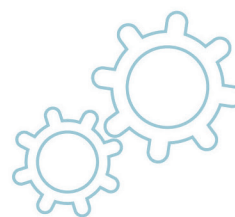
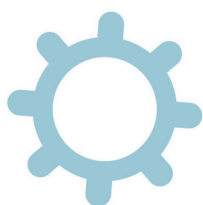




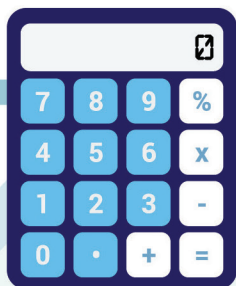
Republic of the Philippines  
DEPARTMENT OF BUDGET AND MANAGEMENT



# PRIMER ON LOCAL BUDGETING

VOLUME I: For Provinces, Cities and Municipalities

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Republic of the Philippines  
DEPARTMENT OF BUDGET AND MANAGEMENT

## The central graphic is a stylized illustration of a computer window. At the top left, there are two Philippine banknotes, a 1000 peso blue one and a 500 peso orange one. The window has a title bar with three colored buttons (red, yellow, green). Inside the window, on the left, is a large blue gear icon. On the right, there are two smaller blue gear icons. The main text 'PRIMER ON LOCAL BUDGETING' is centered in a bold, dark blue font. Below the text is a blue rounded rectangular button with the white text 'LEARN MORE'. A hand is shown pointing at this button. To the left of the button is a magnifying glass icon. Below the button is a calculator icon. To the right of the button is a building icon with a small circular logo on its roof, and a calendar icon. At the bottom right, there are two gold coins with the Philippine peso symbol. The background features light blue curved shapes.

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# THE SECRETARY'S PROFILE

Department of Budget and Management Secretary Wendel Eliot Avisado is a leading figure in promoting local empowerment and building confidence in grassroots-level government units. As budget chief, he was among the leading figures who pushed for the augmentation of calamity funds for local government units during the COVID-19 pandemic and the calamities that befell parts of the Visayas and Luzon in 2020.

Currently, he is among those spearheading the implementation of the Barangay Development Program of the National Task Force to End Local Communist Armed Conflict (NTF-ELCAC), which provides barangays with the resources to improve their infrastructure and services in order to end communist insurgency. He also sits in the Committee on Devolution tasked to implement the Supreme Court Decision which specifies that the Internal Revenue Allotment (IRA) should include ALL national taxes—national internal revenue taxes and customs duties.

Undoubtedly, this affinity stems from his years as a local government official. From 2004 to 2010, he served as city administrator under then Mayor Rodrigo Duterte in Davao City, where he spearheaded the establishment of the “Lingap Para sa Mahirap,” a one-stop shop medical assistance service that served as the blueprint of the now nationally-adopted Malasakit Center as well as implemented much-lauded initiatives such as Davao City's Solid Waste Program and the Chaplaincy Service. He also served as Davao City Councilor from 1998-2001. He won again in 2010 garnering the most votes in Davao City's 1<sup>st</sup> District.

Secretary Avisado is also actively involved in volunteer and community work as a member of the Rotary Club, the Alpha Sigma Phi Fraternity, the Lex Talionis Fraternity and the Boy Scouts of the Philippines. He is also a licensed and recognized minister of the Matina Church of Christ.

Avisado obtained his Bachelor of Laws degree, Cum Laude, at the Ateneo de Davao University in 1978 and passed the bar in 1979. He holds fellowships and certificates from the University of Brussels, the Asian Institute of Management, and the Development Academy of the Philippines. He also attended various training and seminars on governance and local government and urban and regional planning in the United States, China, Indonesia, Australia, and Japan.

Secretary Avisado was married for 39 years to the late Regional Trial Court Judge Adoracion Cruz – Avisado. They are blessed with two daughters, one of whom is a Family and Marriage counselor, while the other followed his footsteps as a lawyer.



# MESSAGE FROM THE SECRETARY

The Department of Budget and Management remains steadfast in ensuring that the people are constantly informed of the budgeting policies and processes of the Duterte Administration through its various publications.

This simplified Primer on Local Budgeting for Provinces, Cities, and Municipalities intends to provide a concise yet comprehensive guide on budgetary topics not only to deepen the knowledge of our citizens and local officials, but also to encourage them to work together in formulating a local financial management plan that will address their requirements.

As a former City Councilor and City Administrator of Davao City under then-Mayor and now President Rodrigo Roa Duterte, I know the importance of having citizens and local leaders who know how to utilize the budget to best serve their needs. It was during my time as City Administrator when I spearheaded the creation of Davao City's Lingap Center after thorough planning and consultations with city officials, stakeholders and citizens. This innovation was then brought to the national level by former Special Assistant to the President and now Senator Christopher Lawrence T. Go with the establishment of the Malasakit Centers.

It is also the goal of this Primer to inspire more citizens and local officials to adopt exemplary budgeting practices in their respective local government units. One example is the local government of my hometown Davao City, as headed by Mayor Sara Duterte, which after extensive consultations with various stakeholders and citizens effectively and efficiently utilized the resources granted by the national government through the Local Government and Support Fund to build a multi-purpose center that now serves as a one-stop shop for people requiring medical assistance.

With this Primer serving as our guide, let us endeavor to create transparent, inclusive, and effective local budgets that will bring about a more comfortable and dignified life for every Filipino.



**SECRETARY WENDEL E. AVISADO**  
**Department of Budget and Management**



# Table of Contents

<b>I. DBM HISTORY AND BACKGROUND</b>	<b>1</b>
a. Mandate	1
b. Functions Related to Local Government Units	1
c. Brief History	1
<b>II. LOCAL BUDGETING AT A GLANCE</b>	<b>2</b>
a. What is the system of governance between the National Government and the LGUs?	2
b. What is the role of the President when it comes to the fiscal administration of the LGUs?	2
c. When may the President interfere in local fiscal matters?	2
d. Examples of devolved basic facilities and services that need to be funded by the LGUs?	3
e. What are the funds that the LGUs may receive from the National Government?	4
f. What is the essential requirement before government funds may be used?	4
g. What is the difference between budget, appropriation, and allotment?	4
h. What do you mean by "download" of funds? What triggers the downloading of the Local Government Support Fund?	5
i. What is the duration of a local appropriation?	5
j. What happens to the balances of local appropriations and to the appropriations for capital outlays at the end of the fiscal year?	5
k. Example of budget authorization documents that the DBM directly issues to LGUs	5
i. What are disbursements?	6
<b>III. BUDGETING PRINCIPLES AND FRAME WORK</b>	<b>6</b>
a. Fundamental Principles of Budgeting	6
b. Local Budgeting Framework	7
c. Cash Budgeting System	8
d. Plan-Budget Linkage	8
<b>IV. THE LOCAL BUDGET PROCESS</b>	<b>9</b>
A. Budget Preparation	9
i. Budget Preparation Flowchart	9
ii. Summary of Budget Preparation	10
iii. Sources of Funds	13



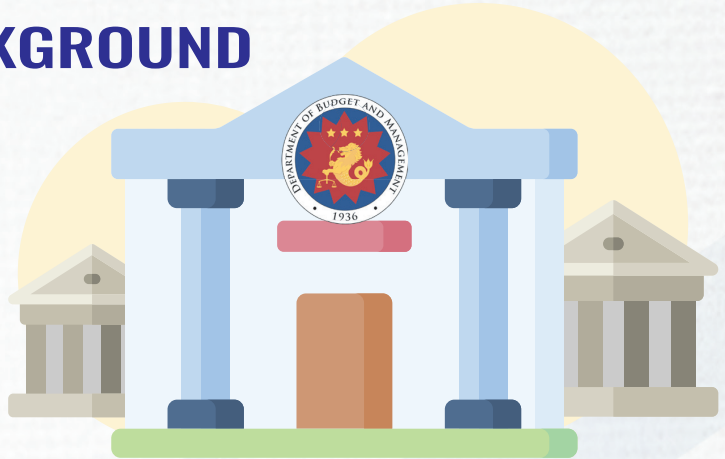
a. Local Sources	13
1. Tax Revenues	13
2. Non-tax Revenues	20
b. External Sources	23
1. National Tax Allotment	23
2. Special Shares in National Taxes	26
3. Local Government Support Fund	32
4. Grants and Donations	33
5. Subsidy Income	33
6. Gains and Premiums	34
7. Subsidy Income (Inter-Local Transfer)	34
8. Capital / Investment Receipts	34
9. Loans and Borrowings	34
iv. Special Purpose Appropriations	35
B. Budget Authorization	38
i. Budget Preparation Flowchart	38
ii. Summary of Budget Authorization	39
C. Budget Review	43
i. Budget Review Flowchart	43
ii. Summary of Budget Review	44
D. Budget Execution	47
i. Budget Execution Flowchart	48
ii. Summary of Budget Execution	49
iii. Procurement laws and guidelines	53
iv. Remedies of an LGU in case of fund shortage, especially during calamity	57
E. Budget Accountability	57
i. Budget Accountability Flowchart	58
ii. Summary of Budget Accountability	59



# I. DBM HISTORY AND BACKGROUND

## A. Mandate

Under Executive Order No. 292 dated July 29, 1987, the DBM is “responsible for the efficient and sound utilization of government funds and revenues to effectively achieve our country’s development objectives.”



## B. Functions Related to Local Government Units

- In general, the DBM promulgates guidelines in order to improve and systematize methods, techniques and procedures employed in budget operation, preparation, authorization, review, execution, and accountability;
- Pursuant to Section 115, Title VI, Book I of the Local Government Code (LGC), the DBM “shall furnish the various local development councils information on financial resources and budgetary allocations applicable to their respective jurisdictions to guide them in their planning functions”;
- The DBM reviews the annual and supplemental budgets of local government units (LGUs); and
- It also releases allocations to LGUs through the Bureau of the Treasury (BTr), as authorized under the General Appropriations Act.

## C. Brief History

### Creation of the Budget Commission

The DBM was created by virtue of Executive Order No. 25 dated April 25, 1936 by Commonwealth President Manuel L. Quezon. The National Assembly certified the creation of the Commission on September 30, 1936

### Revised Budget Act of 1954 (RA No. 992)

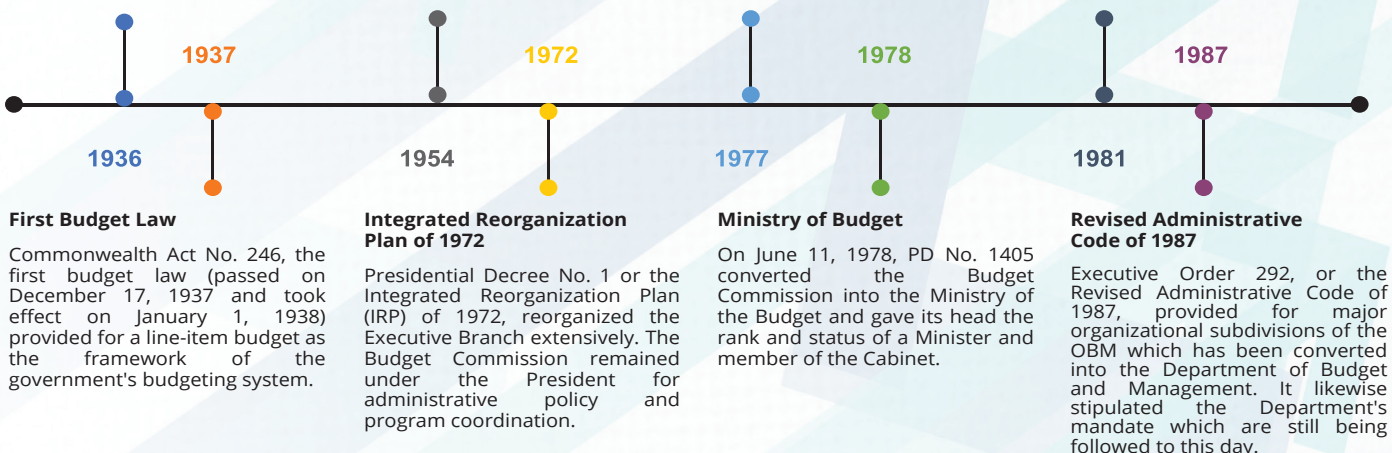
The Revised Budget Act of 1954 introduced the performance budgeting system and put emphasis on budgetary programs and activities and on expected results. Its passage on June 4, 1954 abolished the triumvirate under EO 25, replacing it with the Office of the Budget Commissioner.

### Budget Reform Decree of 1977

Presidential Decree (PD) No. 1177 or the Budget Reform Decree of 1977, which prescribed the “form, content, and manner of preparing the budget.” PD 1177 strengthened the planning, programming, and budgeting linkages; and introduced a regionalized budget supportive of a region based government structure.

### Office of Budget and Management

On July 28, 1981, Executive Order No. 711 was issued reclassifying/renaming the Ministry of Budget into the Office of Budget and Management (OBM), its head retaining the rank of a Cabinet member.





## II LOCAL BUDGETING AT A GLANCE

### A. What is the system of governance between the National Government (NG) and the LGUs?

In accordance with the 1987 Constitution, the NG and the LGUs adopt a concept of autonomy under a system of decentralization of administration.

Decentralization simply means the devolution of national administration, not power, to local governments. The purpose of the delegation is to make governance more directly responsive and effective at the local levels. In turn, economic, political and social development at the smaller political units are expected to propel social and economic growth and development.

However, despite decentralization of administration, Section 305 (h) of Republic Act (RA) No. 7160 mandates the 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.

### B. What is the role of the President when it comes to the fiscal administration of the LGUs?

The President, being the chief fiscal officer of the country who exercises general supervision over the LGUs, ensures that local programs and local fiscal policies are consistent with the Constitution, statutory laws and national goals. These may be achieved by issuing continuous, coordinated and integrated social and economic policies, plans and programs, upon consultation with appropriate public agencies, various private sectors, and LGUs.

### C. When may the President interfere in local fiscal matters?

Under Section 284, Chapter 1, Title 3, Book II of the LGC, the President is authorized to make the necessary adjustments in the internal revenue allotment (IRA) of LGUs, provided that the following requisites are present:

- (1) That the NG incurs an unmanageable public sector deficit;
- (2) That the adjustment is based upon the recommendation of Secretary of Finance, Secretary of Interior and Local Government, and Secretary of Budget and Management;
- (3) That the presiding officers of both Houses of Congress and the presidents of the “liga” or various local leagues have been consulted; and
- (4) That the adjustment shall not be less than 30% of the collection of national internal revenue taxes of the third fiscal year preceding the current fiscal year.

The President of the Philippines may [also], when public interest so requires, condone or reduce the real property tax and interest for any year in any province or city or a municipality within the Metropolitan Manila Area.<sup>3</sup>

<sup>1</sup> *Pimentel, Jr. v. Aguirre, et al.* G.R. No. 132988. 19 July 2000

<sup>2</sup> Local Government Code of 1991

<sup>3</sup> Section 277, Chapter 8, Title II, Book II of the LGC



## D. Examples of devolved basic facilities and services that need to be funded by the LGUs

### Agricultural And Environmental



- Implementation of community-based forestry projects
- Irrigation systems
- Enforcement of fishery laws
- Implementation of community-based forestry projects
- Assistance in the organization of farmers' and fishermen's
- Cooperatives and other collective organizations

### Economic



- Extension and on-site research services and facilities
- Industrial research and development services
- Investment support
- Tourism facilities

### Health and Sanitation



- Access to healthcare and establishment of health facilities such as quarantine facilities
- Healthcare services, purchase of medicines, medical supplies, and equipment
- Solid waste disposal, sanitation and general hygiene

### Social Welfare



- Buildings, schools and recreational areas
- Community-based rehabilitation programs for the poor, juvenile delinquents and victims of drug abuse
- Low-cost Housing

### Infrastructure Development



- Roads and bridges
- Communal irrigation, small water impounding projects and other similar projects
- Flood control, Public markets and slaughterhouses



## E. What are the funds that the LGUs may receive from the National Government?

- (a) Funds granted to LGUs by virtue of an appropriation law (e.g., the Local Government Support Fund);
- (b) Internal Revenue Allotment [Sections 284-288, LGC];
- (c) Share in the Proceeds from the Development and Utilization of the National Wealth [Sections 289-294, LGC];
- (d) Loans from Funds Secured by the National Government from Foreign Sources [Section 301, LGC]; and
- (e) Other funds as may be authorized by law.

## F. What is the essential requirement before local government funds may be used?

There should be an appropriation ordinance.

## G. What is the difference between budget, appropriation, and allotment?

	BUDGET	APPROPRIATION	ALLOTMENT
Definition	Budget is a financial plan embodying the estimates of income and expenditures for a given period of time, usually for one (1) fiscal year. [Section 306 (a), LGC]	“Appropriation” refers to an authorization made by ordinance, directing the payment of goods and services from local government funds under specified conditions or for specific purposes. [Section 306 (b), LGC]	<ul style="list-style-type: none"> <li>• Allotment is an authorization issued to incur obligations for specified amounts contained in an appropriation law.</li> <li>• It may also refer to the amount allocated for a specific purpose or a program/ project/ activity.</li> </ul>
Relevant Document(s)		<p>Appropriation Ordinance (AO)</p> <p>Serves as legal basis for the release of funds from the local treasury</p>	<ul style="list-style-type: none"> <li>• General Appropriations Act as an Allotment Order (GAAAO)</li> <li>• Special Allotment Release Order (SARO) – issued by the DBM to an agency for budget items requiring compliance with certain conditionalities</li> <li>• Allotment Release Order (ARO) – issued by the Local Budget Officer (LBO) to each Department/Office</li> </ul>

	BUDGET	APPROPRIATION	ALLOTMENT
Importance	Serves as guide for the LGU's fiscal administration		<ul style="list-style-type: none"> <li>Triggers the awarding of a contract to a bidder</li> <li>It is a control measure adopted to ensure that obligations do not exceed appropriations.</li> </ul>

## H. What do you mean by “download” of funds? What triggers the downloading of the Local Government Support Fund (LGSF)?

