Health Program, popularly known as "Yellow Card", is the involvement of the private sector, NGOs and the beneficiaries in its successful implementation. Though the cost of the program is supported by both the city government and the Makati Medical Center, the beneficiaries are still required to pay service fees based on their gross monthly household income. The income bracket determines the maximum service fee each cardholder is required to give for the health and medical services availed of.

For MHP 1 (Monthly household income less than PhP2,000) cardholders, the maximum service fee they are required to pay is:

- PhP1,000 for medical
- PhP800 for obstetrics
- PhP1,200 for surgery

For MHP II (Monthly household income between PhP2,000 to PhP2,999) cardholders, the maximum service fee they are required to pay is:

- PhP1,100 for medical
- PhP00 for obstetrics
- PhP1,200 for surgery

For MHP III (Monthly household income is between P3,000 to P10,999) cardholders, the maximum service fee they are required to pay is:

- P1,200 for medical
- P 1,000 for obstetrics
- P 1,600 for surgery

In 2002, there were 47,093 MHP patients treated at the Makati Medical Center, of whom 3,918 were in patients while 43,175 were out-patients. The total cost incurred amounted to P241.52 million, with the city government paying PhP120 million (49.7% of the total cost), the Makati Medical shouldering the other 42%, and the patients paying the remaining 8.22% or P19.85 million. Makati's integrated and holistic approach to socialized health care earned it the distinction of being the First Health City Model in the country in 1995. This program also changed the people's perception from a mere beneficiary to program partners. Being required to pay services fees, the beneficiaries became aware of their obligations and the importance of sharing in the program's sustainability.

Source: "Quality Health Care: The Makati City Experience", presented during the Regional Seminar and Learning Event on Local Governance and Pro-Poor Service Delivery, 10-12 February,, 2004, ADB Headquarters, Manila.

ACCESS TO NON-TRADITIONAL SOURCES OF LGU REVENUE: RESOURCE MOBILIZATION

LGU Access to Credit and Capital Markets

The passage of the Local Government Code allowed LGUs greater flexibility in tapping various sources of credit financing which could include bank credit, bonds, and private sector participation (PSPs). Moreover, the LGU Financing Framework developed by the Department of Finance in 1996 envisioned the greater participation of the private capital market in local government financing. This framework promotes the establishment of a "graduation program" that will induce creditworthy LGUs to shift from Government Finance Institutions (GFIs) to the private capital market.

Even while it provides supplementary financial resources to the LGUs, access to credit and capital at commercial rates will also teach them market discipline and boost their efforts at improving their tax collection efficiency, recovering costs from local services, and improving their financial management systems.

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However, there are outstanding issues that hamper the development of the LGU bond market. These include political succession risks, the lack of technical knowledge about bond flotation on the part of LGUs, the lack of private financial sector confidence in LGUs, regulatory constraints (like restrictions on depository accounts, bidding of specialized professional services), and administrative constraints (like the absence of clear accounting and recording systems for bond proceeds and disbursements for projects funded by bonds and the need for unified LGU financial reporting system) [Pardo, Presentation in LGSP Policy Forum, October 12, 2004]. Though LGU access to private capital remains limited, some gains have been achieved in terms of LGU access to the bond market. The creation of the LGU Guarantee The creation of the LGU Guarantee Corporation (LGUGC) effectively provided some impetus to the LGU bond market. Six LGUs have successfully issued bonds worth P1.4 billion with the help of the LGUGC.

Private Sector Participation Modalities

LGUs could benefit from (1) access to more sophisticated private technology; (2) cost-effective design, construction and/or operation of projects; (3) guaranteed cost; (4) flexible financing, including use of private capital; and (5) delegation of responsibility and risk through various modalities of private sector participation (PSPs) (Pardo, Presentation in LGSP Policy Forum, October 12, 2004). A PSP is a contractual agreement entered into by an LGU with a private sector entity authorizing the latter to finance, construct, operate, and maintain a facility in exchange for giving the private sector entity the authority to charge user fees or receive compensation from government.

However, LGU access to PSP modalities is encumbered by the following factors: lack of capacity of the LGU to prepare project feasibility studies and to negotiate contract terms (i.e., fees/tariffs, performance standards, and appropriate risk sharing arrangements) prompting them to rely on unsolicited proposals which typically result in terms that are not beneficial to them; LGUs lack of creditworthiness, primarily due to poor public sector governance structures and limited financing sources; the absence of long-term funds to shortcomings in capital market; and

LGUs relying on unsolicited proposals which typically do not result in keen competitions, thus, resulting in litigation (Pardo, Presentation in LGSP Policy Forum, October 12, 2004). Nonetheless, as of March 2002, a total of 9 LGU BOT projects have been documented (ADB/WB 2005).

