



Department of Environment and Natural Resources
National Economic and Development Authority
Department of the Interior and Local Government
Department of Finance
Department of Budget and Management

**JOINT MEMORANDUM CIRCULAR NO. 02
series of 2024**

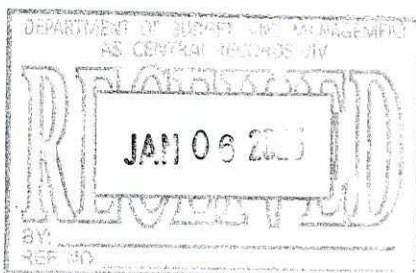
TO : *All Concerned Local Chief Executives, Members of the Local Sanggunian, Local Budget Officers, Local Treasurers, Local Planning and Development Coordinators, Local Accountant, and All Other Concerned*

SUBJECT: GUIDELINES FOR THE SETTING-UP AND OPERATION OF PUBLIC UTILITIES: LOCAL WATER SUPPLY AND SANITATION (WSS) SERVICES

DATE : September 23, 2024

1.0 BACKGROUND:

- 1.1 The National Government (NG) is committed to meet the Sustainable Development Goal (SDG) No. 6 and provide universal access to safely managed water supply and sanitation (WSS) services by 2030, as stated in the Philippine Water Supply and Sanitation Master Plan (PWSSMP) and the Philippine Development Plan (PDP) 2023-2028.
- 1.2 Based on the PWSSMP, the required annual investment to provide universal access to safely managed WSS services, especially to poor and waterless communities, is estimated at PhP 107B annually up to 2030. This cannot be funded solely by the NG.
- 1.3 The provision of WSS services is a devolved responsibility of local government units pursuant to Section 17 (b) of Republic Act (RA) No. 7160 or the Local Government Code (LGC) of 1991. While many LGUs operate their own systems to provide WSS services to their constituents, these are mostly through **ad hoc** organizations



embedded in other offices, delivering inadequate, inefficient, poor, and unreliable service.¹

1.4 The PWSSMP found that LGU-operated water systems are the least performing compared to water districts and private operators due to (i) poor utility governance, (ii) lack of capacity, and (iii) inadequate tariffs. Correspondingly, strengthening utility governance through the establishment and operation of an economic enterprise and rationalization of tariffs of LGU-operated water systems were identified as strategic actions to improve accountability for performance and transparency for budget utilization; it is also intended to achieve universal access to adequate, efficient, reliable, resilient, inclusive and sustainable WSS services.²

1.5 A well-performing water utility that operates efficiently with improved governance, and reduced non-revenue water or systems loss, and provides adequate, reliable, resilient, inclusive and sustainable WSS services is essential to achieving water security and adapting and mitigating the effects of climate change.

1.6 The PDP 2023-2028 aims to build livable communities and ensure the availability of utilities, such as water supply and sanitation services. To this end, the NG is accelerating access to WSS services, especially in poor and waterless communities, and encouraging the establishment and operation of LGU-operated water systems as economic enterprises.

1.7 The DENR-Water Resources Management Office's (WRMO's) Integrated Water Management Plan (IWMP) prioritizes, among others, to (i) implement programs to provide sustainable WSS services to poor and waterless communities; (ii) help improve the financial viability of LGU-operated water systems by encouraging their operation as economic enterprises; and (iii) develop multi-purpose surface water sources.

1.8 Taxes, transfer, or tariffs (*i.e., rates and charges collected for WSS services*) are traditional sources of funds to cover the cost of providing WSS services. Subsidies from taxes and transfers, however, are often directed to other pressing needs especially during times of disasters and other crises, and are uncertain. Hence, the implementation of

¹ Based on the DILG's database (as of July 2024), out of a total of 560 municipal LGU-operated water systems, 171 are under a waterworks unit dedicated for the operation of water systems. Seventy-one (71) are under a municipal economic enterprise (MEEDO) responsible for all types of economic activities (such as public markets, slaughterhouses, public parks, sports and recreational facilities, public cemeteries, and the like). The rest are operating under the mayor's office, engineering office, planning office, treasurer office, or budget office.

