



NINETEENTH CONGRESS OF THE)
REPUBLIC OF THE PHILIPPINES)
First Regular Session)

22 JUL 28 P5:01

RECEIVED BY:

SENATE

S.B. No. 923

Introduced by SENATOR JOEL VILLANUEVA

**AN ACT ENSURING THE EQUITABLE DISTRIBUTION OF FUNDS
BETWEEN THE NATIONAL GOVERNMENT AND 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 2018, the Supreme Court in *Mandanas v. Ochoa* (G.R. No. 199802) clarified that the just share of the LGUs includes all national taxes and not only national internal revenue taxes. This resulted in an increase in the amount of IRA, now known as the National Tax Allotment, that each LGU receives from the National Government. In fact, the World Bank estimates that the share of LGUs in the 2022 budget increased by 55%.¹

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 government units.

¹ World Bank, PHILIPPINES: Mandanas Ruling Provides Opportunities for Improving Service Delivery Through Enhanced Decentralization, June 10, 2021, *accessible at* <https://www.worldbank.org/en/news/press-release/2021/06/10/philippines-mandanas-ruling-provides-opportunities-for-improving-service-delivery-through-enhanced-decentralization> (last accessed July 22, 2022).

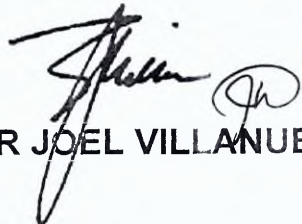
Nevertheless, despite the said reforms, many LGUs continue to suffer from limited fiscal resources. Consequently, many LGUs fail to effectively provide service and implement their respective programs, contrary to the outcomes envisioned when the LGC was enacted in 1991. To date, many LGUs continue to 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 to LGUs 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 consistent with their Comprehensive Development Plans. The bill also mandates that at least 10% of the LDF must 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 facilitate a more equitable distribution of resources across the country. This provision sets the parameters of distribution of the LDF, a fund similar to the Growth Equity Fund under Section 8 of Executive Order No. 138, series of 2021, which aims to “address issues on marginalization, unequal development, high poverty incidence and disparities in the net fiscal capacities of LGUs.”

In addition, this bill also provides for various safeguards (e.g., compliance with local development plan, local capacity-building, multi-sector 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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*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 them to
6 attain their fullest development as self-reliant communities and make them more
7 effective partners in the attainment of national goals. For this purpose, the State
8 recognizes that meaningful local autonomy can only be realized through the
9 implementation of locally crafted development plans that accurately acknowledge and
10 address perceived local needs. It also recognizes that inclusive and sustainable
11 growth can only be truly achieved by empowering the local government units (LGUs)
12 through the provision of adequate resources and technical capacities that will promote
13 meaningful development.
14

15 **SEC. 3. Allotment for Development.** – To achieve the policies declared in this
16 Act, the National Government shall guarantee an annual fund sufficient to implement
17 the three-year Comprehensive Development Plan (CDP) of each province, city,
18 municipality, and barangay, herein referred to as the “Local Development Fund” (LDF),
19 to wit:
20

- 21 a) Provinces – Fifty Million Pesos to One Hundred Million Pesos
22 (Php50,000,000.00 to Php100,000,000.00) per province per year;
- 23
- 24 b) Cities – Ten Million Pesos to Twenty Million Pesos (Php10,000,000.00 to
25 Php20,000,000.00) per city per year;
- 26

1 c) Municipalities – Five Million Pesos to Ten Million Pesos (Php5,000,000.00
2 to Php10,000,000.00) per municipality per year; and

3
4 d) Barangays – One Million Pesos to Three Million Pesos (Php1,000,000.00 to
5 Php3,000,000.00) per barangay per year.

6
7 *Provided, That the amount of LDF for each province, city, or municipality shall*
8 *be based on the following criteria:*

9
10 a) 50% of the prescribed amount for each 1st class LGU;

11
12 b) 60% of the prescribed amount for each 2nd class LGU;

13
14 c) 70% of the prescribed amount for each 3rd class LGU;

15
16 d) 80% of the prescribed amount for each 4th class LGU;

17
18 e) 90% of the prescribed amount for each 5th class LGU; and

19
20 f) 100% of the prescribed amount for each 6th class LGU.