The term “download” of funds simply means the transfer of funds from the BTr or from an agency to another government entity. Upon the approval of the release of LGSF, Notices of Cash Allocation (NCAs) and Advice of NCA Issued (ANCAI) will be released to the Authorized Government Servicing Banks and BTr, respectively. The release of the NCAs and ANCAIs will trigger the actual downloading of the funds to the respective accounts of the LGUs concerned by the BTr.

## I. What is the duration of a local appropriation?

Appropriations for ordinary administrative purposes not duly obligated shall terminate with the fiscal year and all unexpended balances thereof shall be automatically reverted on the thirty-first (31st) day of December of each year to the general fund of the local government unit.<sup>4</sup>

## J. What happens to the balances of local appropriations and to the appropriations for capital outlays at the end of the fiscal year?

*Unspent appropriations* at the close of a fiscal year shall be reverted to the general fund. However, appropriations for *capital outlays* shall continue and remain valid until fully spent, reverted or the project is completed.<sup>5</sup>

## K. Example of budget authorization document that DBM directly issues to LGUs

DOCUMENT	WHAT	VALIDITY
<b>Authority to Purchase/Rent Motor Vehicle (APMV)</b>	A document issued by the DBM to LGUs, authorizing the acquisition or rental of motor vehicles (MVs) for more than fifteen (15) days, if the source of funds is the National Government (NG) funds.	<p>The validity of APMV depends on its fund source–</p> <p>(i) If MV will be funded from a subsidy of the National Government, the validity will be based on the provisions in the GAA.</p>

<sup>4</sup> Section 328, Article I, Chapter III, Book I of the LGC

<sup>5</sup> Section 322, LGC



DOCUMENT	WHAT	VALIDITY
		(ii) However, if said MV will be funded from the income generated by a SUC or hospital, its validity will depend on the implementation period of the operating budget approved by the SUC's board or the hospital's management committee.

## L. What are disbursements?

Disbursements refer to the actual withdrawal of cash from the BTr or the Local Treasury, as the case may be, due to the encashment of checks issued by agencies/LGUs and payment of budgetary obligations.<sup>6</sup>

# III BUDGETING PRINCIPLES AND FRAMEWORK

## A. Fundamental Principles of Budgeting

Section 305 of RA No. 7160 provides the following fundamental principles which govern the financial affairs, transactions, and operations of LGUs, to wit:

- (a) No money shall be paid out of the local treasury except in pursuance of an appropriations ordinance or law;
- (b) Local government funds and monies shall be spent solely for public purposes;
- (c) Local revenue is generated only from sources expressly authorized by law or ordinance, and collection thereof shall at all times be acknowledged properly;
- (d) All monies officially received by a local government officer in any capacity or on any occasion shall be accounted for as local funds unless otherwise provided by law;
- (e) Trust funds in the local treasury shall not be paid out except in fulfillment of the purpose for which the trust was created or the funds received;
- (f) Every officer of the local government unit whose duties permit or require the possession or custody of local funds shall be properly bonded, and such officer shall be accountable and responsible for said funds and the safekeeping thereof in conformity with the provisions of law;
- (g) Local governments shall formulate sound financial plans, and local budgets shall be based on functions, activities, and projects, in terms of expected results;

<sup>6</sup> Section 4, Rule 1, 2009 Revised Rules of Procedure of the Commission on Audit



- (h) 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;
- (i) Local budgets shall operationalize approved local development plans;
- (j) Local government units shall ensure that their respective budgets incorporate the requirements of their component units and provide for the equitable allocation of resources among these component units;
- (k) National planning shall be based on local planning to ensure that the needs and aspirations of the people as articulated by the local government units in their respective local development plans are considered in the formulation of budgets of national line agencies or offices;
- (l) Fiscal responsibility shall be shared by all those exercising authorities over the financial affairs, transactions, and operations of the local government units; and
- (m) The local government unit shall endeavor to have a balanced budget in each fiscal year of operation.

## B. Local Budgeting Framework

Budgeting in LGUs follows three (3) budgeting framework, particularly:

BUDGETING FRAMEWORK	DEFINITION	SAMPLE APPLICATION
1) Participatory Budgeting	An approach wherein citizens, through Civil Society Organizations (CSOs), are allowed to take part in the local budget process.	Accredited non-governmental organizations (NGOs) are represented in every Local Development Council. [Sec. 107, Title VI, Book II of the LGC]
2) Policy-Based Budgeting	Budget is prepared with due regard to local government policy which should be harmonized with the development plans and reflected in investment programs.	From the approved Local Development Investment Program (LDIP), the annual slice is culled out to constitute the Annual Investment Program (AIP).
3) Performance Informed Budgeting	Uses performance information in appropriation documents to link funding to results and to provide a framework for more informed resource allocation and management.	Major Final Outputs (MFOs)/ Performance Indicators (PIs) are utilized to measure how well the goods or services are delivered.



## C. Cash Budgeting System

On September 9, 2019, President Rodrigo Roa Duterte signed Executive Order (EO) No. 91, entitled “Adopting the Cash Budgeting System Beginning Fiscal Year 2019, and for Other Purposes”.

Under the Cash Budgeting System, all appropriations shall be made available for obligation and disbursement only until the end of each fiscal year. Payments for obligations incurred within the fiscal year may be made up to an extended period of three (3) months after the end of the validity of appropriations against which they are obligated, unless otherwise prescribed by the DBM upon consultation with the relevant agencies.

However, appropriations for financial subsidies to LGUs will be available for obligation and disbursement until the end of the succeeding fiscal year, while appropriations for statutory shares of LGUs, such as the IRA and shares in the collections of burley and native tobacco excise tax, will be available until fully expended.

## D. Plan-Budget Linkage

The Annual Investment Program (AIP) of each LGU must be patterned after the approved Local Development Investment Program (LDIP). To ensure plan-budget linkage and ensure that local budgets truly operationalize approved local development plans, it is imperative that:

1. The investment programs contain priority programs, projects, activities (PPAs) that will directly contribute to the achievement of the goals and objectives of the LGU, as embodied in the development plans; and
2. The local budgets fund the PPAs included in the investment programs, particularly in the AIP.

**FY \_\_\_\_\_ Annual Investment Program (AIP)**  
**By Program/Project/Activity by Sector**  
**As of \_\_\_\_\_**

Province/City/Municipality: \_\_\_\_\_

No Climate Change Expenditure (Please check the box if your LGU does not have any climate change expenditure)

AP Reference Code	Program/Project/Activity Description	Implementing Office/Department	Schedule of Implementation		Expected Outputs	Funding Source	AMOUNT (In Thousand Pesos)				AMOUNT of Climate Change expenditure (In Thousand Pesos)		CC Typology Code
			Start Date	Completion Date			Personal Services (P5)	Maintenance and Other Operating Expenses (MOOE) (9)	Capital (CO) (10)	Total (11) 8-9-10	Climate Change Adaptation (12)	Climate Change Adaptation (13)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
General Services (1000)													
Social Services (3000)													
Economic Services (8000)													
Other Services (9000)													

Prepared by:

Planning Officer

Date: \_\_\_\_\_

Budget Officer

Date: \_\_\_\_\_

Attested by:

Local Chief Executive

Date: \_\_\_\_\_



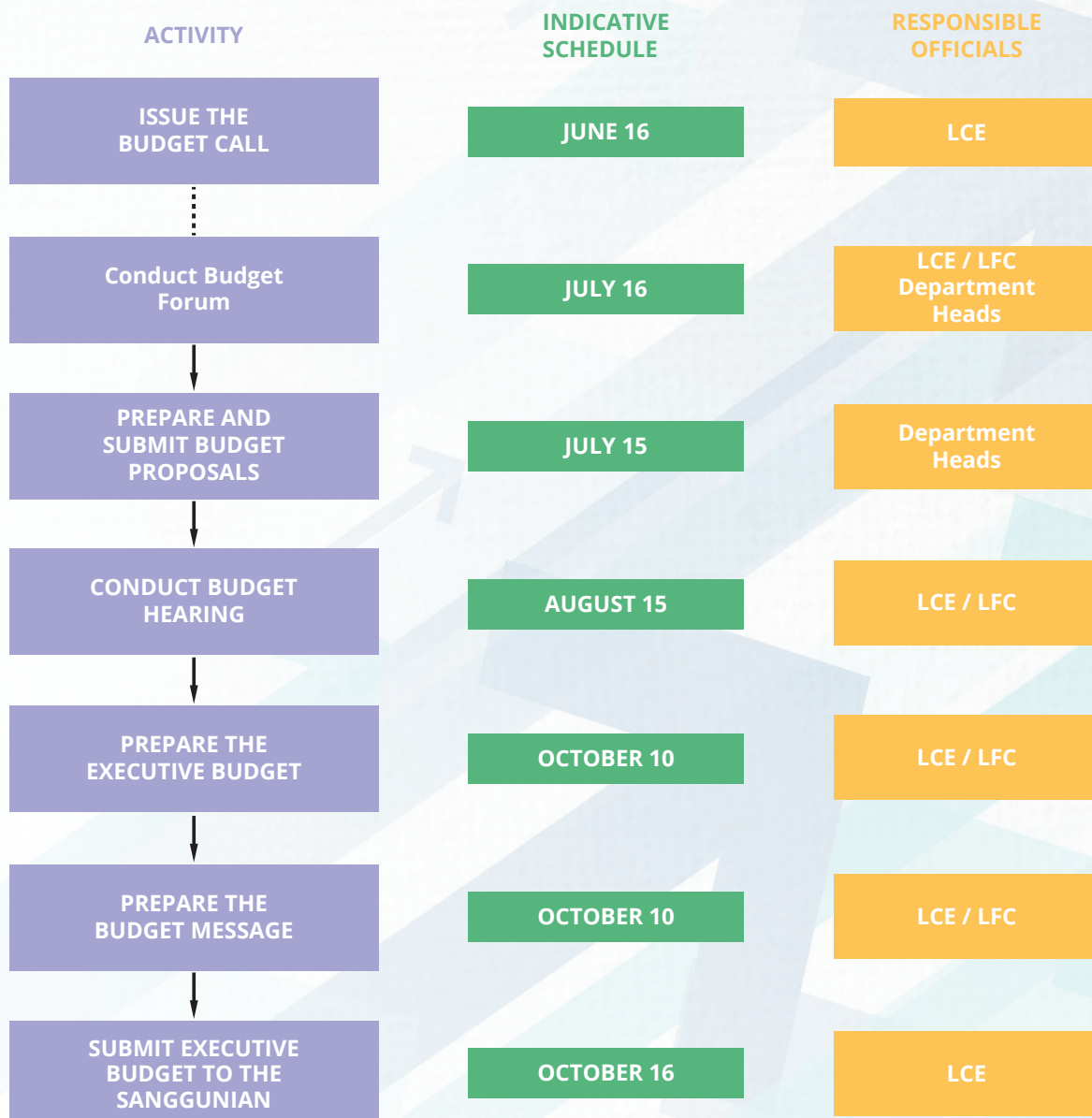
## IV. THE LOCAL BUDGET PROCESS

The budget process in LGUs is divided into the following five (5) phases:

**(A) Budget Preparation** is the first phase of the local budget process. It involves cost estimation per PPA, preparation of budget proposals, executive review of budget proposals, and preparation of the Local Expenditure Program (LEP) and the Budget Message. This phase starts with the issuance of the Budget Call and ends with the submission of the Executive Budget to the Sanggunian on or before October 16 of each year.

### (i) Budget Preparation Flowchart

**Figure 5. Budget Preparation Flowchart**





## (ii) Summary of Budget Preparation

<b>PHASE 1: PREPARATION</b> <b>(Compliance Period: June 16 - October 16)</b>			
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S) TO BE SUBMITTED	REMARKS
<b>1) Issuance of Budget Call</b>	LCE	Budget Call	<ul style="list-style-type: none"> <li>- Signals the start of the budget preparation period</li> <li>- It contains the following items: <ul style="list-style-type: none"> <li>(a) Spending ceilings by major expenditure (Personal Services [PS], Maintenance and Other Operating Expenses [MOOE] and Capital Outlay [CO]);</li> <li>(b) Resource allocation scheme or fiscal policy decisions;</li> <li>(c) Objectives, strategies, and priority PPAs; Expected results;</li> <li>(d) Budget Calendar and budget preparation forms; and</li> <li>(e) Other administrative guidelines.</li> </ul> </li> <li>- Departments and offices of the LGU shall be guided by the policies, ceilings, and targets embodied in the Budget Call.</li> </ul>
<b>2) Conduct of Budget Forum</b>	<ul style="list-style-type: none"> <li>• LCE</li> <li>• Local Finance Committee (LFC)</li> <li>• CSOs</li> <li>• Private Sector Group</li> </ul>		<p><b>Budget Forum</b> is a one-day forum wherein all stakeholders are invited to explain and discuss the objectives for the budget year, major thrusts and policy decisions; sources of income for the past three (3) years; income estimates and corresponding assumptions; spending ceilings and budget strategies; timelines of activities and forms to be used.</p>
<b>3) Preparation and Submission of Budget Proposals</b>	<ul style="list-style-type: none"> <li>• LCE</li> <li>• LFC</li> <li>• Heads of Departments and Offices</li> </ul>		<ul style="list-style-type: none"> <li>• Local Budget Preparation (LBP) Form No. 1 – Budget of Expenditure and Sources of Financing (Prepared by the LFC and Local Accountant)</li> <li>• LBP Form No. 2 – Programmed Appropriation and Obligation by Object of Expenditure (Prepared by the Department Head and Reviewed by the LBO)</li> <li>• LBP Form No. 2a – Programmed Appropriations and Obligation for Special Purpose Appropriations (Prepared by the Department Head and Reviewed by the LBO)</li> </ul>

<b>PHASE 1: PREPARATION</b> <b>(Compliance Period: June 16 - October 16)</b>			
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S) TO BE SUBMITTED	REMARKS
	<ul style="list-style-type: none"> <li>• Heads of Local Economic Enterprises (LEEs)</li> <li>• Public Utilities (PUs)</li> </ul>	<ul style="list-style-type: none"> <li>• LBP Form No. 3 - Personnel Schedule (Prepared by the Department Head and Reviewed by the Human Resource Management Officer)</li> <li>• LBP Form No. 4 - Mandate, Vision/Mission, Major Final Output, Performance Indicators and Targets (Prepared by the Department Head and Reviewed by the LFC)</li> <li>• LBP Form No. 5 - Statement of Indebtedness (Certified Correct by the Local Accountant and Local Budget Officer)</li> <li>• LBP Form No. 6 - Statement of Statutory and Contractual Obligations and budgetary requirements (Certified correct by the LFC and Local Accountant)</li> <li>• LBP Form No. 7 - Statement of Fund Allocation by Sector (Certified correct by the Local Accountant and LBO)</li> <li>• Project Procurement Management Plan (PPMP)</li> <li>• Annual Procurement Plan (APP)</li> <li>• Annual Investment Plan (AIP)</li> </ul>	
			The detailed statement on income and expenditures shall be submitted to the LCE on or before July 15 of each year. (Sec. 315, LGC)
4) Conduct Budget Hearings and Evaluation Budget Proposals	LFC		<p>The technical budget hearings are conducted by the LFC to review the rationale of the Department/Office, review the PPAs, validate the revenue sources, PPAs, cost estimates, and expected outputs for the budget year.</p> <p>Budget Proposals are reviewed by the members of the LFC based on the rationale of the PPA; major output and performance indicators criteria, targets; and cost criterion.</p>
5) Preparation and Submission of Executive Budget to the Sanggunian	LFC LCE	<ul style="list-style-type: none"> <li>• <b>Local Expenditure Program (LEP)</b> signed by the LCE;</li> <li>• <b>Budget Message</b> signed by the LCE;</li> <li>• <b>Plantilla of Personnel (LBP Form No. 3)</b> signed by the Department Head, Human Resource Management Officer and LCE;</li> </ul>	<p>The LEP/Executive Budget is primarily composed of two (2) parts: (a) Receipts Program; and (b) Expenditure Program, which reflects the following</p> <p>A. Receipts Program</p> <ul style="list-style-type: none"> <li>• Local (Internal) Sources</li> <li>• Tax Revenue</li> <li>• Non-tax Revenue</li> <li>• External Sources</li> <li>• Internal Revenue Allotment (IRA)</li> <li>• Share from government owned-controlled corporations (GOCCs)</li> <li>• Other shares from National Tax Collection</li> <li>• Inter-Local Transfer</li> <li>• Extraordinary Receipts/Grants/Donation/Aids</li> </ul>



<b>PHASE 1: PREPARATION</b> <b>(Compliance Period: June 16 - October 16)</b>			
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S) TO BE SUBMITTED	REMARKS
		<ul style="list-style-type: none"> <li>• <b>Statement of Indebtedness (LBP Form No. 5)</b> signed by the Local Accountant and LCE;</li> <li>• <b>Annual Operating Budget (AOB) of LEE(s)</b>, if any, signed by the Head of the LEE and LCE;</li> <li>• <b>AIP</b>, duly supported by the Sanggunian through a Resolution</li> <li>• <b>Supporting documents</b> signed by the Local Planning and Development Officer (LPDO), LBO and LCE, particularly:               <ul style="list-style-type: none"> <li>(i) DILG-endorsed Gender and Development (GAD) Plan and Budget;</li> <li>(ii) LDRRM Plan as reviewed by the appropriate reviewing authority consistent with RA No. 10121, its IRR, and pertinent issuances of the NDRRMC;</li> <li>(iii) Local Climate Change Action Plan;</li> <li>(iv) Local Nutrition Action Plan;</li> </ul> </li> </ul>	B. Expenditure Program <ul style="list-style-type: none"> <li>• Performance Information</li> <li>• Proposed New Appropriations by Object of Expenditures:</li> <li>• Special Purpose Appropriations</li> <li>• Appropriation for Development Projects - 20% Development Fund;</li> <li>• Appropriation for Local Disaster Risk Reduction and Management (LDRRM) Program - 5% LDRRM Fund (LDRRMF);</li> <li>• Appropriation for Debt Service;</li> <li>• Advances/Loans to LEEs/Public Utilities;</li> <li>• Aid to Barangays; and</li> <li>• Other authorized special-purpose appropriations</li> <li>• Special Provisions</li> </ul>

PHASE 1: PREPARATION (Compliance Period: June 16 - October 16)			
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S) TO BE SUBMITTED	REMARKS
		(v) Annual Cultural Development Plan approved by the Local Culture and Arts Council;  (vi) Indicative Annual Procurement Plan;  (vii) List of PPAs for the Local Council for the Protection of Children;  (viii) List of PPAs for Senior Citizens and Persons with Disabilities;  (ix) List of PPAs to Combat Acquired Immune Deficiency Syndrome (AIDS); and  (x) List of PPAs to Address the Problem of Illegal Drugs.	