² Key Result Area III (Creating and Ensuring Effective Water Supply and Sanitation Services)

cost-based tariffs is vital to (i) sustaining operations; (ii) providing funds for expansion and service improvement projects; and (iii) improving creditworthiness to access financing and potential partnerships with the private sector.

- 1.9 The NG aims to prioritize fiscal support to provide Filipinos with equitable and sustainable access to affordable safely managed WSS services, and to this end, encourage utility-level governance reforms through the use of performance-based NG grants to help public utilities become financially viable, self-funding and self-sustaining utilities.

2.0 DEFINITIONS:

For purposes of this issuance, the following terms shall mean:

- 2.1 **Local economic enterprise (LEE)** is a venture wholly or partially owned by an LGU that generates revenue/income through the sale of services and goods to meet a perceived constituency demand.
- 2.2 **Public Utility (PU)** is an LEE created by the Local Sanggunian through an ordinance for the purpose of providing a basic necessity or service to the general public which otherwise cannot be provided adequately by the private sector.
- 2.3 **Public Utility for Local Water Supply and Sanitation Services (PU-LWSSS)** is a PU created by the Local Sanggunian through an ordinance for the purpose of providing water supply and/or sanitation services as a basic necessity or service to the general public.
- 2.4 **Ringfencing** is a financial and management arrangement whereby activities and financial accounts associated with a particular business are separated from the general accounts of the entity. It involves the identification and isolation of the PU-LWSSS' activities, assets, costs and revenues, and obligations for goods and services and utilizing its resources primarily for operations and maintenance, as well as capital investments.³

3.0 PURPOSE:

This Joint Memorandum Circular (JMC) is issued to prescribe the guidelines for setting up and operating financially viable and self-sustaining PU-LWSSS and encourage LGUs to improve accountability

³ Water and Sanitation Program – World Bank, *Guide to Ringfencing of Local Government-Run Water Utilities* (February 2009),
https://www.ppiaf.org/sites/default/files/documents/2009-01/WSP_20-20Ring_20Fencing_202010.pdf.

for performance and transparency of budget utilization for local WSS services.

4.0 SCOPE AND COVERAGE:

This JMC shall apply to the following:

- 4.1 Provincial LGUs with LGU-operated inter-municipal bulk water, water supply and/or sanitation services and projects; and
- 4.2 City and municipal LGUs providing water supply and/or sanitation services.

5.0 GENERAL GUIDELINES:

- 5.1 The establishment and operation of the PU-LWSSS shall be premised on sustained financial viability while providing adequate, efficient, reliable, resilient, inclusive and sustainable WSS services.
- 5.2 A PU-LWSSS provides WSS services as a basic utility service and as such, is distinct and treated differently from other economic enterprises.⁴
- 5.3 To such extent possible, provincial, city and municipal LGUs are encouraged to consider, explore and undertake clustering, integration and/or amalgamation of projects for bulk water, water distribution and sanitation services and consolidation of operations of small water services providers (e.g., barangay water supply associations and other community-based WSS service providers) through performance contracting. This aims to promote economies of scale, resiliency and improved viability.
- 5.4 Compliance with this JMC shall form part of the LGUs Local Climate Change Action Plan as required under RA No. 9729 or the Climate Change Act of 2009 and may be required as among the criteria or conditions for Seal of Good Local Governance and financial assistance from the NG.
- 5.5 The NG is committed to the policy on decentralization as provided in the Constitution and shall endeavor to assist LGUs to institute complementary governance reforms to support integrated water resources management and develop the capacities to deliver WSS services through the provision of technical guidance and capacity development assistance. This may include, among others, financial management, planning and public expenditure management, preparation of feasibility studies for PU-LWSSS, enhancement of

⁴ Section 313 and 325 (a), RA 7160 (LGC)

possible financing options to improve service delivery and improved implementation of performance monitoring systems.