21
22 *Provided, further, That each barangay shall, at all times, receive the full amount*
23 *of LDF prescribed above.*

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

29
30 **SEC. 4. Purpose of Local Development Fund.** – The LDF shall be used solely
31 by the LGUs to finance their respective development projects, activities and programs
32 (PAPs) identified in their approved CDPs; *Provided, That no less than ten percent*
33 *(10%) of the LDF shall be allotted to PAPs geared towards the enhancement and*
34 *promotion of technical skills training of the citizens in the concerned LGU.*

35
36 The use of the LDF contrary to the stated purpose shall make the approving
37 authority and all persons who allow such diversion liable for technical malversation as
38 defined and penalized under Article 220 of Act No. 3815, otherwise known as the
39 “Revised Penal Code.”

40
41 **SEC. 5. Expenditures Not Covered.** – No amount shall be paid out of the LDF
42 to items that are not related to or connected with the development PAPs, such as:

43
44 a) Administrative expenses, such as cash gifts, bonuses, food allowance,
45 medical assistance, uniforms, supplies, meetings, communication, water
46 and light, petroleum products and the like;

47
48 b) Salaries, wages, emoluments, per diems, or overtime pay;

49
50 c) Travelling expenses, whether domestic or foreign;

- 1
2 d) Registration or participation fees in trainings, seminars, conferences and
3 conventions, except if such disbursement is for technical skills training as
4 provided under Section 4 above;
5
6 e) Construction, repair, or refinishing of administrative offices;
7
8 f) Purchase of administrative office's furniture, fixtures, equipment or
9 appliances; or
10
11 g) Purchase, maintenance, or repair of motor vehicles or motorcycles.

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

17
18 **SEC. 6. Comprehensive Local and Multi-Sectoral Development Plan. –**

19 Consistent with Republic Act No. 7160, otherwise known as the "Local Government
20 Code of 1991," every LGU shall formulate a three (3)-year CDP that is reflective of
21 and responsive to the developmental needs of their respective localities with
22 corresponding periodic timelines. The approved CDPs shall be funded yearly by the
23 National Government in accordance with Section 3 hereof, without prejudice to the
24 LGUs' use of their locally sourced revenues to attain the objectives of their respective
25 CDPs.

26
27 The Local Development Councils shall conduct an annual review of, and if
28 necessary, update their respective CDPs. The CDPs shall be formulated and
29 approved in accordance with the provisions of the Local Government Code.

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

35
36 **SEC. 7. Performance-Based Evaluation. –**

37 A performance-based evaluation shall be conducted by the Performance Evaluation Committee (PEC) chaired by the
38 Undersecretary for Local Government of the Department of Interior and Local
39 Government (DILG). Before the end of the fourth quarter of each year, the PEC shall
40 conduct an annual performance review of the LGUs' implementation of their
41 development PAPs based on the indicators identified in their CDPs. The results of the
42 review shall be published and made available to the public, thru online or otherwise,
43 on or before April 30 of each year.

44
45 Unsatisfactory performance of an LGU shall result in the reduction of its LDF by
46 fifty percent (50%) in the following year after the said evaluation; *Provided, however,*
47 That when the LGU which was previously rated with poor standing improves on its
48 performance in the next evaluation period, full funding shall be restored; *Provided*
49 *further,* That the distribution of the LDF to the LGU shall be terminated in case of two
50 (2) consecutive unsatisfactory performance scores; *Provided, finally,* That LGUs,

1 whose LDF has been terminated, may reapply for funding of their CDPs one (1) year
2 following its termination.

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

6
7 The system shall allow tracking of expenditures and the status of
8 implementation of the PAPs. The status of the PAPs shall be updated monthly by the
9 LGUs or as frequently as may be necessary. The local chief executive of each LGU
10 shall be responsible for monitoring the compliance of the LGU with all reportorial
11 requirements.

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

17
18 The system shall be accessible to the general public and all information,
19 including, but not limited to, funding/cost, location, contractor, progress status, number
20 of beneficiaries, date of completion and responsible government official, of the PAPs
21 shall be disclosed.

22
23 An amount, which shall not be less than Twenty-Five Million Pesos
24 (Php25,000,000.00) is hereby appropriated to fund the establishment of a web-based
25 monitoring system.