### (iii) Sources of Funds

#### A. Local Sources

##### 1. Tax Revenue

- Refers to local taxes that accrue to the LGUs in accordance with the provision of the Constitution and RA No. 7160 compulsory contributions to finance government operations. Taxes are computed at the rate established by law to a defined base such as income, estate, imports, exports, foreign exchange, etc., without any direct relation to the services rendered to the individual assessed.



<b>Tax Base</b>	<b>Province</b>	<b>Cities*</b>	<b>Municipalities</b>	<b>Municipality within the Metropolitan Manila Area**</b>
Transfer of Real Property Ownership (Section 135 of RA 7160)	Yes	Yes	No	Yes
Printing and Publication (Section 136 of RA 7160)	Yes	Yes	No	Yes
Franchise Tax (Section 137 of RA 7160)	Yes	Yes	No	Yes
Sand, Gravel and Other Quarry Resources (Section 138 of RA 7160)	Yes	Yes	Share	Yes
Professional Tax (with required government examination) (Section 139 of RA 7160)	Yes	Yes	No	Yes
Amusement Tax (Section 140 of RA 7160, as amended by RA No. 9640, 21 May 2009)	Yes	Yes	Share	Yes
Annual Fixed Tax for Every Delivery Truck or Van of Manufacturers or Producers, Wholesalers of, Dealers, or Retailers in, Certain Products (Section 141 of RA 7160)	Yes	Yes	No	Yes
Business Tax (Section 143 of RA 7160)	No	Yes	Yes	Yes
Community Tax (Section 156 of RA 7160)	No	Yes	Yes	Yes
Real Property Tax (Section 232 of RA 7160)	Yes	Yes	Share	Yes

<b>Tax Base</b>	<b>Province</b>	<b>Cities*</b>	<b>Municipalities</b>	<b>Municipality within the Metropolitan Manila Area**</b>
Additional Levy on Real Property for the Special Education Fund (Section 235 of RA 7160)	Yes	Yes	No	Yes
Additional Ad Valorem Tax on Idle Lands (Section 236 of RA 7160)	Yes	Yes	No	Yes
Special Levy on Lands Benefited by Public Works, Projects or Improvements Funded by LGU concerned (Section 240 of RA 7160)	Yes	Yes	Yes	Yes
Socialized Housing Tax (RA 7279 and LFC 1-97)	No	Yes	No	No
Fees and Charges on Business and Occupation (Section 147 of RA 7160)	No	Yes	Yes	Yes
Fees for Sealing and Licensing of Weights and Measures (Section 148 of RA 7160)	No	Yes	Yes	Yes
Fishery Rentals, Fees and Charges (Section 149 of RA 7160)	No	Yes	Yes	Yes
Service Fees and Charges (Section 153 of RA 7160)	Yes	Yes	Yes	Yes
Public Utility Charges (Section 154 of RA 7160)	Yes	Yes	Yes	Yes
Toll Fees or Charges (Section 155 of RA 7160)	Yes	Yes	Yes	Yes
Other Fees and Charges (Section 147 and 151 of RA 7160)	Yes	Yes	Yes	Yes



**Notes:**

**\*Taxing Powers of Cities**

- Except as otherwise provided in the LGC, the city may levy the taxes, fees, and charges which the province or municipality may impose: provided, however that the taxes, fees, and charges levied and collected by highly urbanized and independent component cities shall accrue to them and distributed in accordance with the provisions of the LGC.
- The rates of taxes that the city may levy may exceed the maximum rates allowed for the province or municipality by not more than fifty percent (50%) except the rates of professional and amusement taxes. (Sec. 151, LGC)
- The city may levy and collect a percentage tax on any business not otherwise specified under paragraphs (a) to (g), Article 232, IRR of the LGC, at rates not exceeding three percent (3%) of the gross sales or receipts of the preceding calendar year. (Art. 237, IRR implementing Sec. 151, LGC)
- A city may levy local business tax in addition to local franchise tax at the same time. (GR No. 213136, 5 September 2018)

**\*\*Taxing Powers of Municipalities within MMA**

- The municipality within MMA may levy taxes on businesses enumerated under Article 232, IRR implementing Sec. 143 of the LGC, at rates not exceeding fifty percent (50%) of the maximum rates prescribed for said businesses. [Art. 236 (a), IRR implementing Sec. 144, LGC]
- The municipality may levy and collect taxes which may be imposed by the province at the rates not exceeding those prescribed therein. [Art. 236 (b), IRR implementing Sec. 144, LGC]
- In the case of the basic real property tax, the municipality within MMA may fix a uniform rate not exceeding two percent (2%) of the assessed value of real property. [Sec. 233 (b), LGC]



## Revenues Sources Of LGUs

### Land

#### Real Property Tax

- basic tax imposed on real properties and their improvements. Real property includes land, building machinery and other improvements affixed or attached to the real property.

#### Special Levy on Idle Lands

- tax imposed on idle lands in addition to the basic real property tax (Section 273 of RA No 7160)

#### Special Levy on Land Benefited by Public Works Project

- tax imposed on lands benefited by public works projects or improvements funded by the local government. (Section 274 of RA No 7160)



#### Manufacturers, Assemblers, etc.

- Taxes on gross sales or receipts of manufacturers, assemblers, re-packers, processors, brewers, distillers, rectifiers, and compounders of liquors, distilled spirits, and wines or manufacturers of any article of commerce in whatever kind of nature. (Section 131 (o) of RA 7160).



#### Special Education Tax

- tax imposed on real property in addition to the basic real property tax which accrues to the Special Education Fund.

### Business/Exercise of Profession

#### Amusement Tax

- Taxes on gross receipts from admission fees collected by operators of cinemas / concert hall/stadium and other places of amusement (Section 131 (b) of RA 7160)

#### Business Tax

- This account is used to record taxes on businesses enumerated under Article 232 of IRR of RA 7160 (Section 131 (d) of RA 7160)



## Business/Exercise of Profession

### Wholesalers, Distributors, etc.

- Taxes on gross sales or receipts on wholesalers, distributors, or dealers in any article of commerce of whatever kind or nature. (Section 131 (z) of RA 7160).

### Exporters, Manufacturers, Dealers, etc.

- Taxes on gross receipts of exporters, manufacturers, millers, producers, wholesalers, distributors, dealers or retailers of essential commodities.

### Retailers

- Taxes imposed on gross sales or receipts of retailers. (Section 131 (w) of RA 7160)



### Other Business Taxes

- Taxes imposed by cities and municipalities on gross receipts/sales including, but not limited to, the following:

#### Franchise Tax

- Taxes imposed by the province/city on franchise granted to business operating within the locality. (Section 131 (m) of RA 7160)



### Contractors and Other Independent Contractors

- Taxes on gross sales or receipts on contractors and other independent contractors. Section 131 (h) of RA 7160)

### Banks and Other Financial Institutions

- Tax on gross receipts on banks and other financial institutions, including non-bank financial intermediaries, lending investors, finance and investment companies, pawnshops, money shops, insurance companies, stock markets, stock brokers and dealers in securities and foreign exchange. (Section 131 (h) of RA 7160)

### Peddlers

- Taxes imposed by cities and municipalities on sales of a person who either for himself or on commission, travels from place to place and sells his goods or offers to sell and delivers the same. (Section 131 (t) of RA 7160)

### Printing and Publication Tax

- Taxes imposed on the business of a person engaged in the printing and/or publication of books, cards, posters, leaflets, handbills, certificates, receipts, pamphlets, and other printed materials of similar nature. (Section 136 of RA 7160)



- Cafes, cafeterias, ice cream and other refreshment parlors, restaurants, soda fountain bars, carenderias or food caterers;
- Commission agents;
- Lessors, dealers, brokers of real estate;
- On travel agencies and travel agents;
- On boarding houses, pension houses, motels, apartments, apartelles, and condominiums;
- Subdivision owners/private cemeteries and memorial parks;
- Privately-owned markets;
- Hospitals, medical clinics, dental clinics, therapeutic clinics, medical laboratories, dental laboratories;
- Cockpit operations (to include placida and cockpit rentals);
- Operators of computer establishment;
- General consultancy services; and
- All other similar activities consisting essentially of the sales of services for a fee.

## Others

### Tax on Delivery Trucks and Vans

- Taxes imposed by the province on delivery trucks and vans or other types of vehicles used in the delivery or distribution of products. (Section 141 of RA 7160)

### Tax on Sand, Gravel and Other Quarry Resources

- Taxes on stones, sand, gravel, earth and other quarry resources extracted from public land and water. (Section 138 of RA 7160)

### Community Tax – Individual

- Community tax levied upon every inhabitant of the Philippines eighteen (18) years old and above who has been regularly employed on a wage or salary basis for at least 30 consecutive working days during any calendar year, or who is engaged in business or occupation, or who owns real property with an aggregate assessed value of P1,000 or more or who is required by law to file an annual income tax return imposed by City and Municipality. (Section 157 of RA 7160)

### Community Tax – Corporation

- Annual community tax levied upon partnership/corporation engaged in or doing business in the Philippines required by law to file an annual income tax imposed by city and municipality. (Section 158 of RA 7160)

### Professional Tax

- Tax imposed on all persons by the province/ city on all persons engaged in the practice/ exercise of their profession requiring government examination. (Section 139 of RA 7160).





## Tax on Transfer of Real Property Tax Ownership

- Tax imposed by the province/city on the sale, donation, barter, or any other mode of transferring ownership or title of real property. (Section 135 of RA 7160)

## Other Taxes

- Local taxes imposed by LGU that do not fall under any of the above categories.



## 2. Non-tax Revenues

- financial charges in the form of fees for the rent of Government property, and purchase of Government permits and forms

### a. Regulatory Fees (Permit and Licenses) - Fees derived from the exercise of the regulatory powers of local government

- Fees on Weights and Measures - Fees for the sealing and licensing of weights and measures.
- Fishery Rental Fees - Fees on the fishery privileges granted in the use of municipal waters and licenses for the operation of fishing vessels weighing three (3) tons or less.
- Franchising and Licensing Fees - Fees on franchises/licenses issued.
- Business Permit Fees - Fees derived from the regulation of business.
- Building Permit Fees - Fees derived from the issuance of permits under the Building Code, e.g. building permits, mechanical permits, certificate of use or occupancy, sanitary/plumbing inspection fees, electrical permit fees, etc.
- Zonal/Location Permit Fees - Fees collected for the issuance of zonal/location clearances.
- Tricycle Operators Permit Fees - Fees from the regulation of the operation of tricycle/pedicab and the granting of franchise.
- Occupational Fees - Fees collected for the issuance of occupational permit. (i.e., plumber, massage attendant, artists, actors, etc.).
- Other Permits and Licenses – refers to other permits and license fees that do not fall under any of the above categories.





- Registration Fees - Collection of local government units for registration fees.
- Civil Registration Fees - Fees for transaction requiring entry in the civil registry (i.e. birth, marriage, death).
- Inspection Fees - Fees collected for the conduct of inspection by authorized government officials.
- Cattle/Animal Registration Fees – refers to fees for the issuance of certificate of ownership/transfer of large cattle/animal.
- Fines and Penalties – Permit and License – Fines and penalty charged to permit and licenses.

## **b. Service Income/User Charge - Reasonable charges imposed by LGU for services rendered.**

- Clearance and Certification Fees - Fees collected for the issuance of clearances/certificates to individuals/organizations/groups/agencies/corporations by local government units.
- Police Clearance - Fees collected for the issuance of police clearance.
- Secretary's Fees - Fees collected for certifying/issuing copies of official documents.
- Health Certificate - Fees collected for the issuance of health certificate.
- Other Clearance and Certification - Fees on other clearance and certification that do not fall under the above category.
- Other Fees - Fees derived from the exercise of regulatory/police powers of local governments not falling under any of the above categories.
- Garbage Fees - Fees collected for the collection and disposal of waste/garbage.
- Wharfage Fees - Toll fees for the use of pier/wharf/waterways. Other definition: Section 131 – y.
- Toll Fees - Toll fees for the use of public roads, bridges or telecommunication system. Other definition: LGC Section 155.
- Others - Receipts from other services rendered that do not fall under the above categories.
- Fines and Penalties-Service Income - Fines and penalties imposed on service income.
- Landing and Aeronautical Fees – Fees collected from foreign/domestic airlines for the use of runways and airports such as aircraft parking, apron lighting, tacking fees and other fees.





- **Parking and Terminal Fees** - Fees collected for the use of parking area and terminal facilities.
- **Hospital Fees** – Fees collected for hospital services rendered other than medical, dental and laboratory services. (These types of fees are recognized if the LGU hospital is not considered as an economic enterprise).
- **Medical, Dental and Laboratory Fees** - Fees received for medical, dental and laboratory examination from clinic/center or rural health unit (excluding medical, dental and laboratory fees from hospital operated by LGUs as economic enterprise).
- **Market and Slaughterhouse Permit Fees** - Fees for the issuance of market and slaughterhouse permit.
- **Printing and Publication Fees** - Fees imposed to operate printing and publication business such as printing and/or publication of books, cards, posters, leaflets, handbills, certificates, receipts, pamphlets, and other printed materials of similar nature.

### **c. Income from Economic Enterprises (Business Income)**

- Impositions for the operation of economic enterprises in connection with the government's exercise of its proprietary functions.

- Represents impositions for the operations of economic exercise of its propriety functions.

- **Income from School** – Income realized from school operated as economic enterprise by the LGU.
- **Income from Power Generations, Transmission and Distribution** - Income realized from LGUs' operation of power/fuel generations/transmission and distribution.
- **Income from Hospital Operations** – Income realized from LGUs' operation of hospitals.
- **Income from Canteen/Restaurant Operations** - Income from canteen/cafeteria/eatery operated by the LGUs.
- **Income from Cemetery Operations** - Income realized from the operation of public cemetery.
- **Income from Communication Facilities** - Income realized from communication facilities owned/operated by the LGUs.
- **Income from Dormitory Operations** – Income realized from dormitory operations.
- **Income from Markets** - Income realized from the operation of market including rental of market stalls.
- **Income from Slaughterhouses** - Income realized from the operation of slaughterhouse.





- Income from Transportation System - Income realized from operation of transportation system.
- Income from Waterworks System - Income realized from operation of waterworks system.
- Printing and Publication Income - Income realized from operation of transportation system.
- Lease/Rental of Facilities - Income from lease/rental of LGU properties with lease/rental agreement and consider as economic enterprise.
- Income from Trading Business – Income earned from LGUs trading business.
- Income from Other Economic Enterprise - Receipt from LGU's other economic enterprises not elsewhere classified.
- Fines and Penalties-Economic Enterprise - Fines and penalties on economic enterprises operated by LGU.

#### d. Other Receipts

- receipts not falling in any of the other Non-Tax Revenue categories.
- Interest Income - Interest earned on deposits with banks, loans and investments on bonds, treasury notes, treasury bills and promissory notes.
- Dividend Income - Income derived from investment on stocks of government corporations and private enterprises
- Rebates on MMDA Contribution Metro Manila LGUs - Rebates on the Metro Manila Development Authority (MMDA) contribution applicable to LGU under the National Capital Region (NCR).
- Sale of Confiscated/Abandoned/Seized Goods and Properties - Proceeds from the sale of confiscated/abandoned/seized goods and properties in favor of the government.
- Others - Other receipts not otherwise classified.



## B. External Sources

### 1. National Tax Allotment (commonly known as IRA)

#### Legal Bases

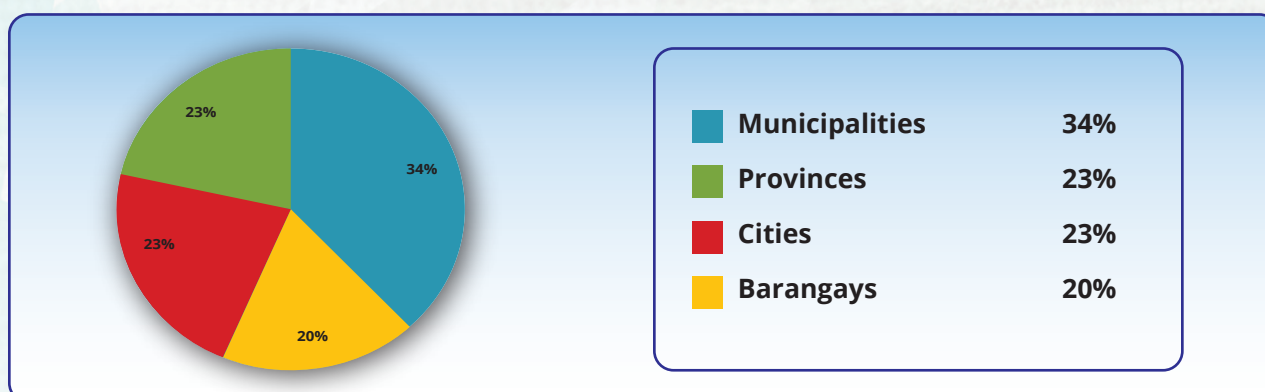
- Section 284 of RA No. 7160 provides that LGUs shall have a forty percent (40%) share in the national internal revenue taxes (NIRT) based on the collection of the third fiscal year preceding the current fiscal year.