Moreover, a number of LGUs provide examples of "good practice" in the use of PSPs. Mandaluyong, having no money to rebuild its public market, pioneered in using the Build, Operate and Transfer scheme with a business consortium (Box 11). Iligan City likewise utilized the BOT model in the construction of its public market. However, instead of working with an organized business group, Iligan City entered into an agreement with the stall owners so that they would initially shoulder part of the cost of the re-construction of their respective stalls (Box 4).

The experience of Esperanza, Sultan Kudarat shows how a medium-sized municipality can benefit from the use of a management contracting arrangement in the operation of its public market (Box 12). On the other hand, while the privatization of the water and the power utilities of Bohol province was met with serious popular resistance, it does provide a good study on evaluating the various financing options available to the province for the large investment needed to rehabilitate its water and power supply systems and the specific steps that have to be taken prior to privatization (Box 13).

Box. 11. Mandaluyong City: Building a Public Market through a BOT Program

The public market was an important source of revenues for Mandaluyong. It was not only a place of trading but was also a communication and recreation center. Hence, when the market burned down in 1990, Mandaluyong was in a hurry to build it.

The Build, Operate and Transfer Law had just been passed that time, and thus,had not been tried before anywhere in the country. Having no money to finance the rebuilding of the market but with the option to BOT, the mayor and his team drew up a plan for a brand-new market with modern commercial complex.

Seeing from the feasibility studies that the plan would succeed, the mayor spoke with the private sector to get the resources needed to finance the plan. Thus, after six months, bids were already being made on the project. A business consortium, which was organized purposely for the project, won the bidding.

Two Novel Concepts Utilized:
The partnership was worked out under the BOT scheme which utilized two components.

Under the Build-Transfer Concept (BT):

1. The developer built the public market and transferred it immediately to the city government.
2. The city government constructed half of the number of stalls that could be built inside the market with the remaining half was constructed by the stallholders themselves.
3. The city government collected stall fees and deposited them in the bank.
4. The developer took care of the maintenance and security.

Under the Develop-Operate-Transfer Concept (DOT):

1. The developer was allowed to construct a six-storey commercial complex over a portion of the land in exchange for putting up the public market for the city government.

2. The developer manages the commercial complex to be turned over to the city government after 40 years.
3. Rent-free use of the land for the developer.
4. The city government does not collect dues from the developer for the operation of the commercial complex.

Source: Kaban ng Galing: Transforming the Local Economy, 2001

Box 12. Esperanza, Sultan Kudarat: LGU-Civil Society Partnership for Improved Public Terminal Management

The public transport terminal project in Esperanza, Sultan Kudarat shows how a municipal government can turn over the management of a public economic enterprise to a civil society organization (CSO) and reap the benefits of such a venture, in terms of improved management and profit.

Esperanza's Public Terminal1 had been managed by a private contractor for years without turning a profit while being a constant source of headache for the LGU. In an attempt to solve the problem, Esperanza's local government decided in 2002 to re-bid the terminal's management and invite CSOs to participate. The Esperanza Market Vendors Multi-Purpose Cooperative (EMVMPC) won the contract in December 2003. Since then, the local government of Esperanza has been receiving a net income of P685.95 per day or more than PhP20,000 a month from EMVMPC's terminal operations, without having to field any LGU employees, or being involved in the day-to-day operations and maintenance of the terminal.

In addition, EMVMPC has also reaped the benefits of its decision to forge a partnership with the LGU and take on the responsibility of managing the terminal. It has posted significant additional income from the enterprise, and built up its organizational capacities for public enterprise management. Membership in the cooperative has grown, with more investors joining the group and establishing small businesses such asfood and cafeteria stands around the terminal.

At the same time, commuters and other terminal clients are enjoying the services and facilities of a better-managed public terminal. The terminal is clean and traffic has eased due to new regulations and transport drivers being more willing to follow traffic rules, thanks to improved relations with the EMVMPC management.

Source: LGSP website: http://www.lgsp.org.ph

Box 13. Improving Water and Electric Services Through Privatization: Bohol's Case

The Provincial Water System (PWS), which services 90% of Tagbilaran City and Dauis Municipality, is operated, administered and maintained by the provincial government of Bohol. On the other hand, the Provincial Electric System (PES), whose franchise had been obtained by the province from the National Electrification Commission in 1997, services the entire city of Tagbilaran.

In 1998, the PWS and the PES were beset by a number of common problems: (a) slow response to requests for repairs and other emergencies, (b) bureaucratic procurement processes causing poor and delayed services, (c) systems losses that exceeded industry standards, (d) old and outdated equipment, and (e) no source of funds for rehabilitation and future improvement. A study on the rehabilitation of the PWS and PES showed that the province needed P212 million (in 1998 prices) to rehabilitate PES facilities and P967 million (in 1998 prices) to set up two water treatment plants, lay main and transmission lines, and establish several reservoirs for the PWS. Since the provincial government had no capacity to borrow such a big amount, much less provide it, the provincial government decided to explore its privatization.