26
27 **SEC. 9. *Performance Evaluation Committee.*** – There is hereby created a
28 PEC in charge of the monitoring and evaluation of the implementation of development
29 PAPs funded by the LDF based on the indicators provided under the CDPs. The PEC
30 shall be composed of the following:

- 31
32 a) The Undersecretary for Local Government of the DILG, as Chairman;
33
34 b) The Assistant Director-General for Planning of the National Economic and
35 Development Authority (NEDA);
36
37 c) The Assistant Secretary for Policy and Planning of the DBM;
38
39 d) The Executive Director of the Bureau of Local Government Finance (BLGF)
40 of the Department of Finance (DOF);
41
42 e) A representative from each of the various leagues of the different LGUs
43 concerned;
44
45 f) A representative from the National Commission on Indigenous Cultural
46 Communities/Indigenous Peoples (NCIP), if applicable; and
47
48 g) Four (4) representatives from accredited civil society groups and/or non-
49 government organizations in the locality where the CDP is to be
50 implemented.

1
2 The representatives from the accredited civil society groups and/or non-
3 government organizations shall be selected based on the criteria and mechanisms to
4 be determined for this purpose by the PEC.
5

6 The various Regional Project Monitoring Committees (RPMC) shall assist the
7 PEC in its task and shall act as the secretariat of the PEC with respect to their region.
8

9 **SEC. 10. Capacity Building.** – The Local Government Academy (LGA), in
10 consultation with institutions of higher learning with distinguished competencies in
11 public governance programs, is hereby mandated to ensure within one (1) year after
12 the effectivity of this Act, that all territorial and political subdivisions are capacitated to
13 effectively plan and implement the development projects in their respective CDPs. For
14 this purpose, an amount, which shall not be more than Fifty Million Pesos
15 (Php50,000,000.00) shall be appropriated for capacity building of all LGUs.
16

17 No LDF shall be released without a certification from the LGA that the LGU is
18 capacitated to plan and implement its CDP.
19

20 **SEC. 11. Procurement.** – Procurement for the purpose of implementing the
21 CDPs must be consistent with the provisions of Republic Act No. 9184, otherwise
22 known as the “Government Procurement Reform Act,” as amended.
23

24 **SEC. 12. Penal Provision.** – It shall be unlawful for any person to withhold the
25 release of the LDF to the LGUs within the period specified in Section 3 hereof, except
26 as provided under this Act.
27

28 Unless otherwise provided in this Act, any person violating the provision of this
29 Act shall suffer the penalty of imprisonment ranging from one (1) year and one (1) day
30 to six (6) years, and a fine of Five Hundred Thousand Pesos (Php500,000.00), and
31 temporary absolute disqualification from holding any public office or employment in
32 the government, including any government-owned and/or controlled corporations
33 (GOCCs), and their subsidiaries.
34

35 The Local Chief Executive shall be administratively liable, without prejudice to
36 any civil or criminal liabilities he may have incurred under existing laws, in case of
37 failure to report the status of their development PAPs as required under Section 8 of
38 this Act.
39

40 Any government official or employee who shall prevent the reporting or
41 disclosure of any information or data pertaining to a funded development PAP as
42 mandated by Section 8 of this Act shall be held administratively liable, without
43 prejudice to any civil or criminal liability he/she may have incurred under existing laws.
44

45 **SEC. 13. Oversight Committee.** – There is hereby created a Joint
46 Congressional Oversight Committee to monitor and oversee the implementation of the
47 provisions of this Act. The Committee shall be composed of five (5) members from the
48 Senate and five (5) members from the House of Representatives to be jointly chaired
49 by the Chairperson of the Committees on Local Government of the Senate and the
50 House of Representatives.

1
2 **SEC. 14. *Sunset Review.*** – Five (5) years following the effectivity of this Act,
3 or as the need arises, the Congress shall conduct a sunset review. For the purposes
4 of this Act, the term “sunset review” shall mean a systematic evaluation by Congress
5 of the accomplishments and impact of this Act, as well as the performance of LGUs,
6 for purposes of determining remedial legislation.

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

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

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

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

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

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

35
36 **Approved,**