

IV The Barangay Budget and the Budget Process

28. What is the significance of preparing a barangay budget?

Aside from being a financial plan, the barangay budget serves as an instrument for barangay officials to effectively manage the development of the barangay . A well-prepared barangay budget serves as basis for:

- Planning and policy adoption
- Program and project implementation
- Financial control
- Management information

29. What is the legal basis for barangay budgeting?

Sections 329-334 (Barangay Budget) of the Local Government Code of 1991 (RA No. 7160) provide the basis for the collection, safekeeping and use of barangay funds. The aforesaid provisions govern the preparation, effectivity, and review of the barangay budget, including the financial procedures that the barangay shall observe.

30. How does the budget process at the barangay level compare with other levels of LGUs?

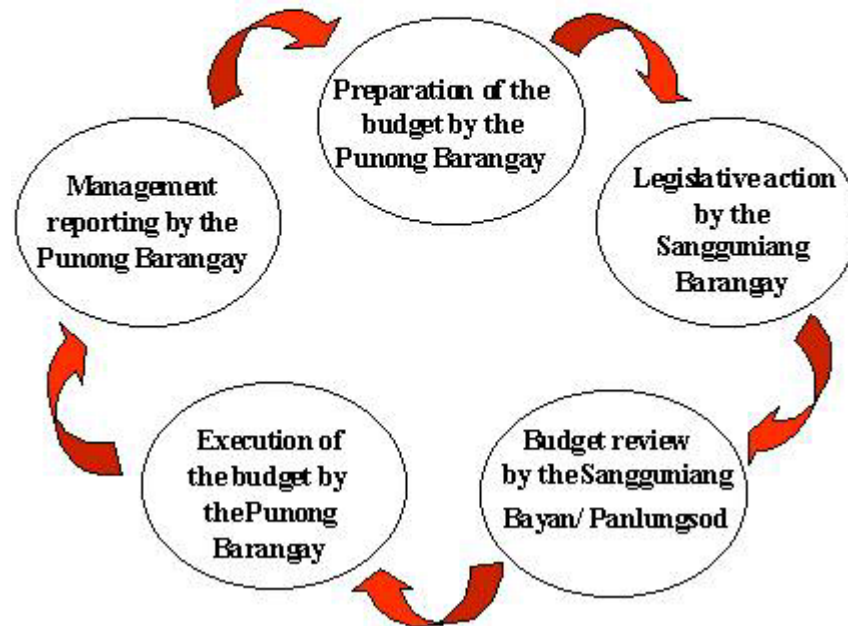
The budget process at the barangay level follows a similar process as in the other levels of local government units.

The budget process is a cycle that consists of the following phases:

- budget preparation
- budget legislation or authorization
- budget review
- budget execution and
- budget accountability.

The different phases overlap with each other within a budget year. While the budget of a current year is being implemented, the barangay should also prepare the budget for the succeeding year. Also within a budget year, the barangay should prepare and submit accountability reports for the past and current year.

The Budget Cycle



IV- a Budget preparation

31. Who prepares the barangay budget?

The Punong Barangay, with the assistance of the Barangay Treasurer, prepares the barangay budget.

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What are the components of a barangay budget?

A barangay budget consists of the following:

- Estimates of income; and,
- Total appropriations covering current operating expenditures and capital outlays.