A Technical Working Group, composed of technical staff from the Governor's office, and PPDO, GOLD consultants, and several other hired technical staff, looked into the different options in obtaining resources needed for the water and electricity sector rehabilitation. These included (1) outright sale; (2) bond issue; (3) transfer to cooperative; (4) the water district/the Metro Cebu Water District (MCWD) model; (5) Rehabilitate-Operate-Transfer (ROT) arrangement; (6) stand-alone entity (debt financing); (7) pure joint venture (JV); and (8) joint venture on Rehabilitate-Own-Operate-Maintain (ROOM) agreement. After assessing the different options using certain criteria, the provincial government went for ROOM since this met the objectives of Bohol's privatization strategy.

Strategies in the process of privatization:

Preparation: This was the strategic planning done by the provincial government which included the appraisals on the assets of PWS and PES (P75.839 and P59.39 million, respectively).

Tendering: The provincial government, with the assistance of consultants, prepared the tender documents in December 1999. Two corporations bought and submitted tender documents for the power utility only, two corporations for the water utility only, and three for both utilities.

Selection and Negotiation: The Provincial Bids and Awards Committee (PBAC) inventoried the bids and evaluated the technical (technical organization, rehabilitation program, capex program, system loss reduction program, targets/milestones, and timetables) and financial (bid amount, funding proposals and tariff proposals) proposals of all bidders. It also considered the following criteria: overall organization, commitment, presence in RP, employees benefits, employees retirement plan and employees stock option plan. The joint venture agreement was granted with SALCON.

Problems Encountered:

The privatization of the PWS and the PES was beset by a number of hindrances, including the absence of legal framework for the joint venture agreements and the lack of legal and technical expertise of the provincial government in the conduct of the project using Joint Venture or BOT schemes. Also, popular resistance to the scheme was so strong that several petitioners filed a Petition for a Class Action for Prohibition with a Prayer for the Preliminary injunction and a request for the issuance of Temporary Restraining Order (TROs) on July 19, 2000.

To address these problems:

1. The provincial government consulted the National Committee on Privatization (COP) and the National Coordinating Council for Private Sector Participation (CCPSP) to clarify the legal basis for JV agreements. It was determined that the privatization transactions of LGUs do not require the approval of the COP or the Office of the President.
2. Financial consultants, through Governance for Local Democracy (GOLD) project, assisted the technical working group in the preparation of a financial feasibility study of the utilities under a JV system as compared to the stand-alone arrangement.
3. To ensure social acceptability, the provincial government held initial consultations and presentations with the Provincial Development Council (PDC), the Provincial Board, and NGOs. Issues concerning the necessity of the privatization, the joint venture scheme, the transparency of the bidding process, and the responsibility of the provincial government to provide basic services were raised. The Bohol Social Marketing Team (BoholSMART) strategize the information campaign on privatization which included conduct of barangay assemblies in all the barangays in Tagbilaran City.

Source: Kaban Galing: Transforming the Local Economy, 2001.

On the other hand, the story of Sebaste, Antique as it transformed a rural health center into a community clinic (Box 14) provides a good example of how to raise resources for health from various sectors. The sources of finance included the Countryside Development Fund (CDF); the Barangay Councils giving 10% of their Development Fund for the clinic; the private sector through concerned associations raising funds for purchase of medicines, supplies and medical equipment; and entering into a joint venture with the private sector for laboratory and dental services. In addition, the municipality, through a Sanggunian Resolution, created a trust fund for the community clinic to ensure that the resources raised were used exclusively for the community clinic.

Box 14. Transforming a Rural Health Center into a Community Clinic – Harnessing Multi-Stakeholder Partnership: Sebaste, Antique

Sebaste is a sixth-class municipality in Antique. It is one of the more isolated and impoverished towns in the province. Before the community clinic was built, the nearest government facilities were four kilometers away in the town of Pandan but residents preferred to bring their sick to a secondary hospital 20 km. away because of better facilities in the latter. When health emergencies happened, residents had to spend P500-P1000 for transportation alone.

Social Marketing

The mayor with the support of the MHO decided to convert the RHU into a five-bed community clinic, to purchase a municipal ambulance, and hire additional staff. Other local government officials were initially skeptical of the plan because of obvious financial constraints (the LGU's IRA at the time was less than P1 million per year while its total own-source revenue was just P0.8 million per year).

