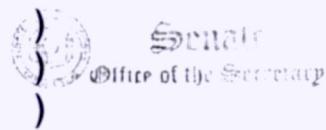


**EIGHTEENTH CONGRESS OF THE
REPUBLIC OF THE PHILIPPINES**
First Regular Session



19 JUL 11 A11:35

SENATE

S. B. NO. 352

RECEIVED BY _____

A handwritten signature of the Secretary of the Senate.

Introduced by **SENATOR JOEL VILLANUEVA**

**AN ACT ENSURING THE EQUITABLE DISTRIBUTION OF
FUNDS BETWEEN THE NATIONAL GOVERNMENT AND THE
LOCAL GOVERNMENT UNITS, APPROPRIATING FUNDS
THEREFOR AND FOR OTHER PURPOSES**

EXPLANATORY NOTE

Republic Act No. 7160 or the Local Government Code of 1991 (LGC) sought to empower local government units (LGUs) by giving them the authority to effectively formulate and implement their respective projects and programs. To this end, the LGC increased the share of LGUs from the annual revenues of the national government by giving them a share on the taxes collected by the national government through the distribution of Internal Revenue Allotment (IRA). In addition, the LGC also authorized LGUs to impose and collect local fees and taxes to generate additional resources. These reforms sought to empower LGUs and enable them to fund their respective programs – consistent with the national objective of creating effective and autonomous local governments units.

Nevertheless, despite the said reforms, many LGUs continue to suffer from limited fiscal resources. Consequently, many LGUs fail to effectively provide service and implement their respective programs, contrary to the outcomes envisioned when the LGC was enacted in 1991. To date, many LGUs continue to rely on direct provision from the national government, especially for programs and projects that contribute to local development.

To address the issue of scarce resources faced by many LGUs, this bill seeks to provide additional funding for local governments by giving each barangay, municipality, city, and province a Local Development Fund (LDF). The LDF seeks to supplement the resources currently available to local

governments, and ensures the availability of adequate funding for programs, project, and activities that will assist in the development of LGUs. The bill also mandates that at least 10% of the LDF shall be utilized for programs geared towards the enhancement and promotion of technical skills training and education.

This bill also seeks to allot more funds to lower-income LGUs compared to their higher-income counterparts to strengthen the equitable distribution of resources across the country. In addition, this bill also provides for various safeguards (e.g. compliance with local development plan, local capacity-building, multi-sectoral monitoring and evaluation, etc.) to ensure that resources are used consistent with their intended purpose.

The immediate passage of this bill is earnestly sought.



SENATOR JOEL VILLANUEVA

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Office of the Secretary

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**AN ACT ENSURING THE EQUITABLE DISTRIBUTION OF FUNDS
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GOVERNMENT UNITS, 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 "Local Budgeting
2 Reform Act."

3

4 **SEC. 2. Declaration of Policy.** – The State and all its territorial and political
5 subdivisions shall enjoy genuine and meaningful local autonomy to enable
6 them to attain their fullest development as self-reliant communities and make
7 them more effective partners in the attainment of national goals. For this
8 purpose, the State recognizes that meaningful local autonomy can only be
9 realized through the implementation of locally crafted development plans that
10 accurately acknowledge and address perceived local needs, and that
11 inclusive and sustainable growth can only be truly achieved by providing the
12 local government units (LGUs) with adequate resources and technical
13 capacities that will promote meaningful development.

14

15 **SEC. 3. Allotment for Development.** – To achieve the policies declared in
16 this Act, the National Government shall guarantee an annual fund sufficient to
17 implement the three-year Comprehensive Development Plan (CDP) of each
18 province, city, municipality, and barangay, herein referred to as the "Local
19 Development Fund" (LDF), to wit:

20 a) Provinces – Fifty Million Pesos to One Hundred Million Pesos
21 (P50,000,000.00 to P100,000,000.00) per province per year;

- b) Cities – Ten Million Pesos to Twenty Million Pesos (P10,000,000.00 to P20,000,000.00) per city per year;
 - c) Municipalities – Five Million Pesos to Ten Million Pesos (P5,000,000.00 to P10,000,000.00) per municipality per year; and
 - d) Barangays – One Million Pesos to Three Million Pesos (P1,000,000.00 to P3,000,000.00) per barangay per year.

7 Provided, That the amount of LDF for each province, city or municipality shall
8 be based on the following criteria:

- 9 a) 50% of the prescribed amount for each 1st class LGU;
10 b) 60% of the prescribed amount for each 2nd class LGU;
11 c) 70% of the prescribed amount for each 3rd class LGU;
12 d) 80% of the prescribed amount for each 4th class LGU;
13 e) 90% of the prescribed amount for each 5th class LGU; and
14 f) 100% of the prescribed amount for each 6th class LGU;

15 *Provided, further, That each barangay shall, at all times, receive the full*
16 *amount of LDF prescribed above.*

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

21

22 **SEC. 4. Purpose of Local Development Fund.** – The LDF shall be used
23 solely by the LGUs to finance their respective development projects, activities
24 and programs (PAPs) identified in their approved CDPs; *Provided*, That no
25 less than ten percent (10%) of the LDF shall be allotted to PAPs geared
26 towards the enhancement and promotion of technical skills training of the
27 citizens in the concerned LGU.