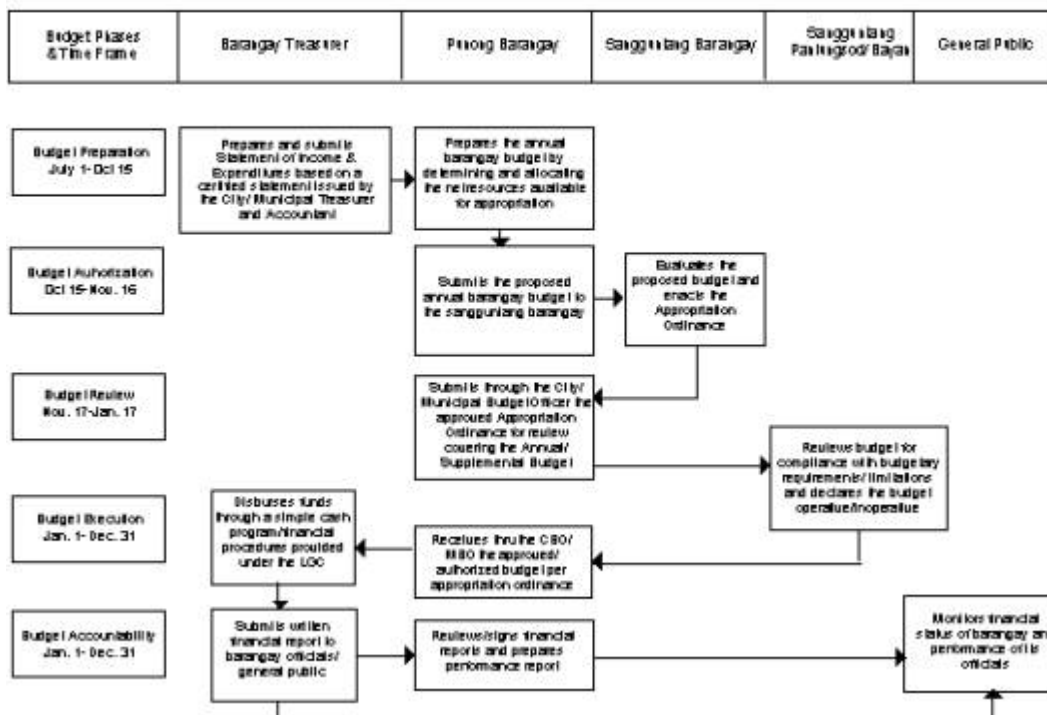
33. Who determines the estimated income to be used as a source of fund in the budget?

The Barangay Treasurer is responsible for determining the estimated income to be used as a source of fund in the budget.

34. When and why should the Barangay Treasurer submit to the Punong Barangay the detailed Statements of Income and Expenditures of the past and current years?

The Barangay Treasurer should submit to the Punong Barangay on or before September 15 of each year the detailed Statements of Income and Expenditures as a basis for the preparation of the budget for the next fiscal year.

Flow Chart of the Barangay Budget Process



35. What forms part of the beginning balance of the estimated income for the budget year?

Estimated savings at the end of the current year forms part of the beginning balance for the budget year. It includes projected balances of any appropriation which remain free of any obligation or encumbrances and which are still available at the end of the current year after the satisfactory completion, or the unavoidable discontinuance or abandonment of the work, activity or purpose for which the funds were

authorized.

36. Is there any penalty for a Punong Barangay who fails to prepare and submit the annual barangay budget on time?

Yes. Pursuant to Sec. 318 of R.A. No. 7160 and implemented by DBM-COA Joint Circular No. 93-2 dated June 8, 1993, a Punong Barangay who fails to submit the budget on or before October 16 of the current year shall be subject to such criminal and administrative penalties as may be provided by the Local Government Code and other applicable laws.

37. What are the mandatory obligations that should be provided in the barangay annual budget?

The barangay annual budget must include the following:

- Appropriations for development projects of not less than 20% of the total IRA of the barangay for the budget year (Development Fund);
- Appropriations for Sangguniang Kabataan (SK) programs, projects and activities equivalent to 10% of the general fund of the barangay for the budget year (SK Fund);
- Appropriations for unforeseen expenditures arising from the occurrence of calamities at 5% of regular income for the budget year (Calamity Fund); and
- Provision for the delivery of basic services pursuant to Section 17 of RA No. 7160, and effective local governance.

38. How much can be appropriated for personal services of a barangay?

The barangay can appropriate not more than 55% of the total annual income actually realized during the next preceding fiscal year for personal services.

The illustrative computation of FY 2000 PS is presented below:

Income from regular sources realized during the next preceding fiscal year (1998) P100,000 x 55%	P	55,000
Less: Total PS Appropriations	P	70,000
Excess in PS Appropriations	P	<u>15,000</u>

39. Are there cases when the 55% personal services limitation may be waived?

Yes. Excess over the 55% cap in personal services may be waived if caused by the implementation of EO No. 332, whereby increases in honoraria of barangay officials are allowed as continued implementation

of the Salary Standardization Law.