Mobilizing Resources

However, after presenting her case to the barangay councils, the mayor convinced them to appropriate 10% of their Local Development Fund to the proposed clinic. Later, she also convinced the Municipal Sanggunian to allocate part of the LDF for the same purpose. She also raised funds from Sebaste natives who were already based abroad. Sebaste migrants in Austria helped raised funds for the purchase of medicines, supplies and medical equipment, including an ambulance, for the clinic.

The municipal government then entered into a joint venture with a private business firm to set up a pharmacy and laboratory in the community clinic. This firm also brought in its own staff to operate these facilities. The LGU received 10% of its income and exercised regulatory functions over its pricing. Likewise, the LGU also entered into a partnership with a local dentist who put up the equipment and provided the services himself while the LGU provided the building space which was funded by the Congressman's CDF.

Sustaining the Community Clinic

To sustain the operations of the clinic, the Sanggunian passed a resolution in 1995 placing all income of and donations for the clinic in a trust fund. The initial target for the fund was P3 million. Under the conditions set by the resolution, only the interest of the fund would be used for the operations of the clinic. As of January 1998, the trust fund had P1.1 million. Nearly half of this amount came from clinic operations. Thirty-two percent came from the pharmacy and laboratory and 20% came from donations.

From 1994 to 1998, the LGU allocated P3.1 million to the clinic. In 1998, there was an indication that the clinic was relying more on its internally generated funds for its operations. To address the inability of some of the patients to pay, the municipality explored the possibility of tapping the PHIC's Indigent Program.

Results/Impact

As of 1997, there were two physicians, four nurses, and three nursing attendants serving in the clinic compared to one physician, one nurse, and six midwives prior to the clinic's establishment. The clinic now provides not only primary health care services but also minor surgery, dental care, and laboratory services. Moreover, these services are available around the clock rather than from 9 am to 6 pm as it used to be.

Source: Kaban ng Galing, 2001

Prospectively, the Philhealth is emerging to be a source of an important source of funding for health and family planning services, particularly, through the capitation mechanism that LGUs should learn to tap. One of the good practices that other LGUs can emulate is the experience of the municipality of Bindoy, Negros Oriental in this regard (Box 15). In addition to enrolling indigents in the Indigent Program, it worked to have its RHU accredited by PhilHealth. The capitation fund received from PhilHealth served as added income and was used to buy medicines and other supplies for local services. The importance of the Sanggunian resolution creating the PhilHealth capitation fund is also worth highlighting.

Box 15. PhilHealth Capitation Fund as an Additional Source of Revenue: Bindoy, Negros Oriental

In addition to securing health insurance for indigents, the local chief executive of Bindoy, Negros Oriental decided to acquire PhilHealth accreditation for its rural health unit upon recognizing that the capitation fund could be an additional source of funds for the municipality. To meet the standards of PhilHealth for accreditation, Bindoy allocated P300,000 for the upgrading of the RHU's laboratory equipment and services. In November 2001, the LGU signed a MOA with PhilHealth. In January 2002, the Sangguniang Bayan passed resolutions committing a premium subsidy amounting to P100,000 and creating the PhilHealth capitation fund.

Since the payment of premiums under the local health insurance in the municipality is shared by the municipal government, province, barangays and households, the municipality got higher proceeds from the capitation fund. As of April 2003, it received PhilHealth capitation funds amounting to P482,003 for its first batch of enrolled families. A big part of this amount (almost 83%), was used to purchase medicines, medical supplies and other supplies.

Source: "Initiating a Social Health Insurance Program in the Municipality of Bindoy", Best Practices No. 3, Series of 2003, Management Science for Health

EXPENDITURE MANAGEMENT

Good public expenditure management is concerned with the pursuit of three key objectives: (1) fiscal discipline; (2) strategic allocation of resources; and (3) good operational management (Schiavo-Campo and Tommasi 1999). Fiscal discipline refers to expenditure control at the aggregate level and requires good revenue forecasts at the very least. Strategic allocation of resources refers to resource allocation that is consistent with policy priorities. And, good operational management calls for economy (acquiring quality inputs at the lowest cost), efficiency (minimizing cost per unit of output) and effectiveness (achieving the outcome for which the output is intended). As such, good public expenditure management calls for the existence of a strong link between planning and budgeting and for a perspective beyond the immediate future.

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Personal services account for a disproportionate share of LGU budgets, thereby cutting funding support for MOOE and capital outlays. At the same time, local planning and budgeting is bedeviled by a poor incentive structure that is driven by (1) the short political tenure of local elected officials; (2) the lack of clear mandate supporting the linkage between the PDP, the AIP, and the local budget; and (3) the mismatch between revenue means and expenditure needs of LGUs, especially provinces.