- Sections 18 and 286 of RA No. 7160 and Articles 383 and 390 of its IRR specify that the share of LGUs shall be automatically and directly released to the provincial, city, municipal or barangay treasurer without need of any further action, and shall not be subject to any lien or holdback that may be imposed by the National Government.
- RA No. 9358, appropriating a supplemental budget for FY 2006, provided the following, among others:
  - That the IRA is considered automatically appropriated and that future local government share in the national taxes or IRA shall be automatically appropriated (Section 4); and
  - That the amounts appropriated in the said law, to include shares of LGUs (in IRA and other shares therein), shall be released by the DBM in accordance with budgeting laws, rules and regulations (Section 5).

## Distribution of Shares

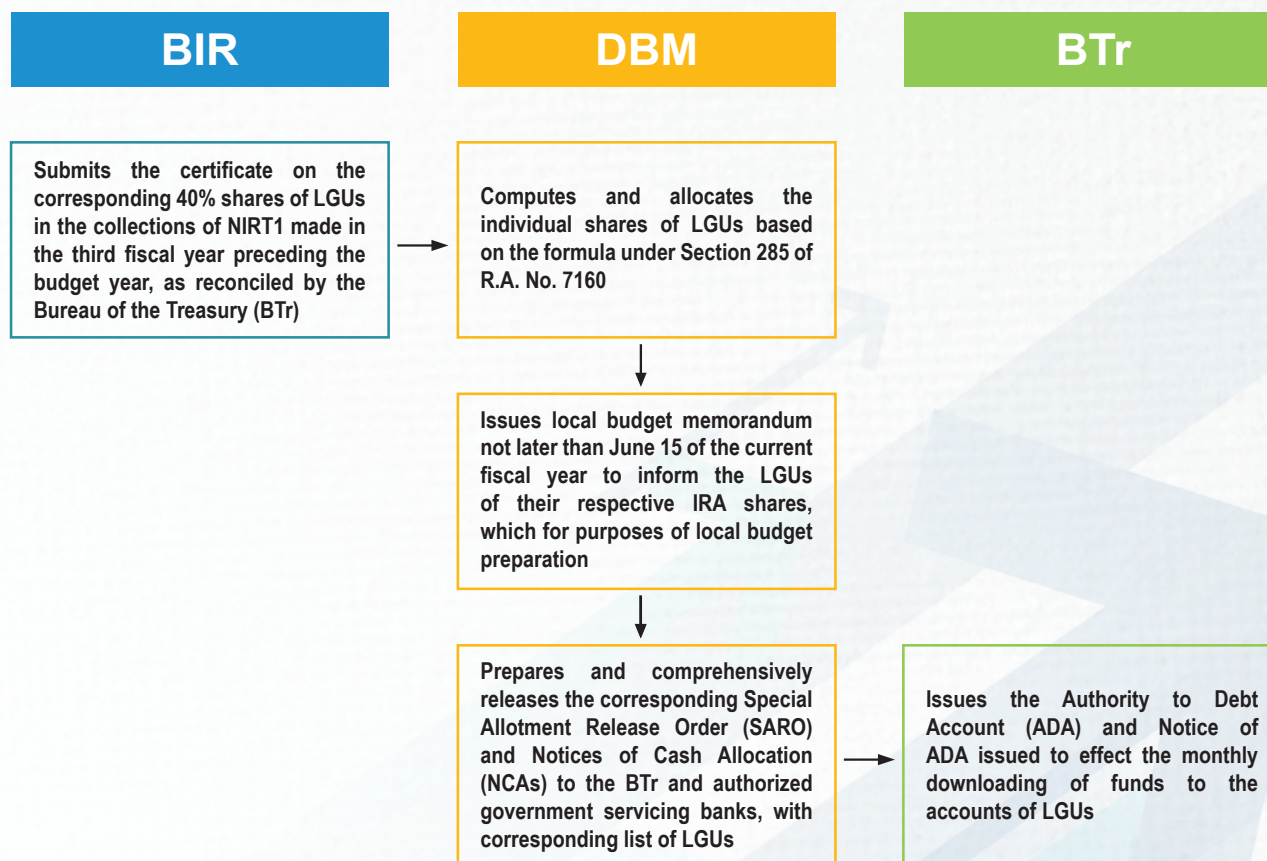
Section 285 of RA No. 7160 as implemented by Article 382 (a), IRR of RA No. 7160, provides the “codal formula” or the manner of allocation of the IRA share for the four (4) levels of LGUs as follows:



The distribution of the shares of individual provinces, cities and municipalities is made on the basis of the following formula:

Factor	Percentage	Source
Population	50%	FY 2015 Census of Population by Province, City, Municipality, and Barangay, as approved through Proclamation No. 1269 dated May 19, 2016.
Land Area	25%	FY 2001 Masterlist of Land Area certified by the Land Management Bureau pursuant to Oversight Committee on Devolution Resolution No. 1, s. 2005 dated September 12, 2005
Equal Sharing	25%	

## Fund Release Procedure





## Implication of Mandanas - Garcia Case

### Supreme Court (SC) Ruling

- In its July 3, 2018 Decision, the SC ruled that Section 284 of the LGC is unconstitutional as it deviates from the plain language of Section 6 of Article X of the 1987 Constitution. According to the Decision, the Congress has the primary discretion to determine and fix the “just share” of the LGUs in the national taxes. However, Congress has no authority to change the base for the computation of the just share. Under Section 6 of Article X of the 1987 Constitution, the just share of the LGUs to be derived from the “national taxes,” which phrase, according to the court, should include ALL national taxes—national internal revenue taxes and customs duties.”
- In its Decision, the SC dismissed the claims of LGUs for the settlement by the NG of arrears in the just share on the ground that the Decision shall have a prospective application.

### Fiscal Implications

- With the implementation of the SC Decision in the Mandanas Case starting with the FY 2022 budget cycle, the LGUs are expected to have a significant increase in their respective IRA shares, which will result in an equivalent decrease in the amount of available fiscal resources for the programs and projects of the National Government.
- Given this situation, the most viable option identified by the fiscal managers of the National Government is to fully devolve services to the LGUs. As their IRA increases, the LGUs are now expected to fully provide the delivery of devolved services as prescribed in Section 17 of the Local Government Code. To enable this full devolution, transition plans have to be developed by the NGAs to fully devolve services to LGUs so that pertinent programs, projects and activities are transferred to LGUs.

## 2. Special Shares in National Taxes

### a. Shares of LGUs in Tobacco Excise Taxes

#### Legal Basis

- RA No. 7171 - Excise Taxes on Local Manufactured Virginia-Type Cigarettes
- RA No. 8240, as amended by RA No. 10351 - Burley and Native Tobacco Excise Taxes

### Computation of Shares of LGUs

- Shares on the Excise Taxes on Locally Manufactured Virginia-Type Cigarettes are computed on the following basis:
  - (a) BIR Certification of the fifteen percent (15%) excise tax collection on locally manufactured Virginia type Cigarettes for the second calendar year preceding the year of distribution, as appropriation in the GAA; and



- (b) National Tobacco Administration (NTA) -certified list of beneficiary tobacco-producing LGUs and their corresponding volume of production for the second year preceding year of distribution.
- Shares on the Excise Taxes of Burley and Native Tobacco are computed on the following basis:
  - (i) BIR Certification of the fifteen percent (15%) of the incremental revenue collected from the excise tax on tobacco products under RA No. 8240 for the second calendar year preceding the year of distribution, as appropriated in the GAA; and
  - (ii) NTA-certified list of beneficiary tobacco-producing LGUs and their corresponding volume of production for the second year preceding year of distribution.

## b. Shares in the Utilization and Development of National Wealth

### Legal Basis

The share in national wealth is the financial support given by the National Government to LGUs and is equivalent to forty percent (40%) of the gross collection derived by the National Government from the utilization and development of national wealth from the preceding fiscal year. (Section 289 and 290, RA No. 7160; Articles 386 and 387, IRR of RA No. 7160)

Four (4) types of national wealth with the corresponding collecting agency:

Particulars	Collecting Agency
Forest Charges	Department of Environment and National Resources (DENR)-Office of the Secretary
Royalties from Mineral Reservation	DENR-Mines and Geo-Sciences Bureau
Energy Production	Department of Energy
Mining Taxes	BIR

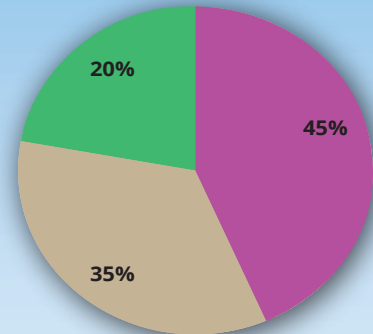


## Distribution of Shares

The manner of allocation is provided by Section 292 of RA No. 7160 and Article 389 of IRR of RA No. 7160 as follows:

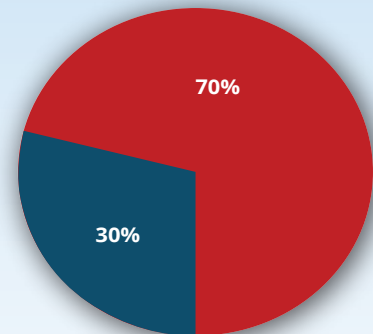
### Natural Resources are Located in the Province

<span style="color: green;">■</span> Province	20%
<span style="color: magenta;">■</span> Component City or Municipality	45%
<span style="color: brown;">■</span> Barangay	35%



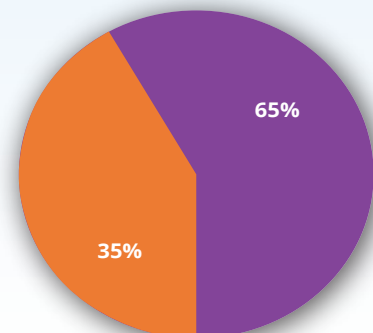
### Natural Resources are Located in two (2) or more LGUs

<span style="color: red;">■</span> Population	70%
<span style="color: darkblue;">■</span> Land Area	30%



### Natural Resources are Located in a Highly Urbanized or Independent Component City

<span style="color: purple;">■</span> City	65%
<span style="color: orange;">■</span> Barangay	35%



## Use of Fund

LGU share from the proceeds of national wealth shall be used to finance local development and livelihood projects of the recipient LGU.

In the case of proceeds derived from the development and utilization of hydrothermal, geothermal and other sources of energy, 80% of the proceeds shall be applied solely to lower the cost of electricity in the LGU where such source of energy is located. (Section 294, RA No. 7160; Article 391, IRR of RA No. 7160).

### c. Shares in Gross Income Tax Paid by all Businesses and Enterprises with in the Economic Zones

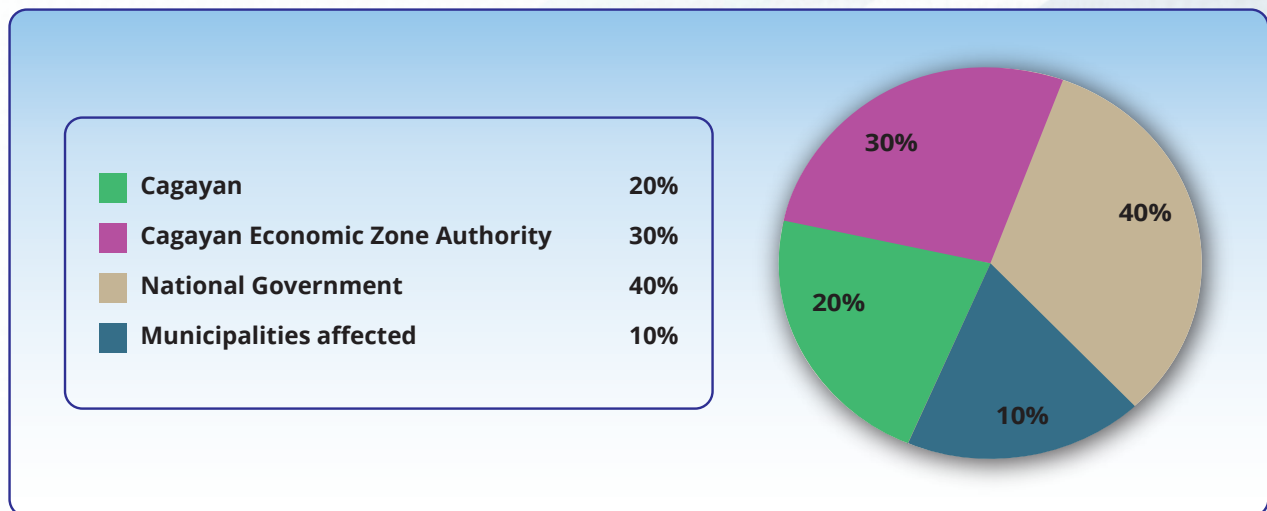
#### Legal Basis

The share in the Gross Income Earned by all businesses within the Cagayan Special Economic Zone (CSEZ) is the financial support given by the National Government to the Province of Cagayan and is equivalent to twenty percent (20%) of the total tax collected (Section 4, RA No. 7922; Item 2.2, DBM-DOF Joint Circular No. 2 dated August 7, 2014).

Furthermore, a share equivalent to ten percent (10%) of the total tax collected is provided to municipalities affected by the declaration of the CSEZ in proportion to their income from business activities within the CSEZ (Section 4, RA No. 7922; Item 2.2, DBM-DOF Joint Circular No. 2 dated August 7, 2014).

#### Distribution of Shares

The manner of allocation is provided by Section 4, RA No. 7922; Item 2.2, DBM-DOF Joint Circular No. 2 dated August 7, 2014.



### d. Shares in Incremental Collections from Value-Added Tax

The share in incremental collections from Value-Added Tax (VAT) is the financial support given by the National Government to LGUs where such taxes are collected and is equivalent to twenty percent (20%) of the fifty percent (50%) share in incremental collection. (Section 2, RA No. 7643; Item 4.1, DBM-DOF-DILG Joint Circular No. 1-02 dated February 6, 2002)

### e. Shares from Value-Added Tax in lieu of Franchise Tax

#### Legal Basis

The share in VAT in lieu of franchise tax is the financial support given by the National Government to LGUs where the racetrack is located and is equivalent to twenty percent (20%) of the VAT due and



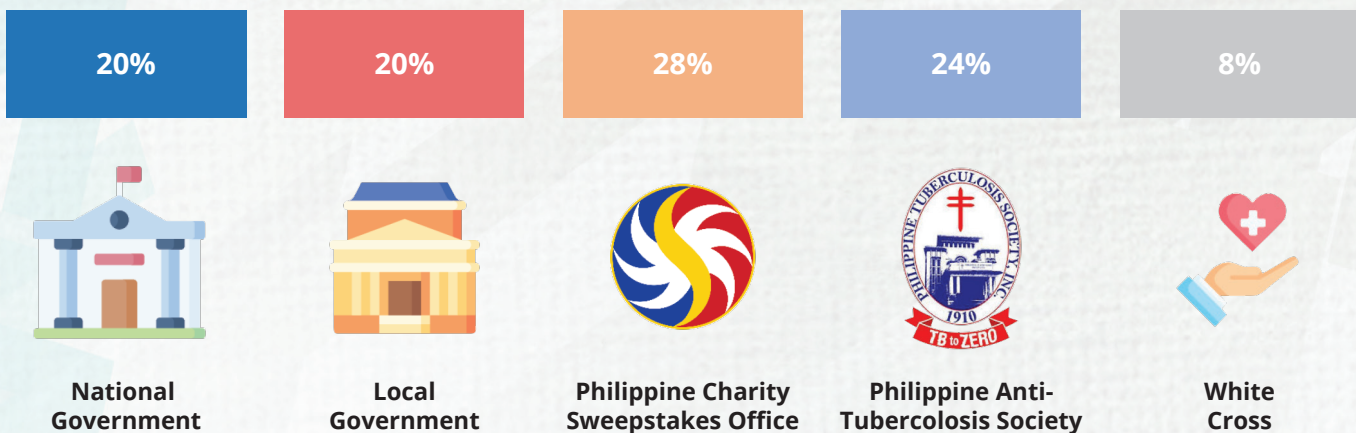
payable of the gross earnings from the horse races remitted by Manila Jockey Club, Inc. (MJCI) and Philippine Racing Club, Inc. (PRCI) to the Bureau of Internal Revenue (Section 12, RA No. 8407; Section 9, RA No. 7953).

Furthermore, a share equivalent to twenty eight percent (28%) of the VAT due and payable of the gross earnings from the horse races received by the Bureau of Internal Revenue is provided to the Municipal hospital where the racetrack is located for MJCI (Section 12, RA No. 8407; Item 1.1, DBM-DOF Joint Circular No. 2008-1 dated June 16, 2008).

