



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
Building II, General Solano Street, San Miguel, Manila



LOCAL BUDGET CIRCULAR

No. 100
OCTOBER 1, 2012

TO : All Provincial Governors; City and Municipal Mayors; Punong Barangay; Local Sanggunian Members; Local Treasurers; Local Budget Officers; Local Accountants, Heads of Local Economic Enterprises/Public Utilities, and Other Local Officials Concerned

SUBJECT: Policy Guidelines on the Use of LGU Transfers/Advances to LEEs/PUs

1.0 Rationale

The Local Government Code of 1991 (Republic Act No. 7160), hereinafter referred to as the Code, declared that local government units (LGUs) shall enjoy full autonomy in the exercise of their proprietary functions and in the management of their economic enterprises, subject to the limitations provided in the Code and other applicable laws (Section 22 [d]).

Further, Section 325 (a) of the Code expressly prescribes that the total appropriations, whether annual or supplemental, for Personal Services (PS) of an LGU for one (1) fiscal year shall not exceed forty-five percent (45%) in the case of first to third class provinces, cities and municipalities, and fifty-five percent (55%) in the case of fourth class or lower, of the total annual income from regular sources realized in the next preceding fiscal year. The appropriations for salaries, wages, representation and transportation allowances of officials and employees of the public utilities and economic enterprises owned, operated, and maintained by the LGU concerned shall not be included in the annual budget or in the computation of the maximum amount for PS. The appropriations for the PS of such economic enterprises shall be charged to their respective budgets.

The establishment of local economic enterprises (LEEs) and public utilities (PUs) is premised on their sustained financial viability over the long term while delivering quality goods and services to the general public.

It has been noted, however, that a considerable number of LGUs establish LEEs and PUs without the benefit of a feasibility study and continue the operations thereof despite recurring financial deficits/losses of the said LEEs and PUs that consequently remain to be heavily subsidized by the General Fund of the LGUs concerned.

Further, since the PS appropriations for LEEs and PUs are exempted from the PS limitation in local budgets under Section 325 (a) of the Code, LEEs/PUs are created out of regular units of the LGU, or employees are assigned/transferred from the regular units/offices of the LGU to the LEEs/PUs.

Accordingly, in order to ensure the effective implementation of the PS limitation prescribed under Section 325 (a) of the Code, there is a need to set policies on the use of LGU transfers/advances to LEEs/PUs and to provide options that LGUs may consider when LEEs/PUs are not able to fully fund their PS requirements.

2.0 Coverage

This Circular shall cover all existing LEEs and PUs, and those that may hereafter be established/created.

3.0 Policy Guidelines

- 3.1 For the purpose of this Circular, LGU transfer/advance to LEE/PU refers to any amount transferred from the General Fund of the LGU to subsidize the financial requirements for the operations of an LEE/PU.
- 3.2 Any LGU transfer/advance to the LEE/PU shall be subject to the rule under Section 313 of the Code which provides, among others, that profits or income derived from the operation of PUs and other LEEs, after deduction for the cost of improvement, repair and other related expenses of the PU or LEE, shall first be applied for the return of the advances or loans made therefor. Any excess shall form part of the General Fund of the LGU concerned.
- 3.3 No amount of the LGU transfer/advance to the LEE/PU shall be used to fund the PS requirements of the said LEE/PU.
- 3.4 For existing LEEs/PUs with income that cannot fully fund their PS requirements, the LGUs concerned may consider the following options:
 - 3.4.1 Adoption of cost-cutting measures or implementation of measures resulting in improved systems and efficiencies.
 - 3.4.2 Transfer of some or all permanent personnel of the LEE/PU to the Plantilla of Personnel under the General Fund of the LGU concerned, but said personnel may be detailed to the LEE/PU, when necessary.
 - 3.4.3 Downsizing or restructuring of the LEE/PU.
 - 3.4.4 Discontinuance of the LEE/PU as such and the reintegration of all its functions and services into the regular LGU operations.


- 3.4.4.1 Accordingly, the permanent personnel of the LEE/PU will be transferred to the Plantilla of Personnel under the General Fund of the LGU concerned.
- 3.4.5 Privatization of the operation of the activities of the LEE/PU as authorized under Sections 3 (I), 17 and 18 of the Code.
- 3.4.6 Inter-local government cooperation and resource sharing as authorized under Section 3 (f) of the Code.
- 3.4.7 Corporatization of the LEE/PU.
- 3.4.8 Other appropriate measures.
- 3.5 In case the option adopted by the LGU under item 3.4 hereof requires the transfer of permanent personnel of the LEE/PU to the Plantilla of Personnel under the General Fund of the LGU, the following guidelines shall be observed:
- 3.5.1 The rule on non-diminution in salary shall apply.
- 3.5.2 The PS requirements for the subject transferred positions shall already be included in the total PS appropriations of the LGU that will be subject to the PS limitation pursuant to Section 325 (a) of the Code.
- 3.5.3 The PS requirements for the subject transferred positions shall be given priority in the PS appropriations under the General Fund over non-mandatory PS items of appropriations.

4.0 Repealing Clause

All other issuances, rules, and regulations which are inconsistent with the provisions of this Circular are hereby repealed, amended or modified accordingly.

5.0 Effectivity

This Circular shall take effect immediately.


FLORENCIO B. ABAD
Secretary