Rationalizing Expenditures on Personal Services

On the one hand, high spending on personnel services is attributed to the transfer to LGUs of 60% of the total pre-devolution personnel in key NGAs and the growing size of LGU employment as a result of many plantilla positions and hiring of numerous casual staff. In some cases, the devolution of personnel has given rise to excess staff for the same position. In many LGUs, casuals outnumber permanent employees, accounting anywhere from a third to almost half of the total workforce. In the Metro Manila, only seven LGUs employ more regular workers than casuals. (ADB/WB 2005)

In contrast, a number of LGUs have been successful in keeping their personal services expenditures in check. The personal leadership of the Local Chief Executive (LCE) is shown to be fundamental in implementing a coherent strategy to reduce spending on personal services (either by retrenching casual employees or by leaving some permanent positions unfilled). In the case of San Fernando, Pampanga, the termination of more than 200 casual employees was initiated under the flagship program of the mayor, "Breaking Financial Barriers" (Box 6). This has saved the LGU some P8.4 million in wages annually. In Cabanatuan City, on the other hand, the mayor initiated the step-by-step but rapid reform process in administrative simplification and reorganization (Box 16) where plantilla and personnel were reduced from 1,500 to about 700.

Box 16: Administrative Streamlining in Cabanatuan City

Cabanatuan City (Nueva Ecija Province) demonstrates the significance of the political economy of administrative streamlining: how technical success with an administrative reorganization and wage bill control program can be transformed into a springboard for more ambitious initiatives to strengthen the resource base and public service delivery – and political support for further institutional reforms.

In 1998, the new mayor inherited a bloated city administration (1,500 employees) with few resources to finance public services, severe security concerns due to political conflict, and the looming specter of economic recession. Realizing that administrative streamlining and consolidation were keys to all other reforms, including higher revenue collection to finance improved service delivery, the mayor initiated a step-by-step but rapid reform process. He first defined the motivation and objective of the proposed administrative streamlining. Next, he formed a Reorganization Committee (including employee representatives and private sector professionals) to prepare a reorganization plan. The plan proposed (i) a new staffing pattern and organizational structure; (ii) a compensation package for displaced staff; (iii) a Life After City Hall" Plan, and (iv) how savings from the exercise could be used to improve services. After consultations with the Civil Service Commission (CSC) to ensure the legality of the proposed reforms, notices of lay-off were issued to more than 700 employees. At the same time, a Placement Committee was formed. It set objective criteria for employee recruitment and selection, conducted recruitment exams and interviews, and announced new staff appointments.

The plan met with opposition. Displaced staff filed grievance petitions with the CSC. The appeals were dismissed. The opposition demonstrated against the retrenchments. Undeterred, the mayor implemented the plan, and some results were immediately apparent. Plantilla and personnel were reduced from 1,500 to about 700. A simplified organization structure was established. But the successful reorganization extended the impact of the exercise far beyond the immediate technical confines of administrative and civil service reform. Savings were located to better finance services. Security, health, education, and infrastructure provision improved. During the mayor's first term, the financial and administrative leeway he wrested through the successful downsizing initiative enabled him to propose and implement a broad range of development projects, enhance borrowing capacity (obtaining AAA status from a commercial bank), increase own-source revenues (principally through using a GIS for land and property mapping), and improve service delivery. These efforts were vindicated through increased citizen support – the mayor won re-election in 2001, obtaining 75 percent of the vote.

Key success factors comprise (i) accurately gauging the trade-off between alienating one interest group (city employees) and winning over a wider set of interests (citizens, businesses, lenders, investors); (ii) reducing the political risks through appropriate timing (the reforms were done in the mayor's first year in office so that the second and third years could demonstrate results); (iii) ensuring the legitimacy of the reform objective (improving service delivery, not infusing relatives and cronies into the administration) and the reform process-transparent and participative management of the reform (e.g. the employee association leader and other staff representatives were members of the Reorganization and Placement Committees); (iv) public disclosure of the reforms (through an active public campaign), and (v) a strong public commitment to improve services (by demonstrating that taxes collected were spent on services for taxpayers).

Despite the clear need for administrative simplification and streamlining elsewhere, most political executives are hesitant to act, possibly due to (a) the risk of losing staff support; (b) the need to pay back constituencies' electoral support by hiring relations and political supporters; and/or (c) the incompatibility of running a clean administration and recovering electoral costs incurred/generating campaign finance. Cabanatuan holds important lessons for other LGUs (indeed for national agencies as well). Reorganization is possible within the existing legal and institutional framework – there is no need to enact or amend any laws. Opposition was expected from employee associations and political parties, and indeed did materialize. But the legitimacy, transparency, and rule-based nature of the technically sound program helped bring varied interests on board and was sufficient to counteract the forces arrayed against reform.