40. Are there collections which cannot be included in the budget of the barangay?

Yes. Collections or monies which are held in trust, i.e., performance bonds, deposits, payments under protest, and funds for specific activities contributed by outside sources cannot be included in the barangay budget.

41. What is a supplemental budget and when is it prepared?

A supplemental budget is a financial plan authorized by a legislative body through the enactment of an ordinance or law that authorizes the changes in the annual appropriation ordinance or law. It is prepared under the following circumstances:

- when funds are actually available as certified by the Barangay Treasurer;
- when new revenue sources (other than those identified in the annual budget) can support the additional budgetary requirements; and
- In times of public calamity.

Funds are actually available when realized income exceeds estimated income as of any given day, month or quarter of the fiscal year. Funds are likewise deemed actually available when there are savings. For this purpose, savings refer to portions or balances as of any given point in the fiscal year of any programmed or allotted appropriation which remain free of any obligation or encumbrances and which are still available after the satisfactory completion or the unavoidable discontinuance or abandonment of the work, activity or purpose for which the appropriations was originally authorized. Savings may also result from unobligated compensation and related cost pertaining to vacant positions and leaves of absence without pay of local personnel receiving salaries.

42. Can a supplemental budget be passed in place of the annual barangay budget?

No. Pursuant to Sec. 323 of R.A. No. 7160, an ordinance authorizing supplemental appropriations shall not be enacted in place of the annual appropriations.

43. Is the provincial/city and municipal aid to barangays limited to P1,000 each?

No. The aid to barangays in the amount of not less than P1,000 per barangay may be increased subject to the discretion and availability of

funds of the province/ city/ municipality.

44. Who is entitled to a discretionary fund and for what purpose does it serve?

Only the Punong Barangay is entitled to a discretionary fund to be used for public purposes and for other miscellaneous expenses related to the official functions of the Punong Barangay.

45. How much is the discretionary fund of the Punong Barangay?

The annual appropriation for discretionary purposes of the Punong Barangay shall not exceed two percent (2%) of actual receipts derived from basic real property tax in the next preceding calendar year.

46. Can a barangay set aside in its budget a certain amount for contribution or any fees that may be requested by the Liga ng mga Barangay?

Yes. The amount can be included in the appropriation for grants, donations/contributions under MOOE. Prior year unpaid contributions can also be considered.



IV. b Budget Authorization

47. Who authorizes the barangay budget?

The barangay budget is authorized by the Sangguniang Barangay, the legislative body empowered to enact all ordinances pertaining to the barangay.

48. How does the Sangguniang Barangay authorize the barangay budget?

The SB passes the barangay budget through the enactment of an appropriation ordinance which shall be approved or ratified by majority of the SB members.

49. What is an appropriation ordinance?

An appropriation ordinance is the legislative instrument authorizing the budget.

50. When is the effectivity of an appropriation ordinance?

An appropriation ordinance becomes effective only upon its approval by majority of the SB members and signed by the Punong Barangay on the date fixed in the ordinance.

51. What happens if the Sangguniang Barangay fails to enact an appropriation ordinance?

The ordinance authorizing the appropriations of the preceding year shall be deemed reenacted and shall remain in force and effect until the ordinance authorizing the proposed appropriations is passed by the Sangguniang Barangay. However, only the annual appropriations for honoraria and salaries/wages of barangay officials and employees, respectively, statutory and contractual obligations, and essential operating expenses authorized in the annual and supplemental budgets for the preceding year shall be deemed reenacted.

52. Can the Sangguniang Barangay reduce the appropriations in the budget during the authorization phase of the budgeting process?

Yes. The Sangguniang Barangay can reduce the appropriations during the authorization phase of the budgeting process.

53. Can the Sangguniang Barangay increase the appropriations in the budget

during authorization?

No. Except when mandatory and statutory obligations have not been provided for in the budget, in which case, the increase may cover the deficiency, provided that the total appropriation does not exceed the total estimated income reflected in the budget proposed by the Punong Barangay.

54. Does an appropriation ordinance need the approval of the Punong Barangay?

Yes. Ordinances enacted by the Sangguniang Barangay, upon approval by the majority of its members, need to be approved and signed by the Punong Barangay.