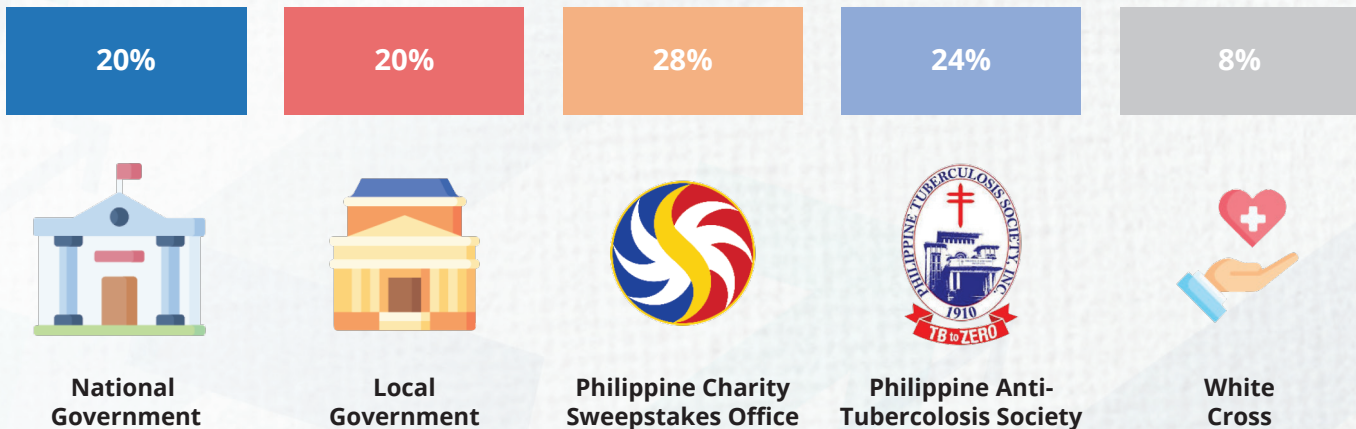
## Distribution of Shares

The manner of allocation for PRCI and MJCI is provided by Item 1.2 of the DBM-DOF Joint Circular No. 2008-1 dated June 16, 2008.

### a. Allocation for PRCI



### b. Allocation for MJCI





## f. Shares in Special Privilege Tax

### Legal Basis

The share of the LGUs in the two percent (2%) Special Privilege Tax (SPT) collected from Hydro Electric Development Corporation, Northern Mini Hydro Corporation, and Bicol Hydropower Corporation is based on the actual collections by the BIR and actual remittance to the BTr pursuant to RA No. 7156

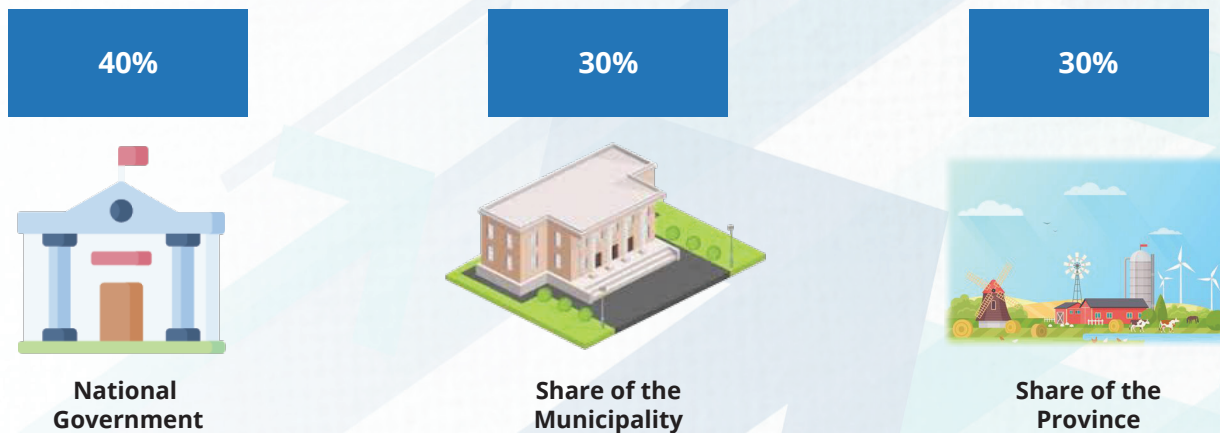
### Distribution of Shares

The disposition and allotment of SPT is provided by Section 11 of RA No. 7156:

a. If the mini-hydroelectric power development is located in a city

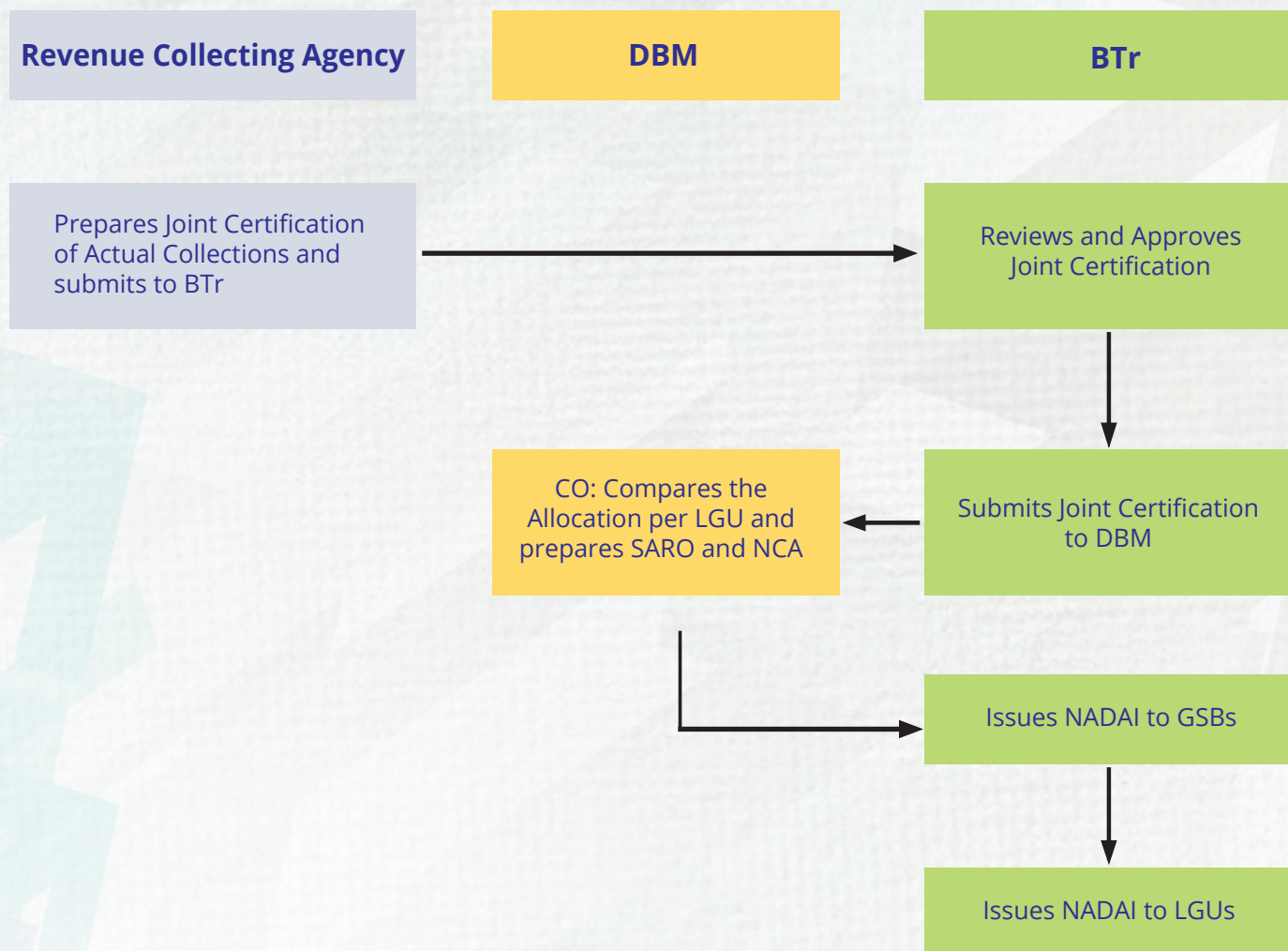


b. If the mini-hydroelectric power development is located in a municipality





## Process of Intergovernmental Transfers



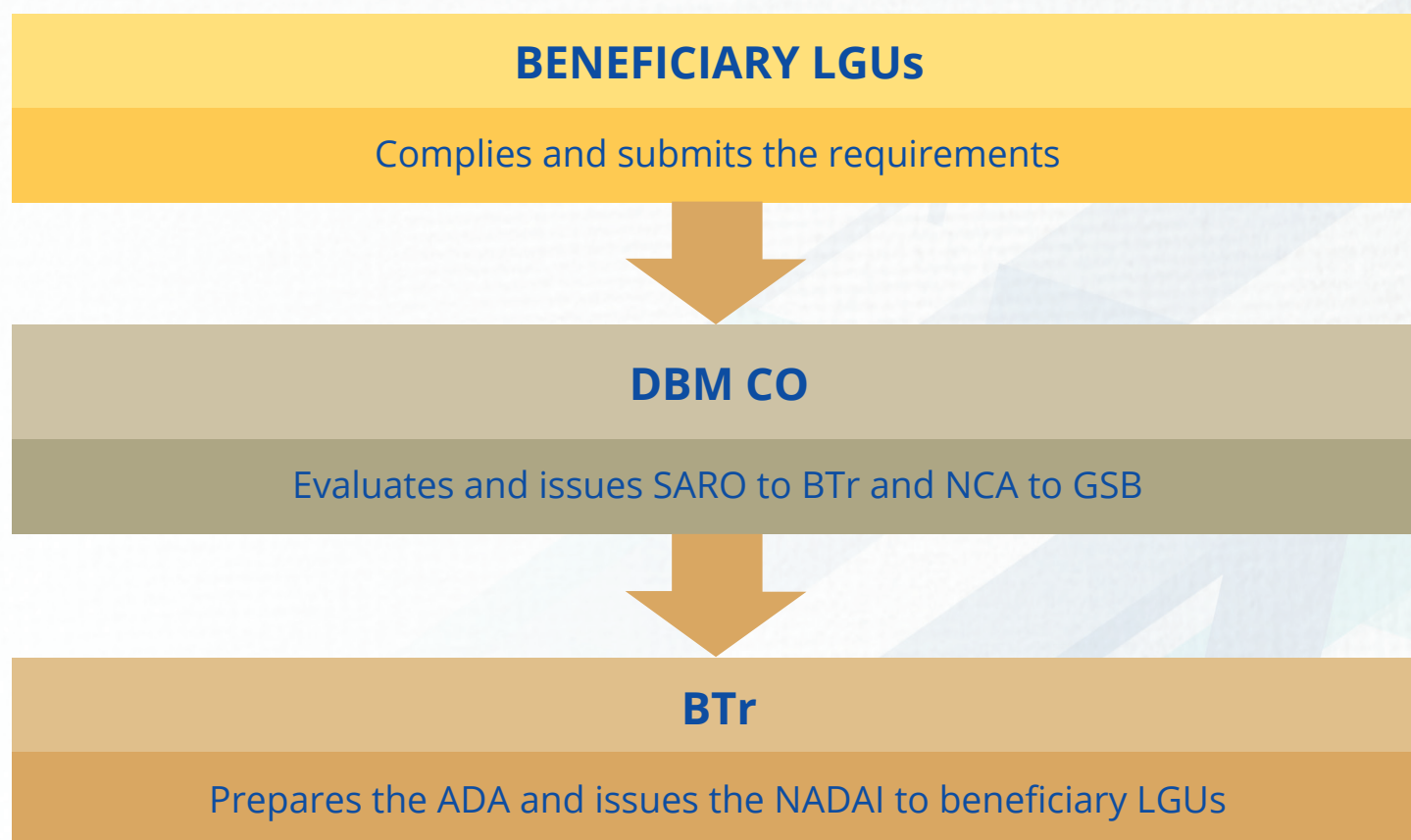
## 3. Local Government Support Fund

### Local Government Support Fund-Other Financial Assistance (LGSF-FA) to LGUs

- A financial assistance provided to LGUs upon compliance to the documentary requirements prescribed on the guidelines issued by the DBM, as well as, just and equitable distribution among LGUs, and fund availability.

## How is the LGSF-FA released to LGUs?

The LGSF-FA to LGUs shall be released directly by the BTr to the beneficiary LGUs, through authorized government servicing banks, consistent with the purposes indicated in the corresponding SARO and Advice of Notice of Cash Allocation Issued to be released by the DBM to the BTr.



## How is the LGSF-FA recorded by the LGUs?

The LGSF-FA to LGUs shall be recorded as trust receipts by the LGUs for the specified purpose(s) for which the funds were received. Funds which remain unutilized until the prescribed period of the governing guidelines, shall be reverted to the BTr by the recipient LGUs.

### 4. Grants and Donations

- Amount of income from grants/donation received in cash or in kind from domestic or foreign sources.

### 5. Subsidy Income

- Other Subsidy Income - amount of subsidy received which cannot be classified under any of the specific subsidy income accounts.
- Subsidy from GOCCs - Amount of subsidy received from GOCCs.



## 6. Gains and Premiums

- a. Gain on FOREX - Gain in the conversion of foreign currencies to Philippine peso. In case of revaluation of outstanding foreign loan, it is the resulting difference when the prevailing exchange rate is higher/lower than the exchange rate at the time of the transaction or last adjustment.
- b. Gain on Sale of Assets - Gain on the sale of assets over their book values (Cost -Accumulated Depreciation).
- c. Premium on Bonds - Amount earned on sale/redemption of bonds.
- d. Gain on Sale of Investment - Gain on the sale of securities such as stocks, treasury notes, etc.

## 7. Subsidy Income (Inter-Local Transfer)

- a. Subsidy from LGUs - Amount of subsidy received from other LGUs.
- b. Subsidy from Other Funds – refers to the transfers between different funds (i.e. General fund to SEF) and transfers between LGUs.

## 8. Capital/Investment Receipts

- a. Proceeds from Sale of Assets – represent the total amount received from sale of assets (i.e. Property, Plant and Equipment, Inventory, etc.)
- b. Proceeds from Sale of Debt Securities of other Entities – represent the total amount received from sale of securities such as stocks, treasury notes, etc.
- c. Collection of Loans Receivables – Amount of principal collected from loans, accounts, and notes receivables.

## 9. Loans and Borrowings

- Amount of long-term or short-term indebtedness received by LGU from foreign or domestic creditors that is covered by a contract.
- a. Loans and Borrowings – Foreign - Amount of Liabilities received from foreign creditors.
- b. Loans and Borrowings – Domestic - Amount of indebtedness received from domestic creditors.
- c. Bond Flotation - Amount received from bond issuance.

## (IV) Special Purpose Appropriations

WHAT	LEGAL BASIS	AMOUNT / PERCENTAGE	REMARKS
(1) Development Projects chargeable against the annual IRA	Section 287, LGC	20% of the Annual IRA	<p><b>Implementing Guidelines</b></p> <p>DBM-Department of Finance (DOF)-DILG JMC No. 1, s. 2020 dated November 4, 2020</p> <p><b>Expenditure Items Not Allowed to be Charged Against the 20% Development Fund</b></p> <ul style="list-style-type: none"> <li>• PS expenditures, such as salaries, wages, overtime pay, and other personnel benefits;</li> <li>• Administrative expenses, such as supplies, meals, representation, communication, water and electricity, petroleum products, and the like;</li> <li>• Travelling expenses, whether domestic or foreign;</li> <li>• Registration fees and other expenses related to the conduct of and participation to trainings, seminars, conferences or conventions;</li> <li>• Purchase, maintenance or repair of administrative office' furniture, fixtures, equipment or appliances;</li> <li>• Purchase, maintenance or repair of motor vehicles used for administrative purposes.</li> </ul>
(2) Local Disaster Risk Reduction and Management Fund (LDRRMF)	<ul style="list-style-type: none"> <li>• Section 2 of RA No. 10121, in relation to Section 324 (d) of the LGC</li> <li>• DBM-DILG-NDRRMC Joint Memorandum Circular (JMC) No. 2013-1 dated 25 March 2013</li> </ul>	Not less than five percent (5%) of the estimated revenue from regular sources	<p><b>What is a "disaster"?</b></p> <p>A "disaster" is a serious disruption of the functioning of a community or a society involving widespread human, material, economic or environmental losses and impacts, which exceeds the ability of the affected community or society to cope using its own resources.<sup>7</sup></p> <p>The LDRRMF shall be appropriated as follows:</p> <ul style="list-style-type: none"> <li>• <b>70%</b> - for disaster prevention and mitigation, preparedness, response, rehabilitation and recovery; and</li> <li>• <b>30%</b> - Quick Response Fund (QRF) or stand-by fund for relief and recovery programs in order that situation and living</li> </ul>

<sup>7</sup> Refer to Section 3 (h) of RA No. 10121



WHAT	LEGAL BASIS	AMOUNT / PERCENTAGE	REMARKS
			<p>conditions of people In communities or areas stricken by disasters, calamities, epidemics, or complex emergencies, may be normalized as quickly as possible</p> <p><b>When may an LGU access the QRF?</b></p> <p>Upon issuance of a Sanggunian Resolution declaring the LGU under state of calamity or a Presidential Proclamation of State of Calamity upon recommendation of the National Disaster Risk Reduction and Management Council (NDRRMC)<sup>8</sup></p> <p><b>What are other remedial measures that LGUs may undertake?</b></p> <p>The declaration of a state of calamity shall make mandatory the Immediate undertaking of the following remedial measures by the member-agencies concerned as defined in this Act:</p> <ul style="list-style-type: none"> <li>(a) Imposition of price ceiling on basic necessities and prime commodities by the President upon the recommendation of the implementing agency as provided for under Republic Act No. 7581, otherwise known as the "Price Act", or the National Price Coordinating Council;</li> <li>(b) Monitoring, prevention and control by the Local Price Coordination Council of overpricing/profitteering and hoarding of prime commodities, medicines and petroleum products;</li> <li>(c) Programming/reprogramming of funds for the repair and safety upgrading of public infrastructures and facilities; and</li> <li>(d) Granting of no-interest loans by government financing or lending institutions to the most affected section of the population through their cooperatives or people's organizations.<sup>9</sup></li> </ul>

<sup>8</sup> Refer to Item 6.3 of DBM-DILG-NDRRMC JMC No. 2012-1 dated 25 March 2013