Source: ADB/WB 2005

Strengthening Local Planning

Poor planning and budgeting at the local level can be traced to (1) the short political tenure of local elected officials; (2) the absence of clear mandate supporting the linkages among the Local Development Plan (LDP), the Local Development Investment Program (LDIP), the Annual Investment Program (AIP) and the budget; and (3) the low level of local accountability due to the mismatch between the revenue means and expenditure needs of LGUs. Thus, local elected officials (governors as well as members of the Sangguanian) tend to have short-term planning horizons with concomitantly adverse effects on development spending. Also, since LGUs are dependent on monies that are not raised from within their jurisdictions or constituencies, waste and fiscal irresponsibility tend to go unpunished by local taxpayers.

Three provisions of the Local Government Code are central to the implementation and financing of the local development plan. These are:

1. LGUs are required to have a comprehensive multi-sectoral development plan which should be initiated by its Local Development Council and approved by the local Sanggunian. (Section 106)
2. Local budgets should operationalize local development plans. (Section 305 - i)
3. LGUs should appropriate in its annual budget no less than 20% of its annual IRA for development projects. (Section 287)

NG-LGU coordination in local planning. There is a perception that NG and LGU planning is inadequately coordinated, resulting in a break in the planning chain between the regional and the provincial levels. Of late, regional development plans (RDPs) have also become less prominent vis-à-vis the sectoral plans in central level discussions on the MTPDP (ADB/WB 2005), thereby giving the impression that LGUs have little influence on the MTPDP after RDPs are submitted to the central level. The RDP, which is formulated by the Regional Development Council (RDC), is seldom taken into consideration by the LGUs (GTZ 2003; ADB/WB 2005), thus, many local development plans are said to be formulated quite independently of regional and national development plans.

In line with decentralized planning mandated in the LGC, NEDA shifted the regional development planning approach from comprehensive to strategic, with the RDPs focusing on inter-provincial and provincial development concerns having region-wide impact. The current planning process is both top-down and bottom-up with the MTPDP providing policy directions and priorities while the RDPs provide specific project locations and other details. The RDPs also provide the framework on how local plans may contribute to meeting development targets for devolved responsibilities and how local priorities could be included in national priorities It is not expected that the RDPs, per se, form part of the MTPDP. The spatial, that is regional and local, dimension of the MTPDP is reflected in the locational aspects of analysis (e.g., where are the poor? which areas have the comparative advantage in corn production? where would a new airport be located to fast track growth in Northern Luzon? how will the lump sum fund of school building construction be allocated equitably across regions/LGUs?).

With regard to programs and projects, many LGU officials complain that national government agencies do not adequately consult with the LGUs in the planning and implementation of programs and projects that are located within their jurisdictions (GTZ 2003). While adhering to the LGC provision requiring national government to periodically consult with LGUs on programs and projects remain to be challenge, various initiatives have been undertaken leading towards this direction. These include increasing transparency in budgeting through intensified regional budgeting activities and the conduct of regular dialogues between RDCs and national government agencies on specific programs and projects in the region.

Increasing Transparency in Local Budgeting

On the whole, budgeting at the local level is done largely in an incremental fashion. First, funds for the mandatory expenditures (like personal services, debt service, and LDF) are set aside. Then, heads of offices are allowed to apply prescribed maximum rates of increase on the existing allocation for recurring expenditure programs. Then, after the baseline budget is determined, most budget officers simply ask each department to prepare proposals for new programs without providing any budget ceiling. In situations like this, the budgets proposed by the various departments would invariably exceed the aggregate amount of available resources. However, at the end of the day, the budget proposals are consolidated and trimmed down according to the priorities of the local chief executive.

Another concern in local budgeting is the lack of transparency in the preparation and implementation of local budgets. Four factors contribute to making the budget process highly non-transparent: (a) the estimation of the income targets with which the annual budget is tied up; (b) the recent practice of granting additional personnel benefits of "savings"; (c) the fact that budgeting, in actual practice, is done largely in an incremental fashion after funds are set aside for mandatory expenditures; and (d) the lack of effective community participation in the preparation and monitoring of the local budget.

Many LGUs, however, have forged ahead with successful innovations in the local planning and budgeting. One good example is the province of Bulacan which made use of the survey method to ascertain the budget preferences of its constituents (Box 17).

Box 17. Knowing What the People Really Want: The Case of Bulacan Province

The Governor of Bulacan believes that to be able to have constituent-responsive governance, the provincial government should know the real opinion of the people. Thus, it launched a scientific way of knowing what the people really want through the Constituent-Responsive Governance project which utilizes the survey research method.

As part of the pilot-testing of this innovation, the province conducted a poll on the citizens' preference for a health insurance program, solid waste disposal, real property tax billing statement, and a community radio. In each case, the province established that the scientific approach using surveys lessened the probability of mistakes in the implementation of the projects. It also improved local services by considering the people's preferences and trying to incorporate these into its budget. Moreover, the province was also able to get information on "willingness to pay" for health insurance from the survey. The provincial government also changed the programming of its radio station to suit the interests and lifestyles of its constituents.