6.0 SPECIFIC GUIDELINES:

6.1 Creation and Operation of PU-LWSSS - The establishment and operation of the PU-LWSSS shall be undertaken in accordance with the provisions of ***DBM Local Budget Circular No. 111 (2016) or the Manual on the Setting up and Operation of Local Economic Enterprise (LEEs)***, and any amendments thereto, including among others:

- a. **Section 4.2** on the conduct of feasibility study with market analysis, technical analysis, financial/economic analysis, organizational analysis, and regulatory and other pre-operation requirements.
- b. **Section 4.6** on the preparation of a five-year business plan covering relevant facets of the PU/LEEs services including management, operations, staffing, risk analysis, marketing, and sales.
- c. **Section 4.8** on the enactment of an ordinance creating the PU/LEE specifying (i) the purpose and justification for the creation of the PU/LEE; (ii) capitalization and sources of financing; (iii) organization and staffing; (iv) pricing policy; and (v) sunset provision mandating closure if unable to achieve financial self-sustainability, and other requirements.
- d. **Section 5** on the implementing procedures for PU/LEEs, which includes, among others:
 - i. setting up and maintaining a special account for the PU/LEE in the general fund (GF);
 - ii. excluding salaries, wages, representation and transportation allowances of PU/LEE officials and employees from the GF;
 - iii. checking that PU/LEEs have its own annual operating budget (AOB);
 - iv. charging appropriations for personal services of the PU/LEEs against its AOB; and
 - v. applying the profits or income from the operations of PU/LEE to : (a) cost of improvement, repairs, maintenance, operation and other related expenses; (b) return of advances received by the PU/LEE from the GF and (c) excess forming part of the GF.
- e. **Section 6** on the budgeting for PU/LEEs which shall include estimated receipts and corresponding expenditures for operations and capital outlays consistent with the business plan.

- f. **Section 6.6.2** on the preparation and submission to the local chief executive and local Sanggunian through the local finance committee of (i) reports of operations; (ii) financial reports; and (iii) semi-annual financial self-sustainability report (SAFRR), which shall show the total income, total expenses, net income, and the financial self-sufficiency ratio of the PU/LEEs.
- g. **Section 6.6.3 and Section 7** on the conduct of financial self-sufficiency evaluation (FSSE) every five years to determine if the PU/LEE is proceeding towards self-sustainability or 100% cost recovery. The FSSE shall include **ringfencing of related costs** or a determination of the true cost of operating the PU/LEE. This includes, among others, (i) identification of resources used to provide WSS service including those budgeted under other departments or offices of the LGU; and (ii) proper attribution of costs (depending on time spent doing work for the PU/LEE or other methods of computing shared costs) of detailed officers and staffers from other offices.
- h. **Section 7.3** on the preparation of an updated/revised business plan and (if financial self-sustainability is not achieved) adoption of sustainability strategies such as: (i) improving facilities and services; (ii) increasing users' fees to cover true cost; (iii) reducing costs; and (iv) implementing changes in the organizational structure.

Further, LGUs are encouraged to adopt the ringfencing approach as a mechanism to improve the performance of the PU-LWSSS.

6.2 Technical Operations of the PU-LWSSS

- 6.2.1 The technical operations of the PU-LWSSS shall comply with **mandatory** regulatory standards, including among others:
 - a. **DOH AO No. 2017-0010 (2017) Philippine National Standards for Drinking Water 2017**, and its amendments. This requires that water supplied to customers are sampled and tested by a DOH- accredited laboratory and should pass the DOH's standards for drinking water.
 - b. **DOH AO No. 2014-0027 (2014) National Policy on Water Safety Plan for All Drinking Water Service Providers**, and its amendments. This requires all drinking water service providers to develop and implement water safety plans.
 - c. **Clean Water Act and relevant rules, regulations, and standards of the DENR-Environment Management Bureau (EMB) (including DENR-DAO 2021-19)**, and its

amendments, for PU-LWSSS that are providing wastewater management services.