<sup>9</sup> Section 17, RA No. 10121

WHAT	LEGAL BASIS	AMOUNT / PERCENTAGE	REMARKS
			<b>How should an LGU treat the unexpended LDRRMF?</b> <ul style="list-style-type: none"> <li>To treat as special trust fund within the next five (5) years OR</li> <li>To release and utilize for new expenditure items upon submission of a revised AIP as approved by the local Sanggunian and LCE, upon recommendation of the LDRRM Council, in accordance with the approved LDRRM Plan</li> </ul>
<b>(3) Gender and Development (GAD)</b>	<ul style="list-style-type: none"> <li>RA No. 9710<sup>10</sup></li> <li>PCW-DILG-DBM-NEDA JMC No. 2016-01 dated January 12, 2016</li> </ul>	At least five percent (5%) of AB	
<b>(4) Appropriation for Debt Service</b>	Section 324 (b), RA No. 7160	Not exceeding 20% of an LGU's regular income	
<b>(5) Aid to Barangays</b>	Section 324 (c) of RA 7160	Not less than P1,000 per barangay	

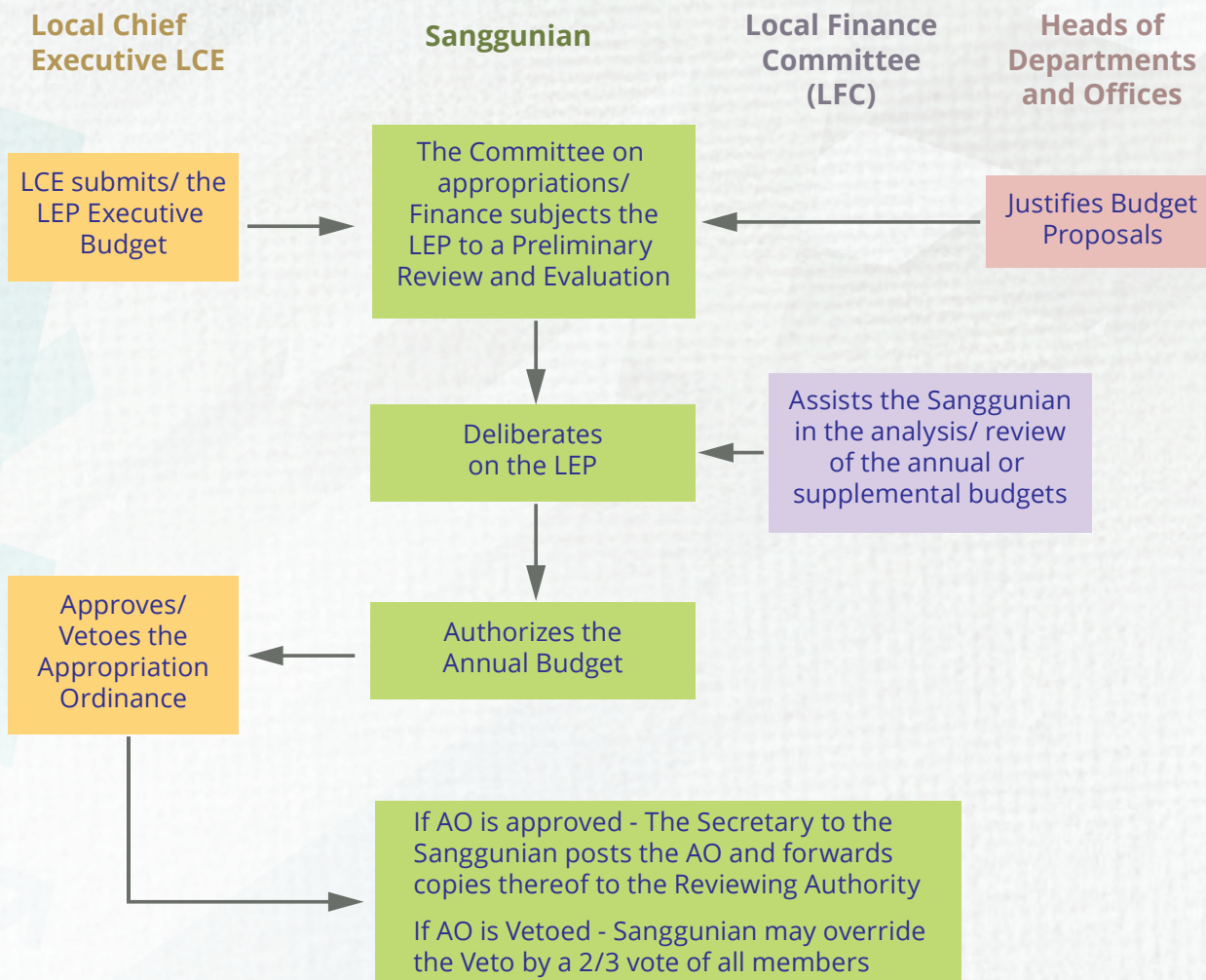
<sup>10</sup>Magna Carta for Women



**(B) Budget Authorization** is the second phase in the local budget process. This phase starts from the time the Sanggunian receives the LEP submitted by the LCE and ends with the enactment of the Appropriation Ordinance (AO) and approval thereof by the LCE.

Authorization of the budget is done through an AO enacted by the Local Sanggunian in accordance with the fundamental principle that, "No money shall be paid out of the local treasury except in pursuance of an [AO] or law."<sup>11</sup>

### (i) Budget Authorization Flowchart



<sup>11</sup>Section 305 (a), RA No. 7160

**(ii) Summary of Budget Authorization**

<b>PHASE 2: AUTHORIZATION</b> <b>(Compliance Period: October 17 - December 31)</b>		
<b>ACTIVITIES</b>	<b>DOCUMENT(S) TO BE SUBMITTED</b>	<b>REMARKS</b>
(1) Deliberation of the Executive Budget submitted by the LCE	<b>(i) FOR ANNUAL BUDGET</b> LEP and documents enumerated mentioned above that support the Executive Budget	<p>The procedures observed in budget deliberation may vary from one LGU to another depending on the Internal Rules of Procedure (IRP) adopted by the Sanggunian members.</p> <p>The Sanggunian, with the assistance of the LFC, shall evaluate and deliberate on the LEP in terms of compliance with the budgetary requirements and general limitations set under RA No. 7160.</p>
	<b>(ii) FOR SUPPLEMENTAL BUDGET</b>	<ul style="list-style-type: none"> <li>• <b>The Receipts Portion in the LEP</b> <ul style="list-style-type: none"> <li>• To check the budget year's aggregate estimated income which will be compared with the aggregate expenditure program (Section 324 [a] of RA No. 7160);</li> <li>• To check if the taxes and fees identified as sources of the estimated income are in accordance with the approved Local Revenue Code;</li> <li>• To check if the estimated receipts from Real Property Taxes (RPT) correspond to the total amount of due and demandable RPT, including delinquent accounts.</li> </ul> </li> </ul>
	<b>(ii.a) If based on actually available funds (i.e., use of savings in other item within the same expense class), the Local Treasurer and Local Accountant shall execute the following:</b> <ul style="list-style-type: none"> <li>• Certified Statement of Additional Realized Income</li> <li>• Certification of Savings</li> </ul>	<ul style="list-style-type: none"> <li>• <b>The Expenditure Program</b> <ul style="list-style-type: none"> <li>• Determine the overall level of appropriations by department/office/unit and special purpose appropriations and the overall total;</li> <li>• To check the provisions for associated PS costs;</li> <li>• To check that the provision for debt services does not exceed the ceiling required by law which is 20% of the regular income of the LGU concerned (Section 324 [b], RA No. 7160);</li> <li>• To check that the provision for LDDRMF is not less than 5% of the estimated regular income required by law (RA No. 10121);</li> <li>• To check that the provision from IRA for development projects is not less than 20% required by law (Section 287 of RA No. 7160);</li> <li>• To check that the provision for discretionary expenses, if any, does not exceed 2% of the actual receipts derived from basic RPT in the next preceding year (Section 325 (h) of RA No. 7160);</li> <li>• To verify if the PPAs in the budget are consistent with the AIP; and</li> <li>• To check the level of appropriations for Personnel Services (PS) that it does not exceed the PS limitation (45%/55% PS cap per Sec. 325 (a) of RA 7160).</li> </ul> </li> </ul>
	<b>(ii.b) If based on new revenue measure, the Local Treasurer and Local Accountant shall execute the following:</b> <ul style="list-style-type: none"> <li>• Certified Statement of Income from New</li> </ul>	



<b>PHASE 2: AUTHORIZATION</b> <b>(Compliance Period: October 17 - December 31)</b>		
ACTIVITIES	DOCUMENT(S) TO BE SUBMITTED	REMARKS
	Revenue Measure/s <ul style="list-style-type: none"> <li>• Copy of duly enacted ordinance which imposes new local taxes, charges, fees, fines or penalties or which raises existing local taxes, charges, fees, fines or penalties</li> <li>• Copy of official communication stating that the LGU is a recipient of new or higher remittances, contributions, subsidies, or grants in aid from the National Government or government corporations and private entities</li> </ul>	<p><b>The Sanggunian may use the following guide questions, among others:</b></p> <ul style="list-style-type: none"> <li>• Are the PPAs in the budget consistent with the approved AIP?</li> <li>• Does the budget adequately provide funds for the delivery of basic services and maintenance of facilities enumerated under Section 17 of RA No. 7160?</li> <li>• Are the requirements of component LGUs considered and equitably allocated for in the budget?</li> <li>• Is the proposed expenditure program within the recommended ceiling for economic, social, and general public services?</li> <li>• Are the existing/proposed organizational structure and staffing pattern designed and implemented taking into consideration the service requirements and financial capability of the LGU subject to the minimum standards and guidelines of the Civil Service Commission and the provisions of RA No. 7160?</li> <li>• Does the existing/proposed complement have the capability to implement the plans and programs and to deliver basic public services?</li> <li>• Are there expenditures that need to be reduced to ensure a reasonable economy in local government operations?</li> <li>• Will there be projects or activities that need to be "fast-tracked," and procedures to be simplified to minimize utilization of resources?</li> <li>• Are the Programs or Projects identified Implementation-Ready?</li> <li>• Are the estimated revenues and other receipts of a reasonable probability of collection? Are the new tax and other revenue measures proposed to finance the budget covered by tax ordinances? Is the proposed borrowing or other credit financings within the capability of the LGU to pay?</li> </ul>
	<b>(iii) FOR REALIGNMENT OF APPROPRIATIONS IN CASE OF PUBLIC CALAMITY</b>	
	<ul style="list-style-type: none"> <li>• Certificate of Source of Funds Available for Appropriations signed by the Local Treasurer, Local Accountant and LCE Appropriation Ordinance (AO)</li> </ul>	

<b>PHASE 2: AUTHORIZATION</b> <b>(Compliance Period: October 17 - December 31)</b>		
<b>ACTIVITIES</b>	<b>DOCUMENT(S) TO BE SUBMITTED</b>	<b>REMARKS</b>
(2) Enactment of Annual Budget and Endorsement to the LCE for approval	Appropriation Ordinance (AO)	<p><b>What are the contents of the Appropriation Ordinance?</b></p> <ul style="list-style-type: none"> <li>• An assigned number, a title or caption, an enacting or ordaining clause, and the date of proposed effectivity (Article 107 [b], Implementing Rules and Regulations (IRR) of RA No. 7160).</li> <li>• A provision identifying the documents appended to the AO that will form part of the authorized budget such as, but not limited to, the following: <ul style="list-style-type: none"> <li>• Plantilla of Personnel; and</li> <li>• Annual Operating Budget of LEE(s), if any</li> </ul> </li> <li>• Receipts Program</li> <li>• Expenditure Program by Department/Office/Unit: <ul style="list-style-type: none"> <li>◦ mandate, vision, mission and organizational outcome;</li> <li>◦ new appropriations of PPA, expense class and object of expenditures;</li> <li>◦ special provisions, if any</li> </ul> </li> <li>• Special Purpose Appropriations shall be reflected under the appropriate implementing Department/Office/Unit</li> <li>• General Provisions; and</li> <li>• Summary of new appropriations by object of expenses and by sector, and by Department/Office, and Summary Statement of all Statutory and Contractual Obligations Due.</li> </ul>
		<p><b>May the Sanggunian increase the proposed amount in the LEP?</b></p> <p><b>No.</b> The Sanggunian may not increase the proposed amount in the executive budget nor include new items <b>except to provide for statutory and contractual obligations</b> but in no case shall it exceed the total appropriations in the executive budget.<sup>12</sup></p> <p><b>What will happen if the Sanggunian fails to pass the ordinance authorizing the annual appropriations at the beginning of the ensuing fiscal year?</b></p> <p>The ordinance authorizing the appropriations of the preceding year shall be deemed re-enacted.</p> <p><b>What is a reenacted budget?</b></p> <p>A reenacted budget means that the preceding year's budget shall remain in force and effect until such time that the ordinance authorizing the annual appropriations is passed by the Sanggunian concerned.</p>

<sup>12</sup>Article 415, IRR of RA No. 7160



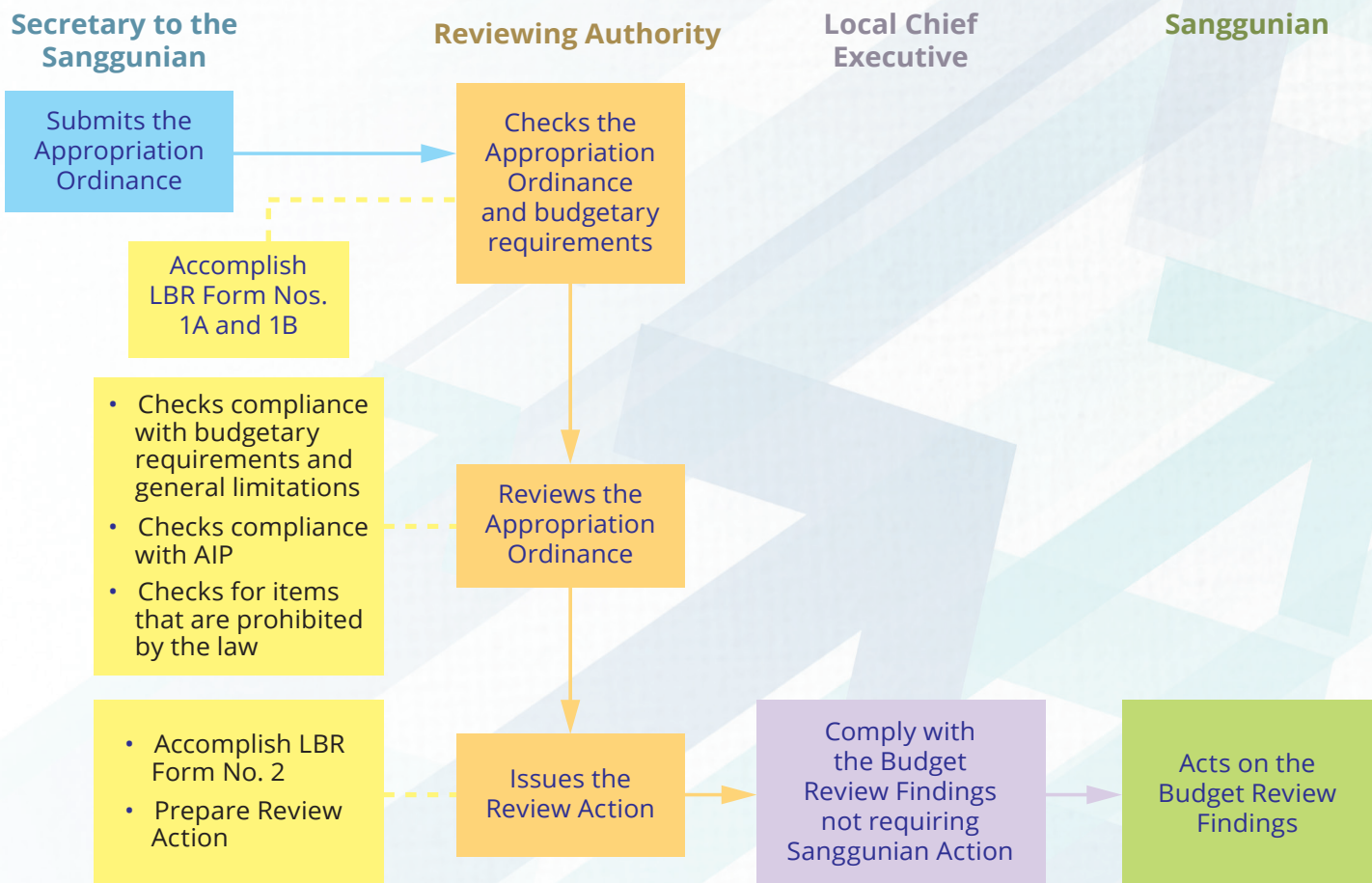
<b>PHASE 2: AUTHORIZATION</b> <b>(Compliance Period: October 17 - December 31)</b>		
ACTIVITIES	DOCUMENT(S) TO BE SUBMITTED	REMARKS
		<p>Only the annual appropriations for salaries and wages of existing positions, statutory and contractual obligations, and essential operating expenses authorized in the annual and supplemental for the preceding year shall be deemed re-enacted and disbursement of funds shall be in accordance therewith.</p> <p>If the LGU is operating under a re-enacted budget, the local sanggunian shall not be allowed to enact an appropriation ordinance authorizing an SB, consistent with Section 323 of the Code.</p> <p>In this case, inasmuch as the AB of the LGU is yet to be enacted, the LGU may already reprogram the PPAs in its AB that are to be enacted.</p>
<b>(3) Approval / Veto by the LCE</b>	<b>(i) IF LCE APPROVES THE AO IN ITS ENTIRETY</b>  AO with signature of the LCE affixed on every page thereof	<p><b>Who may exercise veto power?</b></p> <p>LCEs except for Punong Barangays</p> <p><b>Why cannot the punong barangay exercise veto power?</b></p> <p>Unlike the other LCEs, a punong barangay is also a member of the Sangguniang Barangay. As such, he cannot exercise his veto power if an AO has already been approved by the majority members of the Sanggunian since he is part of the counting of votes. See Section 390, LGC</p>
	<b>(ii) IF THE LCE EXERCISES VETO POWER, EITHER WHOLLY OF PARTIALLY</b>  Unsigned AO and veto message	<p><b>Can the Sanggunian override the veto of the LCE?</b></p> <p>The Sanggunian may override the veto of the LCE by <b>two-thirds (2/3) vote of ALL its members</b>. Such override will make the ordinance effective for all legal intents and purposes even without the approval of the LCE.</p> <p><b>How do you count the 2/3 vote if the Sanggunian members are, for example, 13 in total?</b></p> <p>Since 2/3 of 13 is 8.67, the number shall be rounded-up to a whole number as it is physically and legally impossible to count or divide a person, or his fractional vote.</p>
<b>(4) Posting</b>		<p>The Secretary to the Sanggunian concerned shall cause the posting of an ordinance or resolution in the bulletin board at the entrance of the provincial capitol and the city, municipal, or barangay hall in at least two (2) conspicuous places in the local government unit concerned not later than five (5) days after approval thereof.<sup>13</sup></p>

<sup>13</sup> Section 59 (b), RA No. 7160

PHASE 2: AUTHORIZATION (Compliance Period: October 17 - December 31)		
ACTIVITIES	DOCUMENT(S) TO BE SUBMITTED	REMARKS
(5) Effectivity		<b>FOR ANNUAL BUDGET</b> - beginning of the ensuing calendar year <sup>14</sup>
		<b>FOR SUPPLEMENTAL BUDGET</b> - upon its approval or on the date fixed on the AO <sup>15</sup>  *Both subject to the compliance with the posting requirements

**(C) Budget Review** is the third phase in the local budget process. Its primary purpose is to determine whether the AO has complied with the budgetary requirements and general limitations set forth in RA No. 7160, as well as provisions of other applicable laws. It starts from the time the reviewing authority receives the AO for review and ends with the issuance of the review action.