Source: Gawad Galing Pook: A Tribute to Innovation and Excellence in Local Governance, 2002.

Other LGU initiatives in this area involve the adoption of citizen's feedback mechanisms. One good example is provided by Naga City (Box 18) which made good use of information technology in improving, enhancing, and redefining traditional notions of governance and participation. For instance, the i-Governance program encourages the greater participation of citizens in local decision-making process by allowing them to give their feedback through the use of the Internet and short-messaging service (SMS). What is more, the residents have access to an extensive catalog of critical information on local services using the city website. This process is enhanced by the availability of information on the "standard response time" for the delivery of basic services (as found in the Citizen's Charter). At the same time, transparency in the procurement process is promoted by making all unit prices of awards bids publicly available not only on the internet but also in the newspapers.

Box 18. Innovations in Technology and Governance in Naga City

The City of Naga has took advantage of the use of information technology in improving, enhancing, and redefining traditional notions of governance. The city believed that governance could be improved through increased efficiency and local participation, thus, the following programs were introduced:

Productivity Improvement Program

To enhance the productivity of the workers in the city government, a merit and result-oriented assessment system was instituted by rewarding and motivating employees to pursue higher levels of productivity.

Information and Communications Technology Development Program (ICT-DEV)

Efforts were initiated to streamline internal processes and improve information access through the computerization of city government operations, the establishment of a local database, and the provision of technical assistance services to line departments.

i-Governance

Noting that the participatory mechanism through organized groups (was previously used by the city government) was ineffective (i.e., citizens remained uninvolved), the city opened wider avenues for participation through i-Governance. This program incorporated the citys' ICT-DEV while placing new emphasis on greater participation of individual citizens. The projects under this program are:

- NetServe is an extensive online catalog of local government services which include procedures; response time on service delivery and responsible personnel for each type of service; information about city finances (including the details of the annual city budget); city ordinances and resolutions; and a directory of city officials with their contact numbers and email addresses.
- TextServe is a system whereby the citizens can send their views, comments, and complaints to the city using cellular phone-based short messaging service (SMS) at a cost of P2 for every message sent. Messages are redirected to the city's email inbox with a response rate of one day and follow-up actions are immediately directed to concerned department.
- Naga City Citizens Charter is a guidebook that describes the key services of the city which could be used when there is no access to the Internet. In particular, the guidebook contains a detailed description of services with a step-by-step guide for using the service, the standard response time for its delivery, and the City Hall officers and staff responsible for its operation.

Results and outcomes:

Transparency in local governance and enhanced feedback mechanism

Streamlining of processes and computerization of common applications has improved service delivery rate (reduction in service time of frontline services)

Source: Rodriquez, Luz Lopez and Brian Min. I-Governance in Naga City, Philippine: Innovations in Technology and Governance project

Performance-Based Budgeting

In cooperation with Synergeia, Naga City reinvented the local school board not only by allowing it to serve as the venue for the participation of the entire community in the planning and budgeting process for basic education in the city but also through the application of performance based-budgeting in the allocation of the Special Education Fund (Box 19). The budget priorities for the SEF are set relative to targeted improvements in student performance, thereby linking budgets with performance. The initiative also calls for the continuous monitoring of student and teacher performance and reporting of the results to the community. Lastly, under the program, the SEF is used to provide performance-based incentives to teachers. Prospectively, an analogous program can be done for the Local Health Board to help improve health and family planning outcomes at the local level.

Box 19. Reinventing the Local School Board: Naga City

A pro-active local school board can function beyond budgeting the SEF. It can institute proactive planning and budgeting, performance-based incentives for schools, division-wide achievement testing, transparent teacher recruitment, and efficiency in spending the SEF.

How to reinvent the local school board

1. Identify and develop a committed coalition to work as a team. The mayor can bring together a group of reform-minded educators to develop a shared vision for the kind of education they would like for their children. The team should meet regularly to strategize and determine how their vision can be accomplished.

2. Assess the state of basic education in the community. Usually, communities are not involved because they do not know the extent of the problem in the education sector. A situation analysis can be made by putting together data on education, dropout rates, reasons for dropping out, number of students per class, ratio of textbooks to number of students, facilities and utilities available in schools, average scores in reading and mathematics tests. The superintendent/supervisor can help put together these data.

3. Hold an education summit. Engage the entire community in improving basic education. The local school board can host an education summit to disseminate findings from its situation analysis. The summit should ensure broad representation: Department of Education personnel, parents, the corporate sector, local government officials, academic institutions, and NGOs.