6.2.2 LGUs are **encouraged** to adopt, through the issuance of an ordinance or resolution, the minimum technical standards, procedures, organizational structure and staffing plan for the operation of the PU-LWSSS, consistent with current NWRB rules and guidelines, industry practice and incorporate climate resilient design, including among others:

- a. ***NWRB Board Resolution No. 14-0921 Standard Rules and Regulations in the Operation of Waterworks Systems***, and its amendments. This prescribes the minimum technical standards for providing adequate, efficient, and continuous WS services (for CPC grantees), including among others (i) supply availability of at least 18 hours per day at not less than 110 liters per capita per day; (ii) minimum pressure of at least 8 psi for residential/commercial and 25 psi for industrial zones; and (iii) non-revenue water not higher than 20% of total volume produced; and requires water utilities to monitor and measure performance using pre-identified key performance indicators and business efficiency measures (KPI/BEMs) and submission of annual report of operations for benchmarking.
- b. An asset management program to prevent component failure, extend the useful life of facilities, incorporate risk mitigation measures, and minimize disruption to service. This may include:
 - i. maintaining an asset register/database (with such information as asset type, description, acquisition date and cost, expected useful life, current valuation, inspection frequency, maintenance history, location, and a unique identifier);
 - ii. undertaking routine tasks/activities based on pre-established schedules according to manufacturers' recommendation or industry standard/practice;
 - iii. maintaining adequate inventory of parts and tools needed for repairs;
 - iv. acquiring adequate insurance coverage against natural disasters;

- v. developing and implementing contingency and preparedness plans; and
 - vi. maintaining a depreciation reserve fund for asset renewal.
- c. Without prejudice to Sections 76 and 77 of RA 7160 (LGC), the organizational structure of the PU-LWSSS shall be composed of at least: (i) an **overall manager**; (ii) a **technical operations unit** responsible for operations and maintenance of the water system; (iii) a **commercial operations unit** responsible for, among others, metering, billing and collection, and responding to customer concerns; and (iv) an **administration/finance unit** responsible for, among others, cashiering, procurement, hiring of personnel, preparation of payroll, and other general and administrative services.
- d. Subject to compliance with applicable civil service rules and regulations and provisions of RA No. 7160, a staffing plan composed of a full-time overall manager and unit heads: (i) with permanent appointments; and (ii) possessing the qualifications, professional competencies and trainings required for each position and salary-grade level. Appointments and promotion shall be based on merit and performance. Notwithstanding their permanent appointments, the overall manager and/or unit heads may be transferred to equivalent position/s within the same LGU without diminution of salary and benefits, in accordance with civil service rules.

6.3 Setting, review and updating of tariffs for WSS Services.

- 6.3.1 The setting, review and updating of tariffs for WSS services provided by the PU-LWSSS shall be guided by the provisions of **BLGF MC No. 20-2019 Local Fees and Charges Toolkit on the Review, Setting and/or Adoption of Reasonable Local Fees and Charges**, and its amendments, including among others:
- a. **Paragraph 3.0**, which states, among others, that the purpose for determination of a reasonable rate of fees and charges shall be the efficient cost-recovery of regulatory activities and user services of the LGUs.
 - b. **Paragraph 5.2**, which requires LGUs and the PU/LEEs to, among others, (i) map its process flow; (ii) identify resource requirements; (iii) identify and quantify variable costs (such as personnel costs, transportation costs etc.); and (iv)

estimate and distribute fixed costs (such as office space, utilities, and equipment).

6.3.2 To such extent applicable, the LGUs may adopt ***NWRB Board Resolution No. 25-0818 - Adoption of the NWRB Economic Regulatory Framework***, and its amendments, prescribing the methodology for determining full cost-recovery tariff categorized into (i) water utilities operating for profit; (ii) water utilities not operating for profit; and (iii) community-based.

6.3.3 The LGUs shall ensure that WSS services provided by the **PU-LWSSS** are accessible to low-income households and pass the affordability criteria in accordance with existing regulations.