55. Does the Punong Barangay vote on the proposed budget?

The Punong Barangay does not normally vote on the proposed budget but he may do so only to break a tie.

56. Does the Punong Barangay have a veto power?

No. This is so because the Punong Barangay is also the Presiding Officer of the Sangguniang Barangay. However, he may convince other members of the Sangguniang Barangay from voting against the appropriations measure if important items in his original proposal are not adopted or if these were subjected to substantial insertions/deletions.

IV. c Budget Review

57. Why is the barangay budget submitted for review?

The barangay budget is submitted for review to ensure that:

- Budgetary requirements and limitations provided in the Local Government Code are complied with;
- The budget does not exceed the estimated receipts and/or income of the barangay; and,
- The items of appropriations are not more than those provided by existing laws.

58. When is the barangay budget submitted for review?

The appropriation ordinance, authorizing the annual or supplemental

budget is submitted for review within ten (10) days after its enactment.

59. Who reviews the barangay budget/appropriation ordinance?

The Sangguniang Panlungsod/Bayan, through the City/Municipal Budget Officer, reviews the barangay budget.

The City/Municipal Mayor may indirectly review barangay budgets through the City/Municipal Budget Officer.

60. What is the prescribed period for the review of the barangay budget?

The barangay budget should be reviewed within 60 days upon receipt of the appropriation ordinance authorizing the barangay budget by the Sangguniang Panlungsod/Bayan, through the City or Municipal Budget Officer.

61. What happens if the Sangguniang Panlungsod/Bayan fails to act on the proposed barangay budget after the prescribed period?

The budget is deemed in full force and effect if the Sangguniang Panlungsod/Bayan fails to review the barangay budget within the 60-day period.

62. What are the effects of an inoperative budget?

a. The budget shall be returned to the Punong Barangay for proper adjustment/ revisions. The Barangay Treasurer who has custody of the funds shall not make any further disbursements from the inoperative budget.

b. The barangay operates on a reenacted budget or the budget of the previous year until the proposed budget meets the approval of the Sangguniang Panlungsod or Bayan to ensure the continuity of its projects and activities

63. What are the disadvantages of a re-enacted budget?

While a re-enacted budget ensures that barangay operations will continue despite the absence of a new budget, it has, however, the following disadvantages:

- No new projects can be undertaken;
- New positions cannot be filled;
- No new equipments can be acquired;
- Non-recurring activities, no matter how vital, cannot be undertaken; and

- No increase in honoraria and other benefits

64. What options does the barangay have in case of conflict in the review of its budget by the Sangguniang Panlungsod/Bayan?

In case of conflict in the review of its budget, the barangay may take the following courses of action:

- Make an appeal to the City/Municipal Legal Officer who is assigned to review and submit recommendations on approved ordinances and executive orders issued by the city/municipal components; and
- Seek the technical assistance of the Department of Budget and Management through its appropriate Regional Office.



IV- d Budget Execution

65. Who is responsible for the execution of the barangay budget?

The Punong Barangay is responsible for the execution of the barangay budget.

66. What are the primary responsibilities of the barangay officials in implementing the barangay budget?

In implementing or executing the barangay budget, barangay officials shall ensure the following:

- That the revenues as estimated are realized;
- That the approved programs and projects in the barangay development plan and in the annual budget are implemented;
- That barangay funds are disbursed in accordance with the appropriation ordinance and reviewed annual budget; and
- That all financial transactions of the barangay follow accounting and auditing rules.

67. How is the barangay budget executed?

The barangay budget is executed through the following procedures:

- Preparation of a simple cash program for the quarter
- Disbursement of funds per cash program;
- Preparation of requests for obligation of allotment (ROA);
- Preparation of disbursement voucher based on approved ROA; and,
- Issuance of checks.

68. Who signs the checks for the barangay?

The Barangay Treasurer and the Punong Barangay, are authorized to sign the checks for the barangay.

69. Who are the signatories in the ROA?

The ROA is signed by the following:

- The Chairman of the Committee on Appropriations of the Sangguniang Barangay, to certify to the existence of the appropriation;
- The Barangay Treasurer, to certify as to the availability of funds; and,
- The City/Municipal Accountant, to certify as to the obligation of allotment.