   The governor/mayor can present an education situationer and targets that the local government units should strive to attain, i.e. reduction in the number of non-readers, and an increase in the reading and mathematics test scores of the children. The participants can be organized into workshops to discuss problems and priorities and ways to improve student performance. Participants can be asked how they would like to spend the SEF tax revenue. The summit can end with the Governor/Mayor summarizing the consensus of the participants.

4. Commit ideas to the budget. The local school board can organize summit output and relate it to the budget. This means using the priorities set in the summit as a basis for allocating the SEF budget.

5. Empower broad-based action. The local school board can initiate changes, communicate strategies for reform, and lead by example. It can transform old and closed systems into participatory processes. More transparency is needed in procurement and an incentive system based on improvement in academic performance is needed.

6. Conduct regular, participative local school board meetings with a rich agenda. Use local school board meetings to engage parents and community members and sustain their interest in improving education. Open agenda items for their participation; include parents, feedback, and suggestions. Enrich the agenda by discussing policies, school programs, and activities. Monitor progress of programs on students and teachers on their performance.

7. Develop a report card system. Encourage principals to report on student performance to the community once or twice a year. How did students do in reading and mathematics tests? What were the highs and the lows with respect to school programs for the year?

8. Consolidate gains and produce more changes. Local school boards can use their increased credibility and experience to improve all systems, structures, and policies that do not enhance their vision for quality education. What practices can be systematized? Are there administrative orders or ordinances that need to be drafted to institutionalize changes? Are there other persons and institutions that can be involved in the change process? How can parents be given more opportunities to support the learning system? How can the young people in the community help?

What happened in Naga?

The Reinventing the Local School Board Project was able to initiate new processes and programs, which gave the community greater voice and responsibility in the governance of education. Some of the activities they undertook were:

1. Regular consultations and meetings with (parents, teachers, school officials)
2. A community-wide summit on education planning and budgeting
3. A transparent hiring system for teachers
4. A fund for schools to spend on developmental needs like instructional materials
5. Additional performance-based incentives for teachers
6. Workbooks and lesson plans in English, Math and Science (all elementary levels)
7. Surog Adal (alliance for Learning), similar to the adopt a school program
8. CLICK (Computer Library and Instructional Center for Kids)

What has been achieved?

1. The project has been able to transform the community from being passive recipients to being active participants in improving basic education. What is better proof of this than the improvement in the performance of the elementary schools students?
2. 17 percentage points in English
3. 15 percentage point in Math
4. 15 percentage point in Science

Source: Synergeia Brochure, 2004

Lastly, local government procurement has also posed a challenge in many LGUs. Some of the outstanding problems in LGU procurement relate to the bidding process and the terms, conditions, and procedures for contract awarding result toin: (a) inefficiency and delays; (b) higher cost procurement for LGUs; (c) manipulation of the rules for benefiting favored bidders, and opportunities for graft and corruption; (d) high possibility of contract default for want of qualifications; and (e) lack of a system of accountability.

Nevertheless, the Municipality of Goa (Box 20) was able to reduce the cost of the drugs and medical supplies it buys by 20% by participating in the "direct purchase program" of the Department of Health Regional Office.

Box 20. Medicine Procurement Program of Municipality of Goa, Camarines Sur

In an attempt to maximize the utilization of is meager resources, the Municipality of Goa put in place a new Medicine Procurement Program. LGUs typically procure medicines and medical supplies through public bidding (which is the method advocated by the Commission on Audit). However, public bidding do not necessarily result in the acquisition of goods at the lowest possible cost. Thus, Goa opted to participate in the bulk procurement of medicines and other medical supplies through the Department of Health (DOH), Regional Office. This required submission of Letter of Intent, passage of resolution by the Sangguniang Bayan allowing the Local Chief Executive to sign the Memorandum Of Agreement (MOA) between DOH Regional Office and the local government of Goa, and submission of duly accomplished Purchase Request.

Program Accomplishments:

1. Prices of medicines for 2001 were lower by 20% from the original prices quoted by the bidders. Medicine procurement from the DOH proved to be cheaper than the lowest prices the bidders could offer the LGU.
2. Some unintended benefits were also realized.

- Not only did the LGU save on drugs and medicines; additional medicines were also given by the DOH Regional Office.
- The LGU was also spared the requirements of the drug testing and analysis whereby 20% of the total quantity of medicines delivered by the suppliers were usually taken out to be tested and analyzed in the Bureau of Food and Drugs (BFAD). With this program, 100% of the medicine procurement was received by the LGU because these were purchased from DOH suppliers whose medicines were already tested by BFAD.
- Having the same requirements with DOH, the LGU was also assured of the availability of drugs and medicines.
- Medicine procurement of the LGU encouraged greater advocacy of the Generic Law.

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