28 The use of the LDF contrary to the stated purpose shall make the approving
29 authority and all persons who allow such diversion liable for technical
30 malversation as defined and penalized under Article 220 of Act No. 3815,
31 otherwise known as the "Revised Penal Code."

32

33 **SEC. 5. Expenditures Not Covered.** – No amount shall be paid out of the
34 LDF to items that are not related to or connected with the development PAPs,
35 such as:

- 36 a) Administrative expenses, such as cash gifts, bonuses, food allowance,
37 medical assistance, uniforms, supplies, meetings, communication,
38 water and light, petroleum products and the like;
39 b) Salaries, wages, emoluments, per diems or overtime pay;
40 c) Travelling expenses, whether domestic or foreign;

- 1 d) Registration or participation fees in trainings, seminars, conferences
2 and conventions, except if such disbursement is for technical skills
3 training as provided under Section 4 above;
4 e) Construction, repair or refinishing of administrative offices;
5 f) Purchase of administrative office's furniture, fixtures, equipment or
6 appliances; or
7 g) Purchase, maintenance or repair of motor vehicles or motorcycles.

8

9 The LDF shall not be used to finance PAPs that may duplicate or overlap with
10 PAPs that are being implemented or funded by National Government
11 Agencies (NGAs). No LDF shall also be utilized as a counterpart fund to
12 support NGAs' identified PAPs.

13

14 **SEC. 6. Comprehensive Local Development Plan.** – Consistent with
15 Republic Act No. 7160, otherwise known as the “Local Government Code of
16 1991,” every LGU shall formulate a three-year CDP that is reflective of and
17 responsive to the developmental needs of their respective localities with
18 corresponding periodic timelines. The approved CDPs shall be funded yearly
19 by the National Government in accordance with Section 3 hereof.

20 The Local Development Councils shall conduct an annual review of, and if
21 necessary, update, their respective CDPs. The CDPs shall be formulated and
22 approved in accordance with the provisions of the Local Government Code.

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

27

28 **SEC. 7. Performance-Based Evaluation.** – A performance-based evaluation
29 shall be conducted by the Performance Evaluation Committee (PEC) chaired
30 by the Undersecretary for Local Government of the Department of Interior and
31 Local Government (DILG). Before the end of the fourth quarter of each year,
32 the PEC shall conduct an annual performance review of the LGUs'
33 implementation of their development PAPs based on the indicators identified
34 in their CDPs. The results of the review shall be published and made
35 available to the public, thru online or otherwise, on or before April 30 of each
36 year.

37 Unsatisfactory performance of an LGU shall result in the reduction of its LDF
38 by fifty percent (50%) in the following year after the said evaluation; *Provided*
39 however, That when the LGU which was previously rated with poor standing
40 improves on its performance in the next evaluation period, full funding shall be
41 restored; *Provided further*, That the distribution of the LDF to the LGU shall be
42 terminated in case of two (2) consecutive unsatisfactory performance scores;
43 *Provided finally*, That LGUs, whose LDF has been terminated, may reapply
44 for funding of their CDPs one (1) year following its termination.

1 **SEC. 8. Web-based Monitoring System.** – The PEC shall adopt a web-
2 based application to facilitate the monitoring and evaluation of all PAPs
3 funded by the LDF.

4 The system shall allow tracking of expenditures and the status of
5 implementation of the PAPs. The status of the PAPs shall be updated monthly
6 by the LGUs or as frequently as may be necessary. The local chief executive
7 of each LGU shall be responsible of ensuring the reportorial requirements are
8 complied with.

9 In case of non-reporting or failure to comply with the reportorial requirements,
10 the PEC shall advise the Department of Budget and Management (DBM) to
11 suspend the release of funding to the delinquent LGU until such time that it
12 complies with the requirements.

13 The system shall be accessible to the general public and all information,
14 including, but not limited, to funding/cost, location, contractor, progress status,
15 number of beneficiaries, date of completion and responsible government
16 official, of the PAPs shall be disclosed.

17 An amount, which shall not be less than Twenty Five Million Pesos
18 (P25,000,000.00) is hereby appropriated to fund the establishment of a web-
19 based monitoring system.

20

21 **SEC. 9. Performance Evaluation Committee.** – There is hereby created a
22 PEC in charge of the monitoring and evaluation of the implementation of
23 development PAPs funded by the LDF based on the indicators provided under
24 the CDPs. The PEC shall be composed of the following:

- 25 a) The Undersecretary for Local Government of the DILG, as Chairman;
- 26 b) The Assistant Director-General for Planning of the National Economic
27 and Development Authority (NEDA);
- 28 c) The Assistant Secretary for Policy and Planning of the DBM;
- 29 d) The Executive Director of the Bureau of Local Government Finance
30 (BLGF) of the Department of Finance (DOF);
- 31 e) A representative from each of the various leagues of the different LGUs
32 concerned;
- 33 f) A representative from the National Commission on Indigenous Cultural
34 Communities/Indigenous Peoples (NCIP), if applicable; and
- 35 g) Four (4) representatives from accredited civil society groups and/or
36 non-government organizations in the locality where the CDP is to be
37 implemented.