70. Who are the signatories in the Disbursement Voucher?

The disbursement voucher is signed by the following:

- The Barangay Treasurer;
- The City/Municipal Accountant; and,
- The Punong Barangay

71. What principles govern the release and disbursement of barangay funds?

Barangay funds shall be used judiciously and efficiently. In this context, the following principles must be observed:

- No money shall be paid out of the barangay treasury except in pursuance of an appropriations ordinance or law;
- Barangay funds and monies shall be spent solely for public purposes;
- Trust funds in the barangay treasury shall not be paid out except in fulfillment of the purpose for which that trust was created or the funds received;
- Fiscal responsibility shall be shared by all barangay officials exercising authority over the financial affairs, transactions, and operations of the barangays.

72. What are the limitations on the disbursement of barangay funds?

Barangay officials should observe the following limitations in the disbursement of barangay funds:

- Total disbursements shall not exceed actual collections plus 50% of the uncollected estimated revenue, provided there is no cash overdraft at the end of the year.
- No cash advances shall be made to any barangay official or employee unless in accordance with accounting and auditing rules and regulations.
- The Barangay Treasurer may be authorized by the Sangguniang Barangay to make direct purchases amounting to not more than one thousand pesos (P1,000.00) at any time for the ordinary and essential needs of the barangay.

73. Who shall keep custody of the financial records of a barangay?

The accounts and financial records of all barangays in a city or municipality shall be kept in the office of the Barangay Treasurer and the City/ Municipal Accountant.

74. What are the financial records that must be kept in custody?

Financial records that must be kept in custody of the Barangay Treasurer and the Municipal Accountant are the following:

- Books of accounts

- Statements of income and expenditures
- Balance sheets
- Trial balances

75. What are the projects and activities that may be funded from the Local Government Service Equalization Fund (LGSEF)?

All activities devolved to the barangays as enumerated under Section 17 (b) of R.A. No. 7160 and as determined by the Oversight Committee on Devolution may be funded from the LGSEF.

76. From what particular appropriation item in the budget can the barangays charge their seminar/training fees?

Training fees may be charged against the training and seminar expenses under Maintenance and Other Operating Expenses.

77. What can the barangay do if their Real Property Tax share is not actually remitted by the LGU concerned?

In case of non-remittance of RPT share, a barangay may demand for payment or call the attention of the local treasurer and the chief executive of the LGU concerned. If all efforts are denied, the matter may be referred to higher authorities like the Bureau of Local Government Finance (BLGF) of the DOF.

78. What is the option of the barangay if there is a shortfall in income?

In case of revenue shortfall, barangay officials may take the following courses of action:

- Prioritize expenditures or spend only what is necessary;
- Intensify revenue collections;
- Seek financial assistance; and
- Resort to borrowings.

79. Can the Municipal Accountant refuse to sign the Statement of Income of a barangay to support a supplemental budget?

No. The Municipal Accountant cannot refuse to sign the Statement of Income to support a supplemental budget unless the proposed income of the barangay cannot be considered as a source of fund for a supplemental budget. Should this happen, the matter can be referred to the mayor for appropriate action.

80. What happens to the unexpended balances of appropriation for PS and MOOE at the end of the fiscal year?

Unexpended balances of appropriations for administrative purposes like PS and MOOE which remain unobligated at the end of the fiscal year shall revert to the general fund.

81. Is it possible to use savings from one expense item to another without enacting a supplemental budget?

Yes. The Punong Barangay may by ordinance, be authorized by the Sangguniang Barangay to augment any item in the approved annual budget from savings in other items within the same expense class, ie. from a personal services (PS) item to another PS item, or from a MOOE item to another MOOE item. Hence, use of savings through augmentation of funds is allowed without enacting a supplemental budget.

82. Under a reenacted budget, can the barangay continue to pay the honoraria of Barangay Health Workers?

Yes. Pursuant to Sec. 323 of RA No. 7160, the annual appropriations for honoraria of existing positions in the barangay, statutory and contractual obligations, and essential operating expenses authorized in the preceeding year's annual and supplemental budgets are deemed reenacted.