6.4 Planning, budgeting, and accounting of the PU-LWSSS. The planning, budgeting and accounting of the PU-LWSSS shall be undertaken in accordance with existing relevant laws, rules, regulations, guidelines and issuances, in particular, ***COA Circular No. 2020-004 (2020) COA Government Accounting Manual for Local Government Units (Volume 1)***, and its amendments, including among others:

- a. **Sections 142 to 144** which provide that a Special Account in the General Fund may be maintained for the PU/LEEs (and considered distinct from others) with complete subsidiary records for all accounts for the purpose of providing adequate information regarding its assets, liabilities and equity, and determining whether it has become financially self-sustaining while providing basic needs and services to the public.
- b. **Section 150** which provides, among others, that (i) Personal Services (PS) requirements of the PU/LEEs shall not be included in the computation of the maximum number of PS of the LGU; and (ii) when the PU/LEEs have become viable, regular positions may be created for the purpose, to be funded solely from its income.
- c. **Sections 152 and 153** which provide that separate depository accounts may be maintained, and the Local Treasurer shall maintain separate cash books for PU/LEEs.
- d. **Section 158** which provides that profits from the operation of the PU/LEEs, after deduction of the cost of improvement, repair, and other related expenses, shall first be applied for the return of advances made therefor, and any excess shall form part of the general fund.

7.0 ADOPTION OF GENDER EQUALITY, DISABILITY AND SOCIAL INCLUSION PRINCIPLES

To help ensure that WSS services of the PU-LWSSS are user-friendly and responsive to the needs of the community, the LGU and PU-LWSSS shall:

- 7.1 Encourage equal representation of all genders in opportunities for employment and decision-making roles of the PU-LWSSS;
- 7.2 Ensure that WSS services are accessible and affordable for all, especially the poor and vulnerable; and
- 7.3 Ensure that procedures for community consultation, especially in connection with setting technical and service level standards and tariffs for WSS services, are adopted and implemented with adequate opportunity for meaningful participation and involvement of women and other marginalized sectors.

8.0 ISSUANCE OF IMPLEMENTING GUIDELINES

The DILG and the DOF, through the BLGF, in coordination with NEDA, DBM, DENR, and other relevant agencies, shall prepare, update and issue the necessary implementing guidelines and/or advisories on this JMC.

9.0 ROLES AND RESPONSIBILITIES OF OVERSIGHT AGENCIES AND LOCAL GOVERNMENT UNITS

9.1 The **Department of the Interior and Local Government (DILG) through the Office of Project Development Services (OPDS)** shall be responsible for:

- a. Advocating the importance of improving accountability, transparency, efficiency and financial viability of local WSS services and compliance with this JMC;
- b. Institutionalizing a system to monitor and encourage compliance with this JMC, such as incorporation as part of the criteria or conditions for the Seal of Good Local Governance and financial assistance from the NG;
- c. Disseminating this JMC to all LGUs and other stakeholders; and
- d. Providing technical assistance and capacity building to LGUs, in coordination with DOF-BLGF and other relevant agencies.

9.2 The **Department of Finance through the Bureau of Local Government Finance (DOF-BLGF)**, in accordance with DILG-DOF JMC No. 2019-01 dated 17 May 2019 and in coordination with DILG,

shall be responsible for the monitoring of LGU special accounts for the operation of the PU-LWSSS.

9.3 **The Department of Environment and Natural Resources - Water Resources Management Office (DENR-WRMO) and NEDA Board Committee on Infrastructure, Sub-Committee on Water Resources (INFRACOM-SCWR)** shall be responsible for sector monitoring and ensuring consistency with the KRA and priority actions in PWSSMP.

9.4 **The Department of Budget and Management through its Regional Offices** shall be responsible for reviewing the appropriation ordinance authorizing the local budget, which includes the AOB of the PU-LWSSS, of provinces, highly urbanized cities, independent component cities and municipalities within Metro Manila.