### (i) Budget Review Flowchart



<sup>14</sup>Refer to Section 320, RA No. 7160  
<sup>15</sup>Ibid



## (ii) Summary of Budget Review

PHASE 3: REVIEW (Compliance Period: Within 90 days from the receipt of AO)								
ACTIVITIES	DOCUMENT(S) TO BE SUBMITTED	REMARKS						
(1) Sanggunian secretary submits the AO for review within three (3) days from its issuance	<ul style="list-style-type: none"><li>• AO</li><li>• Transmittal letter</li><li>• Approved AIP with supporting documents mentioned in the subject on Budget Preparation</li><li>• LCE’s veto message, if any</li><li>• Sanggunian Resolution overturning the veto, if any</li></ul>	<p>The Sanggunian shall forward within three (3) days after approval, copies of the approved AO to the following reviewing authority:</p> <table><tr><th>LGU</th><th>REVIEWING AUTHORITY</th></tr><tr><td>Component Cities and Municipalities</td><td>Sangguniang Panglungsod / Bayan</td></tr><tr><td>Provinces Highly-urbanized Cities Independent Component Cities and Municipalities within the Metropolitan Manila Area</td><td>DBM Regional Office (RO)</td></tr></table>	LGU	REVIEWING AUTHORITY	Component Cities and Municipalities	Sangguniang Panglungsod / Bayan	Provinces Highly-urbanized Cities Independent Component Cities and Municipalities within the Metropolitan Manila Area	DBM Regional Office (RO)
LGU	REVIEWING AUTHORITY							
Component Cities and Municipalities	Sangguniang Panglungsod / Bayan							
Provinces Highly-urbanized Cities Independent Component Cities and Municipalities within the Metropolitan Manila Area	DBM Regional Office (RO)							
(2) Review of the AO and supporting documents		<p>The reviewing officer shall validate the provisions of the AO for compliance with the budgetary requirements (Section 324, LGC) and general limitations (Section 325, LGC).</p> <p><b>May an LGU enforce an AO and, therefore, validly disburse funds pending review?</b></p> <p>Yes. “[T]he AO under review can be validly enforced so that funds corresponding thereto can already be disbursed. This is due to the fact that the effectivity of said ordinance is determined not upon review x x x, but rather in accordance with Section 320 of the Code [RA No. 7160] x x x.</p> <p>The reason for such rule is that “validity” and “effectivity” are two different things. Validity refers to the substantive requirement of an ordinance, i.e. whether the same is inconsistent with the Constitution and laws. Effectivity, on the other hand, is the time by which an ordinance is made effectual which means its provisions can already be implemented and given full force and effect.”<sup>16</sup></p>						

<sup>16</sup> Department of Interior and Local Government Opinion No. 19, s. 2019.

**PHASE 3: REVIEW**  
**(Compliance Period: Within 90 days from the receipt of AO)**

ACTIVITIES	DOCUMENT(S) TO BE SUBMITTED	REMARKS		
(3) Issue the review action within ninety (90) days from receipt		<b>Review Action</b>	<b>Effect</b>	<b>Corrective Measure</b>
		Declare the AO operative in its entirety.	It shall continue to be in full force and effect.	None
		Declare the AO operative in its entirety, subject to conditions.	Those items not subject to conditions shall continue to be in full force and effect. The items of appropriation subject to conditions shall take effect only upon compliance with the conditions imposed.	The LGU shall comply with the conditions imposed before any disbursements are made and the LCE shall notify the reviewing authority of such action.
		Declare the AO inoperative in its entirety.	<ul style="list-style-type: none"> <li>• The AO loses force and effect.</li> <li>• The LGU concerned shall operate under a reenacted budget effective immediately until such time that the new ordinance authorizing the annual appropriations is enacted and approved.</li> <li>• The local treasurer shall not make further disbursements of funds from</li> </ul>	<p>The LGU shall revise its LEP to comply with the review findings and enact a new Ordinance authorizing the Annual Appropriations for submission to the reviewing authority.</p> <ul style="list-style-type: none"> <li>• The LGU, through the Treasurer, shall not make further disbursements of funds from any of the items of</li> </ul>



PHASE 3: REVIEW (Compliance Period: Within 90 days from the receipt of AO)				
ACTIVITIES	DOCUMENT(S) TO BE SUBMITTED	REMARKS		
		Review Action	Effect	Corrective Measure
			any of the items of appropriation declared inoperative, disallowed, or reduced (Section 327, RA No. 7160).  • The budget shall be revised to comply with the provisions of law and authorized through another AO, which shall then be submitted to the reviewing authority.	
		Declare the AO inoperative in part.	• The local treasurer shall not make further disbursements of funds from any of the items of appropriation declared inoperative, disallowed, or reduced (Section 327, RA No. 7160).  • Only the items of appropriation that have not been declared inoperative, or have not been	• The LGU, through the Treasurer, shall not make further disbursements of funds from any of the items of appropriation declared inoperative, disallowed or reduced and the LCE shall notify the reviewing authority of such action.

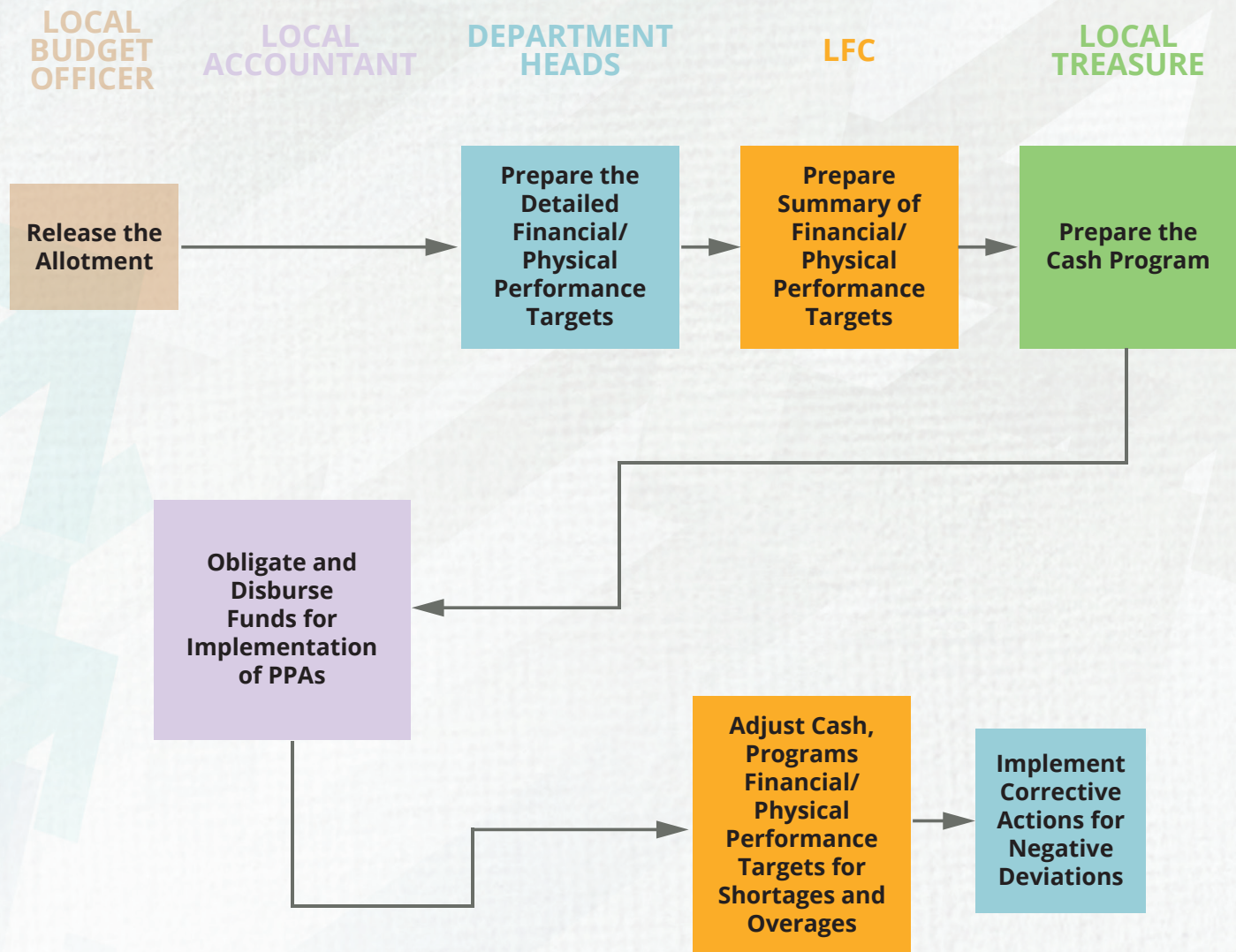
PHASE 3: REVIEW (Compliance Period: Within 90 days from the receipt of AO)				
ACTIVITIES	DOCUMENT(S) TO BE SUBMITTED	REMARKS		
		Review Action	Effect	Corrective Measure
			disallowed, shall continue to be in full force and effect.	<ul style="list-style-type: none"><li>• The LGU shall reduce the appropriated amount accordingly.</li></ul>
		No action within ninety (90) days from receipt	<ul style="list-style-type: none"><li>• The AO shall be deemed to have been reviewed in accordance with law. (Section 327, RA No. 7160).</li><li>• Continue to be in full force and effect</li></ul>	<ul style="list-style-type: none"><li>• None</li></ul>

**(D) Budget Execution** is the fourth phase of the budget process in local governments. After the usual recording of appropriations in the proper registries, the execution of the budget in accordance with existing rules, laws and regulations involves the release of allotments, the certification of available appropriations and cash, the recording of actual obligations and disbursements of funds for approved PPAs and the delivery of goods and services to target clients in the most efficient, effective, economical and ethical way.

A critical aspect of this phase is the collection of funds to ensure that cash is available for payment of obligations and further ensuring that disbursements do not exceed appropriations. While seemingly a separate activity, the collection and/or receipt of revenues are considered an integral part of Budget Execution.



(i) Budget Execution Flowchart



## (ii) Summary of Budget Execution

PHASE 4: EXECUTION			
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S)	REMARKS
(1) Release of allotment based on the duly enacted AO	Local Budget Officer	<b>Local Budget Officer</b> <ul style="list-style-type: none"> <li>Local Budget Matrix -issued to effect the comprehensive release of allotment for a Department/Office</li> <li><b>Allotment Release Order (ARO)</b> – covers the release of reserve amounts</li> </ul>	<b>Coverage of comprehensive release</b> <p>It is suggested that the “For Comprehensive Release” (FCR) will only include the specific budgets of the department/office.</p> <p>Special Appropriations may be classified as “For Later Release” (FLR) or “Reserve” to ensure that these special appropriations will be implemented in accordance with the conditions specified in the special provisions cited in AO.</p> <p><b>To whom is an ARO issued and what is its use?</b></p> <p>An ARO is issued by the Local Budget Officer (LBO) to each Department/Office. It gives the Department Head the comprehensive authority to incur obligations or to award contracts in procurement activities up to the amount of the released allotment.</p>
(2) Prepare the Summary of Financial and Physical Performance Targets, and Cash Program	<ul style="list-style-type: none"> <li>Department Head</li> <li>LFC</li> <li>Local Treasurer</li> </ul>	<ul style="list-style-type: none"> <li><b>Detailed Financial and Physical Performance Targets by PPA prepared by the Department Head</b> - presents the quarterly breakdown of the financial allocation that is needed to accomplish a specific level of targets</li> <li><b>Summary of financial and physical performance targets for the entire calendar year prepared by the LFC</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Frequency of submission</b> <p>There shall be an annual submission of Summary of Financial and Physical Performance Targets for the entire year with quarterly breakdown of targets.</p> <p>The LGU shall post information of the above documents in three (3) conspicuous places in the LGU within twenty (20) days after the end of each quarter.</p> </li> <li><b>Effect if the targets set are not complied</b> <p>Accomplishment of targets may be used as a condition for the release department's FLR/Reserve, provided that this is clearly stipulated in the general and/or special provisions of the AO. The LGUs need to craft corrective action plan or catch-up plans for unmet targets to ensure the full implementation of P/A/Ps approved in the AO.</p> </li> </ul>



PHASE 4: EXECUTION			
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S)	REMARKS
		<p>- serves as basis in comparing actual level of accomplishment for the preceding year and knowing the available resources for the budget year</p> <p>• <b>Cash Program prepared by the Local Treasurer</b></p>	
(3) Obligate and disburse funds	LCE	<p>* Documents to be considered:</p> <ul style="list-style-type: none"> <li>• <b>LBM/ARO</b></li> <li>• <b>AIP</b></li> <li>• <b>APP</b></li> <li>• <b>PPMP</b></li> </ul>	<p>By way of recollection, the AIP, APP and PPMP are some of the documents submitted to the LCE after the issuance of a Budget Call during the preparation phase.</p> <p>• <b>AIP or Annual Investment Plan</b> – refers to the annual slice of the Local Development Investment Program (LDIP), which constitutes the total resource requirements for all Programs, Projects and Activities (PPA) consisting of the annual capital expenditure and regular operating requirements.</p> <p><b>Terms:</b></p> <ul style="list-style-type: none"> <li>(i) Program</li> <li>(ii) Project</li> <li>(iii) Activity</li> <li>(v) Object of Expenditure</li> <li>(vi) Class</li> </ul> <p>• <b>APP or Annual Procurement Plan</b> - a document that consolidates the various PPMPs submitted by the various end-user units or the Project Management Office (PMO) within the LGU. It reflects the entirety of the procurement activities that will be undertaken by the LGU within the calendar year. This is approved by the HOPE.</p> <p>• <b>PPMP or Project Procurement Management Plan</b> - serves as a guide document in the procurement and contract implementation</p>

PHASE 4: EXECUTION						
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S)	REMARKS			
			<p>process, as well as a vital reference in procurement monitoring.</p> <p>It deals primarily with:</p> <ul style="list-style-type: none"><li>a. planning for the procurement of project requirements;</li><li>b. bidding or procurement strategy;</li><li>c. source selection;</li><li>d. time schedule for each procurement activity;</li><li>e. delivery schedules;</li><li>f. contract administration;</li><li>g. contract termination;</li><li>h. procurement milestones; and</li><li>i. other important procurement details or information.</li></ul> <p>The PPMP is prepared by the end-user unit during the budget preparation to support the cost estimates in the budget proposal.</p> <p><b>PPA Implementation</b></p> <p>The responsibility for the execution of the annual and supplemental budget shall be vested primary in the LCE concerned. In the implementation of PPAs, the following must be ensured:</p> <ul style="list-style-type: none"><li>• Standards of service;</li><li>• Quality of work;</li><li>• Timelines of implementation pricing of goods, contracts and services;</li><li>• PPA fund release/ utilization; and</li><li>• Proper delivery to target beneficiaries.</li></ul> <p><b>Use of additional funds or savings</b></p> <table><tr><td>Requirement</td><td>Section 336 (Use of savings and Augmentation)</td><td>Section 321 (Use of savings thru Supplemental Budget)</td></tr></table>	Requirement	Section 336 (Use of savings and Augmentation)	Section 321 (Use of savings thru Supplemental Budget)
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PHASE 4: EXECUTION																		
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			<div>Use of additional funds or savings</div> <table><tr><td>What is the instrument required for authority?</td><td>Ordinance</td><td>Appropriation Ordinance covering a supplemental budget</td></tr><tr><td>Is there a need for a supplemental budget?</td><td>No need for a supplemental budget</td><td>Supplemental budget needed</td></tr><tr><td>What is the purpose of the savings?</td><td>For augmentation of existing item/s of expenditure within the same expense class</td><td>For re-appropriation - may be to a different expense class</td></tr><tr><td>Where should the proposal emanate?</td><td>From the LCE or the Sanggunian</td><td>From the LCE only</td></tr><tr><td>For province or highly urbanized cities, will the ordinance be subject to review by DBM?</td><td>No</td><td>Yes</td></tr></table>	What is the instrument required for authority?	Ordinance	Appropriation Ordinance covering a supplemental budget	Is there a need for a supplemental budget?	No need for a supplemental budget	Supplemental budget needed	What is the purpose of the savings?	For augmentation of existing item/s of expenditure within the same expense class	For re-appropriation - may be to a different expense class	Where should the proposal emanate?	From the LCE or the Sanggunian	From the LCE only	For province or highly urbanized cities, will the ordinance be subject to review by DBM?	No	Yes
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(4) Adjust cash program for shortages and overages	<ul style="list-style-type: none"><li>• LFC</li><li>• Local Treasurer</li></ul>		The LFC, through the Local Treasurer, shall use the results of the cash flow analysis as basis for adjusting the Cash Program and the financial and physical targets.															
(5) Implement corrective measures as proposed by the LFC and approved by the LCE	<ul style="list-style-type: none"><li>• Department Heads</li><li>• LFC</li><li>• LCE</li></ul>		<p>The LFC shall compare the actual performance in both the financial and physical accomplishments vis-à-vis the targets for the quarter. For variances, Department Heads concerned shall take corrective actions or prepare necessary adjustments to catch up with the plans for the year.</p> <p>Illustration of corrective measures that may be implemented</p>															

### (iii) Procurement laws and guidelines

#### (a) Default Mode of Procurement

Pursuant to Section 10 of Republic Act (RA) No. 9184, all procurement shall be done through competitive bidding, except as otherwise provided in Rule XVI of the same law.