38 The representatives from the accredited civil society groups and/or non-
39 government organizations shall be selected based on the criteria and
40 mechanisms to be determined for this purpose by the PEC.

41 The various Regional Project Monitoring Committees (RPMC) shall assist the
42 PEC in its task and shall act as the secretariat of the PEC with respect to their
43 region.

- 1 **SEC. 10. Capacity Building.** – The Local Government Academy (LGA), in
2 consultation with institutions of higher learning with distinguished
3 competencies in public governance programs, is hereby mandated to ensure,
4 within one (1) year after the effectivity of this Act, that all territorial and political
5 subdivisions are capacitated to effectively plan and implement the
6 development projects in their respective CDPs. For this purpose, an amount,
7 which shall not be more than Fifty Million Pesos (P50,000,000.00) shall be
8 appropriated for capacity building of all LGUs.
- 9 No LDF shall be released without a certification from the LGA that the LGU is
10 capacitated to plan and implement its CDP.
- 11
- 12 **SEC. 11. Procurement.** – Procurement for the purpose of implementing the
13 CDPs must be consistent with the provisions of Republic Act No. 9184,
14 otherwise known as the “Government Procurement Reform Act”.
- 15
- 16 **SEC. 12. Penal Provision.** – It shall be unlawful for any person to withhold
17 the release of the LDF to the LGUs within the period specified in Section 3
18 hereof. Any person violating the provision of this Act shall suffer the penalty of
19 imprisonment ranging from one (1) year and one (1) day to six (6) years, and
20 a fine of Five Hundred Thousand Pesos (P500,000.00), and temporary
21 absolute disqualification from holding any public office or employment in the
22 government, including any Government-Owned and/or Controlled
23 Corporations (GOCCs), and their subsidiaries.
- 24 The Local Chief Executive shall be administratively liable, without prejudice to
25 any civil or criminal liabilities he may have incurred under existing laws, in
26 case of failure to report the status of their development PAPs as required
27 under Section 8 of this Act.
- 28 Any government official or employee who shall prevent the reporting or
29 disclosure of any information or data pertaining to a funded development PAP
30 as mandated by Section 8 of this Act shall be held administratively liable,
31 without prejudice to any civil or criminal liability he/she may have incurred
32 under existing laws.
- 33
- 34 **SEC. 13. Oversight Committee.** – There is hereby created a Joint
35 Congressional Oversight Committee to monitor and oversee the
36 implementation of the provisions of this Act. The Committee shall be
37 composed of five (5) members from the Senate and five (5) members from the
38 House of Representatives to be jointly chaired by the Chairperson of the
39 Committees on Local Government of the Senate and the House of
40 Representatives.
- 41
- 42 **SEC. 14. Sunset Review.** – Five (5) years following the effectivity of this Act,
43 or as the need arises, the Congress shall conduct a sunset review. For the
44 purposes of this Act, the term “sunset review” shall mean a systematic
45 evaluation by Congress of the accomplishments and impact of this Act, as

1 well as the performance of LGUs, for purposes of determining remedial
2 legislation.

3

4 **SEC. 15. Coordination with Other Agencies.** – In adopting technical skills
5 training program, each LGU shall closely coordinate with the Technical
6 Education and Skills Development Authority (TESDA), and with other relevant
7 government agencies in order to efficiently and effectively carry out their
8 respective CDPs.

9

10 **SEC. 16. Implementing Rules and Regulations.** – For the effective
11 implementation of this Act, the Secretary of the DILG, with the Secretaries of
12 the DOF and the DBM and in consultation with the various leagues of the
13 different LGUs and other relevant stakeholders, shall issue the necessary
14 implementing rules and regulations of this Act within sixty (60) days from the
15 effectivity of this Act.

16

17 **SEC. 17. Suppletory Application of Existing Laws.** – The provisions of the
18 Local Government Code of 1991 and other laws consistent with this Act shall
19 have suppletory effect.

20

21 **SEC. 18. Repealing Clause.** – All laws, presidential decrees, executive
22 orders, presidential proclamations, rules and regulations or parts thereof
23 contrary to or inconsistent with this Act are hereby repealed, superseded or
24 modified accordingly.

25

26 **SEC. 19. Separability Clause.** – Any portion or provision of this Act that may
27 be declared unconstitutional or invalid shall not have the effect of nullifying
28 other portions or provisions hereof, as long as such remaining portions or
29 provisions can still subsist and be given effect in their entirety.

30

31 **SEC. 20. Effectivity.** – This Act shall take effect fifteen (15) days after its
32 complete publication in the Official Gazette or in at least two (2) newspapers
33 of general circulation.

34 **Approved,**

35