9.5 **The Local Chief Executive of Concerned LGUs** shall be responsible for:

- a. Approving the feasibility study and/or business plan, organizational structure, staffing plan and proposal for the creation of the PU-LWSSS, for submission to the concerned Sanggunian Bayan/Panlungsod/ Panlalawigan;
- b. Approving the proposed AOB of the PU-LWSSS for inclusion in the LGUs annual local expenditure program and submission to the concerned Sanggunian Bayan/Panlungsod/ Panlalawigan;
- c. Creating the local oversight committee on revision of fees and charges, pursuant to Section 6.4 of DILG-DOF JMC No. 2019-01 dated 17 May 2019; and
- d. Upon recommendation of the local oversight committee on the revision of fees and charges, approving the proposed/updated/adjusted tariffs for local WSS services for submission to the concerned Sanggunian Bayan/Panlungsod/Panlalawigan.

9.6 **The Sanggunian Bayan/Panlungsod of Concerned City and Municipal LGUs** shall, through the issuance of resolutions or ordinances, be responsible for:

- a. Approving the creation of the PU-LWSSS for (city/municipal) including its business plan, organizational structure and staffing plan;
- b. Adopting minimum technical standards for the operation of the PU-LWSSS (city/municipal) and provision of adequate, efficient, reliable, resilient, and sustainable WSS services;

- c. Approving the GFAB of city/municipal LGUs, which shall include the AOB of the PU-LWSSS (city/municipal); and
- d. Approving the proposed/updated/adjusted tariffs for local (city/municipal) WSS services.

9.7 The Sangguniang Panlalawigan of the Concerned Provincial LGUs shall, through the issuance of resolutions or ordinances, be responsible for:

- a. Approving the creation of the PU-LWSSS (provincial/inter-municipal) including its business plan, organizational structure and staffing plan;
- b. Adopting minimum technical standards for the operation of the PU-LWSSS (provincial/inter-municipal) and provision of adequate, efficient, reliable, resilient, and sustainable WSS services;
- c. Approving the GFAB of provincial LGUs, which shall include the AOB of the PU-LWSSS (provincial/inter-municipal);
- d. Approving the proposed/updated/adjusted tariffs for local (provincial/inter-municipal) WSS services; and
- e. Reviewing the resolutions or ordinances issued by the concerned Sanggunian Bayan or Panlungsod of component cities and municipalities in relation to: (i) creating the PU-LWSSS of component cities or municipalities; (ii) approving the proposed or updated or adjusted tariffs for local WSS services of component cities or municipalities; and (iii) approving the appropriation ordinance authorizing the local budget, which includes the AOB of the PU-LWSSS of component cities or municipalities.

10.0 SEPARABILITY CLAUSE

If any of this circular is declared void or unconstitutional, the other provisions not affected thereby shall remain valid and subsisting.

11.0 REPEALING CLAUSE

All provisions of existing issuances of the participating agencies that are inconsistent with this JMC are hereby repealed or modified accordingly.

12.0 AMENDMENT CLAUSE

This circular may be amended and/or revoked by law, executive order or circular jointly issued by DILG, DBM, DOF, NEDA and DENR.

13.0 RESOLUTION OF ISSUES


Issues and concerns that may arise in the implementation of this JMC, including cases not covered herein, shall be referred to the DILG, DBM, DOF, NEDA or DENR, as the case may be, for resolution.

14.0 EFFECTIVITY

This JMC shall take effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation.




MARIA ANTONIA YULO LOYZAGA
Secretary
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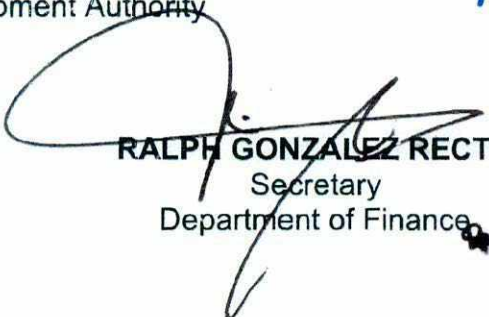

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