



Republic of the Philippines
HOUSE OF REPRESENTATIVES
Quezon City, Metro Manila

Seventeenth Congress
First Regular Session

HOUSE BILL NO. 4023

Introduced by Honorable Roger G. Mercado

EXPLANATORY NOTE

The State recognizes the importance of budget reform measures for local government units (LGUs) to fully exercise their local autonomy in pursuit of robust development, sustained growth and good governance at the local level.

The State likewise underlines the policy for fiscal decentralization, as stated in Section 2(a), Chapter I, Title I of The Local Government Code, to wit:

“It is hereby declared the policy of the State that the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals. Toward this end, the State shall provide for a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units shall be given more powers, authority, responsibilities, and resources. The process of decentralization shall proceed from the national government to the local government units.”

Thus, it is clear that the National Government shares its political-administrative authority with different local political subdivisions. Moreover, to emphasize the importance of LGUs' role in nation building, the National Government devolved some important governmental functions to the local level, i.e. environment, public health, infrastructure, among others.

While LGUs are equal partners of the National Government in promoting the welfare and well-being of the people, there are existing gaps that need to be addressed, among which is the measly sum of LGU share in the National Budget. For Fiscal Year 2014 General Appropriations Act (GAA) enacted through Republic Act 10633, LGU shares, through the Allocation to Local Government Units, Internal Revenue Allotment and Bottom-Up Budgeting, amount to only P381.1 billion. This translates to a mere 16.8% of the P2.26 trillion national budget.

Noteworthy is the fact that some, if not all, of these National Government Agencies with huge annual appropriations have been remiss in their responsibilities of delivering basic services and contributing to national development due to massive underspending to the detriment of the Filipino people. In 2014 alone, unused appropriations of all 34 national departments and agencies amount to a staggering P310,094,397,000. This is 26.15% of the total P1,186,029,690,000 regular budget for FY 2014.

Thus, it is the intention of this proposal to institutionalize rational and equitable budget distribution for LGU development for them to be active participants in nation building.

Under the proposal, the amount allocated to the LGUs will be referred to as the "Local Development Fund (LDF)", which will be divided among the different political subdivisions solely for developmental projects, activities and programs (PAPs) based on their approved Comprehensive Development Plans (CDPs).

The CDPs will be subject to annual review of a committee created for the purpose of determining if the LGUs' entitlements to the said fund will be reduced or retained based on their compliance with their respective plans.

It is also recognized that LGUs must have adequate capacity to carry out their mandate for the proper implementation of the LDFs. Capacity building will enhance local governance, improve delivery of public service, and strengthen accountability among local governments. These are important in effectively carrying out devolved functions and ultimately, attaining local autonomy.

Hence, adequate funds shall be appropriated mandating the Local Government Academy (LGA) to provide the LGUs with the necessary tools in undertaking effective planning and proper implementation of their PAPs in accordance with their approved CDPs.

By giving the LGUs the necessary wherewithal to be active participants in the development of our country, we will end the culture of mendicancy and political patronage that viciously thrive in our system. Ultimately, this will help us realize the elusive inclusive growth that we all aspire for as a nation.

It is for this purpose that the approval of this bill is earnestly sought.



ROGER G. MERCADO



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HOUSE BILL NO. 4023

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AN ACT
INSTITUTING BUDGET REFORM THAT WILL ENSURE THE
EQUITABLE DISTRIBUTION OF FUNDS FOR BOTH THE NATIONAL
AND LOCAL GOVERNMENT UNITS FOR THE PURPOSE OF
PROMOTING VILLAGE EMPOWERMENT, ENABLING THEM TO BE
AN EFFECTIVE INSTRUMENT IN ATTAINING INCLUSIVE GROWTH,
APPROPRIATING FUNDS THEREFOR AND FOR OTHER PURPOSES

Be it enacted by the Senate and House of Representatives of the Philippines in Congress assembled:

1 **SECTION. 1. *Short Title.*** - This Act shall be known as the "THE
2 **BUDGET REFORM FOR VILLAGE EMPOWERMENT ACT OF 2016."**