As defined under Section 5 of RA No. 9184, Competitive Bidding refers to a method of procurement which is open to any interested party and which consists of the following processes: advertisement, pre-bid conference, eligibility screening of bids, evaluations of bids, post-qualification, and award of contract.

**“Competitive Bidding”** and **“Public Bidding”** are used interchangeably.

#### (b) Alternative Methods of Procurement

As an exception to the general rule, **Alternative Methods of Procurement (AMP)** may be adopted upon approval of the **Head of the Procuring Entity (HoPE)** or the Local Chief Executive after favorable recommendation from the **Bids and Awards Committee (BAC)** that all of the conditions in resorting to any AMP are complied with.

The most commonly used AMP in local government are (1) Direct Contracting, (2) Shopping, and (3) Negotiated Procurement. Among the instances under the latter method are (a) Emergency Cases, (b) Small Value Procurement, and (c) Lease of Real Property and Venue.

##### (b.1) Direct Contracting

Direct Contracting or Single Source Procurement is a method of procurement of goods that does not require elaborate bidding documents. The supplier is simply asked to submit a Price Quotation or a Pro Forma Invoice together with the Conditions of Sale. The bidding offer may be accepted immediately or after some negotiations. It may be resorted to under any of the following conditions:

1. Procurement of goods of proprietary nature which can be obtained only from the proprietary source;
2. When the procurement of critical components from a specific supplier is a condition precedent to hold a contractor to guarantee its project performance; or
3. Procurement of goods from an exclusive dealer or manufacturer which does not have sub-dealers selling at lower prices and for which no suitable substitute can be obtained at more advantageous terms to the Government.

The BAC prepares the Request for Quotation or Pro Forma Invoice together with the Terms and Conditions of the Sale. These shall be sent to the identified supplier. Simplified negotiations on the terms and conditions may also be conducted by the BAC to ensure capability of the supplier. Thereafter, the BAC shall recommend the award of the contract to the HoPE.



## (b.2) Shopping

Shopping is a method of procurement of goods whereby the **Procuring Entity (PE)** simply requests for the submission of price quotations from suppliers of known qualifications. They have readily available off-the-shelf goods or ordinary/regular equipment that can be procured directly. This method of procurement shall be employed in any of the two (2) cases:

- When there is an unforeseen contingency requiring immediate purchase. The amount shall not exceed as stated under the **Implementing Rules and Regulations (IRR)** depending on the LGUs' classification, to wit:

DOF Classification of LGUs	Maximum Amount		
	Province	City	Municipality
1 <sup>st</sup> Class	₱1,000,000.00	₱1,000,000.00	₱ 200,000.00
2 <sup>nd</sup> Class	₱200,000.00	₱200,000.00	₱100,000.00
3 <sup>rd</sup> Class	₱200,000.00	₱160,000.00	₱100,000.00
4 <sup>th</sup> Class	₱160,000.00	₱120,000.00	₱100,000.00
5 <sup>th</sup> Class	₱120,000.00	₱100,000.00	₱100,000.00
6 <sup>th</sup> Class	₱100,000.00	₱100,000.00	₱100,000.00

For instances with unforeseen contingencies, the end-user unit shall submit a purchase request together with the required documents to the BAC. The BAC shall then prepare the RFQ and send the same to identified prospective suppliers.

- Procurement of ordinary or regular office supplies and equipment not available in the **Procurement Service - Department of Budget and Management (PS-DBM)**. As stated under the IRR depending on the LGUs' classification, the amount shall not exceed, to wit:

DOF Classification of LGUs	Maximum Amount		
	Province	City	Municipality
1 <sup>st</sup> Class	₱1,000,000.00	₱1,000,000.00	₱200,000.00

DOF Classification of LGUs	Maximum Amount		
	Province	City	Municipality
2 <sup>nd</sup> Class	₱1,000,000.00	₱1,000,000.00	₱200,000.00
3 <sup>rd</sup> Class	₱1,000,000.00	₱800,000.00	₱200,000.00
4 <sup>th</sup> Class	₱800,000.00	₱600,000.00	₱100,000.00
5 <sup>th</sup> Class	₱600,000.00	₱400,000.00	₱100,000.00
6 <sup>th</sup> Class	₱400,000.00	₱200,000.00	₱100,000.00

- For instances that there are no available items in PS-DBM, the BAC shall post the RFQ in the PE's website, PhilGEPS website, and in a conspicuous place in the PE's premises. This must also be sent to at least three (3) suppliers and at least three (3) quotations must be obtained by the PE.
- Upon confirmation and ascertainment of such capability, the BAC shall recommend to the HoPE the award of contract. It is **strictly required** that the end-user must determine its compliance with the rules prescribed by RA No. 9184.
- The conduct of procurement through the Shopping method may be delegated to the end-user unit or any other appropriate bureau, committee, or support unit duly authorized by the BAC through a Resolution approved by the HoPE.

### (b.3) Negotiated Procurement

Negotiated Procurement is a method of procurement of goods, infrastructure projects, and consulting services where the PE directly negotiates to finalize a contract with a technically, legally, and financially capable supplier, contractor or consultant.

The conduct of Negotiated Procurement under Emergency Cases, Small Value Procurement, and Lease of Real Property and Venue may be delegated to the End-user unit or any other appropriate bureau, committee, or support unit duly authorized by the BAC through a Resolution approved by the HoPE.

#### • Emergency Cases

Negotiated Procurement under Emergency Cases may be resorted to in cases of imminent danger to life and/or property during a state of calamity. This covers natural, man-made calamities, and other causes where immediate action is necessary.



The end-user agency shall submit a procurement request to the BAC with appropriate supporting documents identifying the emergency to be addressed. The BAC shall then recommend to the HoPE any revision necessary for the **Annual Procurement Plan (APP)** to cover the procurement project subject to the validation by the appropriate office in the PE that there are funds in the budget to cover for the same. Upon confirmation and ascertainment of the supplier's capability, the HoPE, upon recommendation of the BAC, shall immediately award the contract to the supplier.

### • Small Value Procurement

This is a procurement of goods not covered by Shopping under Section 52 of the IRR of RA No. 9184, of infrastructure projects, and of consulting services where the amount involved does not exceed the threshold provided for each LGU classification, thus:

DOF Classification of LGUs	Maximum Amount		
	Province	City	Municipality
1 <sup>st</sup> Class	₱1,000,000.00	₱1,000,000.00	₱200,000.00
2 <sup>nd</sup> Class	₱1,000,000.00	₱1,000,000.00	₱200,000.00
3 <sup>rd</sup> Class	₱1,000,000.00	₱800,000.00	₱200,000.00
4 <sup>th</sup> Class	₱800,000.00	₱600,000.00	₱100,000.00
5 <sup>th</sup> Class	₱600,000.00	₱400,000.00	₱100,000.00
6 <sup>th</sup> Class	₱400,000.00	₱200,000.00	₱100,000.00

The end-user shall submit a request for **Small Value Procurement (SVP)** to the BAC. Thereafter, the BAC shall prepare the RFQ and send it to at least three (3) suppliers of known qualifications. The RFQ shall also be posted in the PE's website, PhilGEPS website, and at any conspicuous place reserved for this purpose in the premises of the PE.

A Pre-bid Conference may be conducted at the discretion of the BAC. After the deadline for submission of quotations, an Abstract of Quotations shall be prepared. The BAC shall then recommend the award of the contract in favor of the supplier with the Single or Lowest Calculated and Responsive Quotation.

### • Lease of Real Property and Venue

This is a mode of procurement covering lease of real property and venue for official use. In the Lease of Real Property, the BAC shall invite at least three (3) prospective lessors to submit price quotations. These shall be opened to determine the Lowest Calculated Quotation. Upon assessing



the responsiveness and reasonableness of the quotation, the BAC shall recommend to the HoPE the award of the contract.

In the Lease of Venue, the BAC shall send the RFQ to at least three (3) venues within the vicinity of the selected location. Receipt of at least one (1) quotation is sufficient to proceed with the evaluation thereof. Upon determination of the responsiveness of the quotation, the BAC shall recommend to the HoPE the award of the contract.

#### **(iv) What are the remedies of an LGU in case of fund shortage, especially during calamity?**

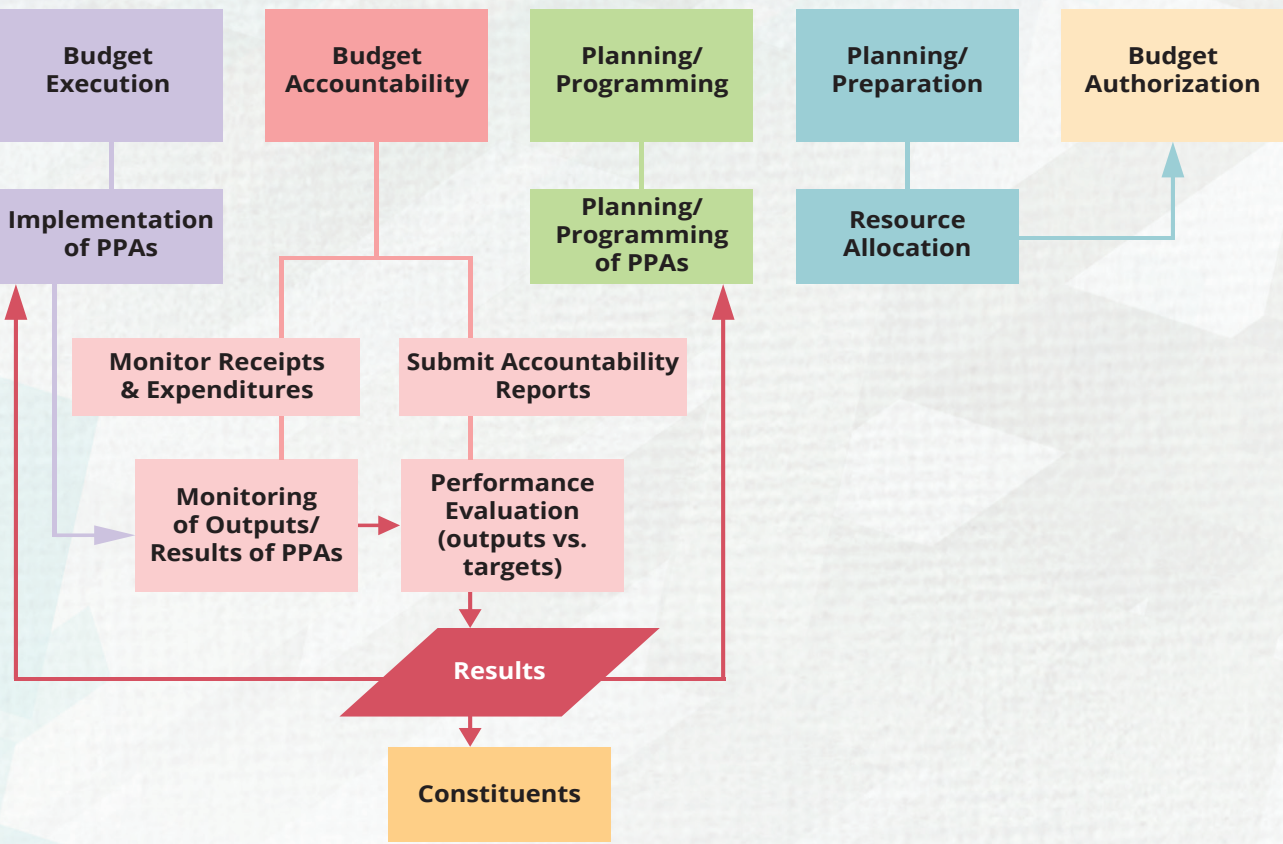
In case of fund shortage, the LGUs may:

- a. Immediately review and evaluate the existing collection efforts with the end-in-view of identifying areas where collection efforts need to be enhanced;
- b. Ensure that the LDRRMF from the current and prior years' appropriations shall be fully utilized to respond with the calamity/disaster;
- c. Realign funds subject to the conditions cited in the LGC;
- d. Withhold Allotment and non-implementation of Capital Outlays and other non-essential expenses to prioritize only the necessary and indispensable programs and activities;
- e. Seek emergency financial assistance from higher level LGUs;
- f. Request for financial assistance to the National Disaster Risk Reduction and Management Council chargeable against the National Disaster Risk reduction and Management Fund; and
- g. Apply for loans and other forms of borrowings.

**(E) Budget Accountability** is the last and final phase of the budget process. It is the accounting for the budget. It involves the use of management control techniques to assist in tracking receipts of income/revenues and controlling expenditures. It covers the monitoring and analysis of all financial transactions, the recording of budgetary accounts in the registries, recording in the books of accounts of all receipts and expenditures and financial reporting of their current status. An integral part of accountability is the evaluation of the financial and physical performance of the LGU. This review and assessment of performance is necessary to introduce improvements and reforms to make the budget more transparent to the people and stakeholders.



(i) Budget Accountability Flowchart



## (ii) Summary of Budget Accountability

PHASE 5: ACCOUNTABILITY																							
ACTIVITIES	KEY OFFICIAL(S)	DOCUMENT(S) / MONITORING TOOL	REMARKS																				
(1) Monitor Receipts and Expenditures	<ul style="list-style-type: none"> <li>Local Accountant</li> <li>Local Treasurer</li> </ul>	Local Budget Accountability (LBAC) Form No. 1 or the Quarterly Report of Receipts (Prepared by the Local Accountant)	The LBAC Form No. 1 keeps track of all receipts (income/revenue, borrowings) for each month of the quarter and shows the variance between estimated receipts and actual receipts collected as of the end of the quarter.																				
(2) Submit Accountability Reports	<ul style="list-style-type: none"> <li>Local Accountant</li> <li>Local Treasurer</li> <li>LBO</li> <li>Heads of Departments/ Offices</li> <li>Planning and Development Coordinator</li> </ul>	<p>The key officials shall submit the required accountability reports for monitoring purposes. They establish a database of the performance record of the various departments/offices of the LGU concerned. Below is a summary of these reports.</p> <table> <tr> <th>Local Budget Accountability (LBAC) Form No.</th><th>Description</th><th>Responsible Official</th><th>Date of Submission</th></tr> <tr> <td>LBAC Form No. 1</td><td>Quarterly Report of Income</td><td>Local Accountant</td><td>10 Days after the End of Each Quarter</td></tr> <tr> <td>LBAC Form No. 2</td><td>Quarterly Financial Report of Operations</td><td>Local Budget Officer</td><td>10 Days after the End of Each Quarter</td></tr> <tr> <td>LBAC Form No. 3</td><td>Quarterly Physical Report of Operations</td><td>Department/ Office Heads, Planning and Development Coordinator</td><td>10 Days after the End of Each Quarter</td></tr> <tr> <td>LBAC Form No. 4</td><td>Statement of Receipts and Expenditures</td><td>Local Treasurer Local Budget Officer Local Accountant</td><td>Within 30 Days from End of Fiscal Year</td></tr> </table>	Local Budget Accountability (LBAC) Form No.	Description	Responsible Official	Date of Submission	LBAC Form No. 1	Quarterly Report of Income	Local Accountant	10 Days after the End of Each Quarter	LBAC Form No. 2	Quarterly Financial Report of Operations	Local Budget Officer	10 Days after the End of Each Quarter	LBAC Form No. 3	Quarterly Physical Report of Operations	Department/ Office Heads, Planning and Development Coordinator	10 Days after the End of Each Quarter	LBAC Form No. 4	Statement of Receipts and Expenditures	Local Treasurer Local Budget Officer Local Accountant	Within 30 Days from End of Fiscal Year	
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(3) Evaluation the performance of each Department/ Office			<p>Pursuant to Section 316 and 320 of RA No. 7160, the LFC and LCE are tasked to conduct a semi-annual review and general examination of expenses and accomplishments against performance standards applied in the implementation of development projects and delivery of basic services.</p> <p>The assessment of performance shall primarily be a review of outputs per PPA for each Department/ Office. The review will include a variance analysis of actual results vis-à-vis planned targets for each performance indicator.</p>																				



## **DBM PROJECT TEAM ON THE DEVELOPMENT AND PROMULGATION OF A PRIMER ON LOCAL GOVERNMENT BUDGETING**

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Republic of the Philippines  
DEPARTMENT OF BUDGET AND MANAGEMENT