83. How are the IRA shares of barangays released?

Section 286 of the Local Government Code of 1991 provides that the IRA share of local government units (LGUs) shall be released within five (5) days after the end of each quarter without need of further action or request. However, in order to facilitate the early release of the IRA to the barangays, the DBM has adopted a direct credit system of cash release to the barangays

84. How are the IRA shares released under the Direct Credit System?

Under the Direct Credit System, the DBM-Regional Operations and Coordination Service (DBM-ROCS) prepares the Notice of Cash Allocations and releases the funding checks for the month within five (5) days of the ensuing month to the head offices of the following government depository banks: Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP), Philippine National Bank (PNB), and Philippine Veterans Bank (PVB). The banks in turn credit the amounts to the respective current accounts of barangays within 24 hours upon receipt of the funding check. Unlike in the previous fund release system, the IRA shares no longer pass through the servicing banks of DBM ROs and the regional branches of the banks. This release mechanism ensures the early receipt by the barangay of their IRA shares.

85. Can the barangay spend the 20% development fund (DF) even if they failed to submit the AIP on time?

For the 1st quarter of FY 2000, the Sangguniang Barangay may exercise discretion on how and where to spend the 20% DF provided, the result of their decision will be reflected later on in the AIP.

86. Can the 20% Development Fund be reallocated to other expense items?

No. The fund cannot be reallocated to other expense items because the law explicitly states that it shall be used exclusively for development projects.

87. What is the proper treatment and disposition of unexpended balances of the 20% Development Fund?

Unexpended balances of the 20% Development Fund earmarked for COE, if not booked as accounts payable, shall revert to the unappropriated surplus and shall thereafter be appropriated for other development projects.

Funds for capital outlay projects shall be treated as continuing appropriations until the projects are completed or discontinued in which case, the unexpended balances shall be reverted and appropriated for other development projects.

88. How can the barangay finance big priority infrastructure projects considering the small amount of the 20% Development Fund?

The 20% Development Fund is cumulative which means that small releases may be added up to finance bigger and better barangay projects. Planning and programming the use of the fund is most essential in this regard.

89. How is the 10% Sangguniang Kabataan (SK) Fund utilized?

As a requisite for the use of the SK fund, the SK shall develop a plan or a work program (or a purchase order) which reflects the projects that they intend to fund for the year. The plan or work program must be approved by the majority members of the Sangguniang Barangay.

90. Should unexpended balances of SK fund be reverted to the general fund at the end of the year?

The 10% SK fund is a statutory obligation that can be considered a trust fund. Therefore, any unexpended balances shall form part of the

beginning balance of the succeeding fiscal year but only to be added to the 10% share of the SK for the next year.

91. Can the SK purchase mobile phones for their official use?

Yes, if it can be justified as very necessary for SK operations. It is strongly recommended, however, that guidelines regarding the payment of bills be formulated since it is very difficult to determine whether the calls are official or not.

92. How does the SK utilize funds generated from fund raising activities?

Any amount generated by the SK from fund raising and similar activities may be disbursed by them with the proper guidance of the Sangguniang Barangay but without need of its formal approval.

93. How can the barangay utilize the 5% Calamity Fund?

The Punong Barangay may utilize the appropriated amount for unforeseen expenditures arising from the occurrence of calamities, provided that the barangay has been declared to be in a state of calamity.

94. Who declares when a barangay is in a state of calamity?

When a calamity occurs, the Sangguniang Bayan, Panlungsod or Panlalawigan concerned may declare the locality in a state of calamity which will serve as the basis for utilizing the 5% Calamity Fund.

95. Can the barangay augment the calamity fund if found insufficient when calamities occurs?

Yes. The Sangguniang Barangay may, by way of enacting a supplemental budget, realign appropriations for the purchase of supplies and materials or for payment of services which are exceptionally urgent or absolutely indispensable to prevent imminent danger to, or loss of life or property.



IV-e Budget accountability

96. What is budget accountability?

Budget accountability is the last stage of the budget process whereby financial records and reports are prepared and validated periodically to assess whether performance is in accordance with the budget plans.