3 **SECTION. 2. *Declaration of Policy.*** –

4 (a) It is a declared policy of the State that territorial and political
5 subdivisions shall enjoy genuine and meaningful local autonomy to
6 enable them to attain their fullest development as self-reliant
7 communities and make them more effective partners in the
8 attainment of national goals;

9 (b) It is also the policy of the State that meaningful local autonomy can
10 only be realized through the implementation of locally crafted
11 development plans that accurately acknowledge and address
12 perceived local needs;

- 1 (c) The State acknowledges that there exists a fiscal gap between the
2 expenditure responsibilities of the Local Government Units (LGUs)
3 and their fiscal capacity;
- 4 (d) It is likewise the policy of the State to ensure that sufficient financial
5 resources for development are available to LGUs with corresponding
6 accountability of improving public services;
- 7 (e) Therefore, the State recognizes that inclusive and sustainable growth
8 can be truly achieved only by providing the LGUs with adequate
9 resources and technical capacities that will promote meaningful
10 development.

11 **SECTION. 3. Allotment for Development.** - To achieve the policies
12 declared in this Act, the National Government shall guarantee an annual
13 fundsufficient to implement the three-year Comprehensive Development Plan
14 (CDP) of each and every province, city, municipality, and barangay herein
15 referred to as the "*Local Development Fund*" (LDF), to wit:

- 16 (a) Provinces – Five Hundred Million Pesos to One Billion Pesos
17 (P500,000,000.00 to P1,000,000,000.00) per province per year;
- 18 (b) Cities – One Hundred Million Pesos to Two Hundred Million Pesos
19 (P100,000,000.00to P200,000,000.00) per city per year;
- 20 (c) Municipalities –Fifty Million Pesos to One Hundred Million Pesos
21 (P50,000,000.00 to P100,000,000.00) per municipality per year; and,
- 22 (d) Barangays –Three Million Pesos to Five Million Pesos (P3,000,000.00
23 to P5,000,000.00) per barangay per year.

24 These funds shall be automatically and directly released to every LGU at
25 the start of the fiscal year or on quarterly basis within five (5) days at the start of
26 each quarter. No lien, holdback or any other imposition, of whatever nature, may
27 be imposed by the National Government against the said fund.

28 **SECTION. 4. Purpose of Local Development Fund.** – The fund shall be
29 used solely by the LGUs to finance their respective development projects,
30 activities and programs (PAPs) identified in their approved Comprehensive Local
31 Development Plans (CDPs). The use of the said fund contrary to the stated
32 purpose shall make the approving authority and all persons who allow such
33 diversion liable for technical malversation as defined and penalized under *Article*
34 *220 of Act No. 3815*, otherwise known as the "*Revised Penal Code*".

1 **SECTION. 5. *Expenditures Not Covered.*** - No amount shall be paid out
2 of the LDF to items that are not related to or connected with the development PAPs
3 such as:

4 (a) Administrative expenses such as cash gifts, bonuses, food allowance,
5 medical assistance, uniforms, supplies, meetings, communication, water
6 and light, petroleum products and the like;

7 (b) Salaries, wages, emoluments, per diems or overtime pay;

8 (c) Travelling expenses, whether domestic or foreign;

9 (d) Registration or participation fees in trainings, seminars, conferences and
10 conventions;

11 (e) Construction, repair or refinishing of administrative offices;

12 (f) Purchase of administrative office's furniture, fixtures, equipment or
13 appliances;

14 (g) Purchase, maintenance or repair of motor vehicles or motorcycles.

15 Likewise, the LDF shall not be used to finance PAPs that may duplicate or
16 overlap with PAPs that are being implemented or funded by the National
17 Government Agencies (NGAs). Also, no LDF shall be utilized as a counterpart
18 fund to support NGAs' identified PAPs.

19 **SECTION. 6. *Comprehensive Local Development Plan.*** - Consistent with
20 Republic Act 7160, otherwise known as the "*Local Government Code of 1991*",
21 every LGU shall formulate a three-year CDP that is reflective of and responsive to
22 the developmental needs of their respective localities with corresponding periodic
23 timelines. The approved CDPs shall be funded yearly by the National Government
24 in accordance with Section 3 hereof.

25 The Local Development Councils shall conduct an annual review, and if
26 necessary, update their respective CDPs. The CDPs shall be formulated and
27 approved in accordance with the provisions of Republic Act 7160.

28 The approved CDPs of each LGU shall be the basis for the allocation of the
29 Local Development Fund. In the event that the CDP is updated and funding has
30 been re-adjusted, the affected development project should first be approved before
31 it may be funded and implemented.

32 **SECTION. 7. *Performance-based Evaluation.*** - A performance-based
33 evaluation shall be conducted by the Performance Evaluation Committee (PEC)
34 chaired by the Undersecretary for Local Government of the Department of Interior
35 and Local Government (DILG). Before the end of the fourth quarter of the year,
36 said committee shall conduct an annual performance review of the LGUs'

1 implementation of their development PAPs based on the indicators identified in
2 their CDPs. The results shall be published before the end of the first quarter of the
3 following year.

4 Unsatisfactory performance of an LGU shall result in the reduction of its
5 LDF by fifty percent (50%) in the following year after the said evaluation;
6 Provided however, That, when the LGU which was previously rated with poor
7 standing improves on its performance in the next evaluation period, full funding
8 shall be restored; Provided further, That, LDF shall be terminated in case of two
9 (2) consecutive unsatisfactory performance; Provided finally, That, LGUs, whose
10 LDF has been terminated, may reapply for funding of their CDPs a year following
11 its termination.

12 **SECTION. 8. *Web-based Monitoring System.*** – In the spirit of
13 transparency and accountability, the PEC shall adopt a web-based application to
14 facilitate the monitoring and evaluation of all PAPs funded by the LDF. The
15 system shall allow tracking of expenditures and the status of implementation of the
16 PAPs. The status of the PAPs shall be updated monthly by the LGUs or as
17 frequently as maybe necessary. It is the responsibility of the Chief Executive of
18 the LGU to make sure that the reportorial requirements are complied with. In case
19 of non-reporting or failure to comply with the reportorial requirements, the PEC
20 shall advise the Department of Budget and Management (DBM) to suspend the
21 release of funding to the delinquent LGU until such time that it complies with the
22 requirements. The system shall be accessible to the general public and all
23 information, including but not limited to funding/cost, location, contractor,
24 progress status, number of beneficiaries, date of completion and responsible
25 government official, of the PAPs shall be disclosed.

26 The amount of One Hundred Million Pesos (P100,000,000.00) is hereby
27 appropriated to fund the establishment of a web-based monitoring system.

28 **SECTION. 9. *Performance Evaluation Committee.*** - There is hereby
29 created a Performance Evaluation Committee in charge of the monitoring and
30 evaluation of the implementation of development PAPs under the LDF based on
31 the indicators provided under the CDPs, composed of the following:

- 32 1. The Undersecretary for Local Government of the DILG, as Chairman;
- 33 2. The Assistant Director-General for Planning of the National Economic and
34 Development Authority (NEDA);
- 35 3. The Assistant Secretary for Policy and Planning of the DBM;

- 1 4. The Executive Director of the Bureau of Local Government Finance
- 2 (BLGF) of the Department of Finance (DOF);
- 3 5. A representative from each of the various leagues of the different LGUs
- 4 concerned;
- 5 6. A representative from the National Commission on Indigenous Cultural
- 6 Communities/Indigenous Peoples (NCIP), if applicable; and,
- 7 7. Four representatives from accredited civil society groups and/or non-
- 8 government organizations in the locality where the CDP is to be
- 9 implemented.

10 The representatives from the accredited civil society groups and/or non-

11 government organizations shall be selected based on the criteria and mechanisms

12 to be determined for this purpose by the PEC.

13 The various Regional Project Monitoring Committees (RPMC) shall assist

14 the PEC in its task of monitoring and evaluation and shall act as the secretariat of

15 the PEC with respect to their region.