97. What accountability reports must be prepared by the barangays?

All barangays are required to prepare the following reports:

- Quarterly Report of Actual Income (Barangay Budget Accountability Form No. 300); and
- Quarterly Financial Report of Operations (BBA Form 301).

98. Why do barangays have to keep records and prepare reports on all budgetary transactions?

Barangay records and reports of budgetary transactions must be prepared and kept for the following reasons:

- To provide information on the status of project implementation and serve as basis for the necessary corrective action for identified deviations;
- To ensure that obligations are incurred within the limits of the approved appropriations;
- To record unpaid obligations, both current and those certified to as accounts payable at the end of the year;
- To make transactions transparent and the financial status of the barangay a matter of public knowledge; and
- To serve as basic input into the next budget preparation.

99. Who are responsible for reporting the budget performance of the barangay?

The following are responsible for reporting the budget performance of the barangay:

- Punong Barangay;
- Chairman of the Committee on Appropriations of the Sangguniang Barangay;
- Barangay Treasurer; and
- City/Municipal Treasurer/Accountant

100. What must barangay officials report to the general public regarding the barangay and its budgetary transactions?

Barangay officials must report the following to the general public:

- Income actually realized for the quarter;
- Expenditures actually spent for the quarter; and
- Accomplishments for the quarter.

101. How are financial operations of a barangay monitored and why is monitoring important?

The financial operations of a barangay shall be monitored by the barangay officials concerned by comparing the approved appropriations against actual obligations or disbursement. Monitoring of the barangay financial operation is necessary to ensure that expenditures do not exceed the amount approved in the appropriation ordinance.

102. What is the implication of a situation where collections exceed the revenue targets?

The extra income over and above the estimated revenues per approved barangay budget can be certified to as available for a supplemental budget. This means that some other projects may be implemented during the year once a supplemental appropriation ordinance is enacted.

103. What is the consequence of disbursing items of appropriations which were disallowed in the budget review?

Any official/ employee involved in the disbursement of funds which have been previously disallowed in the budget review may be meted with appropriate penalty by authorities concerned.

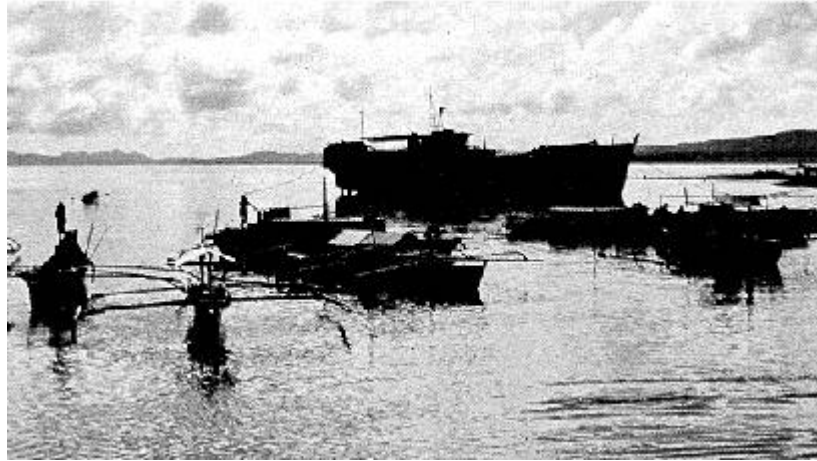


Table 1

**Compensation of Barangay Officials under Executive Order No. 332
(Effective January 1, 2000)**

Class	1st Class	2nd Class	3rd Class	4th Class	5th Class	6th Class
Cities						
Punong Barangay (1st step of SG-14)	P11,949	P11,352	P10,754	P10,157	P9,559	P8,962
Other Barangay Officials (1st step of SG-10)	P9,466	P8,993	P8,519	P8,046	P7,573	P7,100
Municipalities						
Punong Barangay (1st step of SG-14)	P10,754	P10,157	P9,559	P8,962	P8,364	P7,767
Other Barangay Officials (1st step of SG-10)	P8,519	P8,046	P7,573	P7,100	P6,626	P6,153

Source: DBM Local Budget Circular No. 69 dated March 21, 2000