16 **SECTION. 10. Capacity Building.** – The Local Government Academy

17 (LGA), in consortium with institutions of higher learning with distinguished

18 competencies in public governance programs, is hereby mandated to ensure,

19 within one (1) year after the effectivity of this Act, that all territorial and political

20 subdivisions are capacitated to effectively plan and implement the development

21 projects in their respective CDPs. For this purpose, the amount of One Billion

22 Pesos (P1,000,000,000.00) is hereby appropriated for capacity building of all

23 LGUs.

24 No Local Development Fund shall be released without a certification from

25 the LGA that the LGU is capacitated to plan and implement its CDP.

26 **SECTION. 11. Procurement.** – Procurement for the purpose of

27 implementing the CPDs must be consistent with the provisions of Republic Act

28 9184, otherwise known as “*Government Procurement Reform Act*”.

29 **SECTION. 12. Penal Provision –**

30 a) It shall be unlawful for any person to withhold the release of the LDF to

31 the LGUs within the period specified in Section 3 hereof. Any person violating the

32 provision of this law shall suffer the penalty of imprisonment ranging from one

33 year and one day to six years (1 year and 1 day to 6 years), and a fine of five

34 hundred thousand pesos (P500,000.00), and temporary absolute disqualification

35 from holding any public office or employment in the government, including any

1 Government-Owned and/or Controlled Corporations (GOCCs), and their
2 subsidiaries.

3 b) The Local Chief Executive shall be administratively liable, without
4 prejudice to any civil or criminal liabilities he may have incurred under existing
5 laws, in case of failure to report the status of their development PAPs as required
6 under Section 8 of this Act.

7 c) Any government official or employee who shall prevent the reporting or
8 disclosure of any information or data pertaining to a funded development PAP as
9 mandated by Section 8 of this Act, shall be held administratively liable without
10 prejudice to any civil or criminal liability he may have incurred under existing
11 laws.

12 **SECTION. 13. *Oversight Committee.*** There is hereby created a
13 Congressional Oversight Committee to monitor and oversee the implementation of
14 the provisions of this Act. The Committee shall be composed of five (5) members
15 from the Senate and five (5) members from the House of Representatives to be
16 chaired by the Chairpersons of the Committee on Local Government from both the
17 Senate and House of Representatives.

18 **SECTION. 14. *Sunset Review.*** Five (5) years following the effectivity of
19 this Act, or as the need arises, the Congress shall conduct a sunset review. For
20 purposes of this Act, the term "sunset review" shall mean a systematic evaluation
21 by Congress of the accomplishments and impact of this Act, as well as the
22 performance of LGUs, for purposes of determining remedial legislation.

23 **SECTION. 15. *Implementing Rules and Regulations.*** – For the effective
24 implementation of this Act, the Secretary of the DILG, with the Secretaries of the
25 DOF and the DBM and in consultation with the various leagues of the different
26 LGUs, shall issue the necessary Implementing Rules and Regulations.

27 **SECTION. 16. *Suppletory Application of Existing Laws.*** - The provisions
28 of Republic Act No. 7160, otherwise known as the "*Local Government Code of*
29 *1991*", and other laws consistent with this Act shall have suppletory effect.

30 **SECTION. 17. *Repealing Clause.*** - All laws, presidential decrees,
31 executive orders, presidential proclamations, rules and regulations or parts thereof
32 contrary to or inconsistent with this Act are hereby repealed, superseded or
33 modified accordingly.

34 **SECTION. 18. *Separability Clause.*** - Any portion or provision of this Act
35 that may be declared unconstitutional or invalid shall not have the effect of

1 nullifying other portions or provisions hereof, as long as such remaining portions
2 or provisions can still subsist and be given effect in their entirety.

3 **SECTION. 19. *Effectivity.*** - This Act shall take effect fifteen (15) days
4 after its complete publication in the Official Gazette or in at least two (2)
5 newspapers of general circulation.

6 *Approved,*