



REFORMING and SUSTAINING LOCAL GOVERNMENT UNIT PUBLIC FINANCIAL MANAGEMENT (LGU-PFM) SYSTEMS in the PHILIPPINES

**PAGBA 2nd Quarterly Seminar and Meeting
“Public Financial Management in a Difficult & Changing
Environment”
May 1-4, 2019, The Crown Legacy Hotel, Baguio City**

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PAGBA 2019 2nd Quarterly Seminar
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OUTLINE OF PRESENTATION

- I. IMPLEMENTING FRAMEWORK AND INSTITUTIONAL STRUCTURES**
- II. PUBLIC FINANCIAL MANAGEMENT**
 - 1.0 DEFINITION, ELEMENTS, VISION, GOAL, STRATEGIC DIRECTIONS**
- III. MANUALS USED BY LGUs**
 - 1.0 REFORM ROADMAP**
 - 2.0 IMPLEMENTATION STRATEGY**
 - 3.0 PUBLIC FINANCIAL MANAGEMENT ASSESSMENT TOOL**
- IV. THE STATE OF PFM SYSTEMS**
 - 1.0 COUNTRYWIDE SAMPLE 550 LGUs (2013)**
 - 2.0 CENTRAL VISAYAS FOR ALL 136 LGUS**
 - 3.0 COMPARISON OF SCORES FOR 2 ASSESSMENT PERIOD (2011-2013/2013-2015)**
- V. PFMAT RESULTS ANALYSIS AND INTERPRETATION (BASIS FOR PFMIP PREPARATION)**
- VI. SUSTAINING LGU PFM REFORMS IN DIFFICULT & CHANGING ENVIRONMENT**
 - 1.0 CHALLENGES**
 - 2.0 SUSTAINING REFORMS**



I. IMPLEMENTING FRAMEWORK AND INSTITUTIONAL STRUCTURES



**DBM-DILG-DOF-NEDA JMC No. 2015-
1 dtd Feb. 24, 2015**
**directed the Adoption of the Local
Government Units Public Financial
Management Reform Roadmap and
Implementation Strategy**

NATIONAL Inter-Agency Team (NIAT) on LGU Public Financial Management: LGU POLICY UNIT



DEPARTMENT OF BUDGET AND MANAGEMENT



**DEPARTMENT OF THE INTERIOR AND LOCAL
GOVERNMENT**



**NATIONAL ECONOMIC AND DEVELOPMENT
AUTHORITY**



**DEPARTMENT OF FINANCE BUREAU OF LOCAL
GOVERNMENT FINANCE**

Regional Inter-Agency Team(RIAT) on LGU Public Financial Management



Regional Inter-Agency Team(RIAT) on LGU Public Financial Management

**DBM-DILG-DOF-NEDA JMC NO. 2015-1
DATED FEB. 24, 2015 mandated the
establishment of RIATs and its
Functions:**

- 1. Shall primarily roll-out the PFM Reforms to the LGUs and provide technical assistance in the design and implementation of the LGUs PFMIPs;**

Regional Inter-Agency Team(RIAT) on LGU Public Financial Management

- 2. Shall undertake measures to continually strengthen coordination and convergence among the OAs;**
- 3. DBM takes the lead for the duration of the EU funded project which concluded on June 30, 2016.**

LGU Public Financial Management Team

**CHAIRPERSON: Local Chief Executives
(LCEs)**

**MEMBERS: Department Heads of the
Budget,
Treasury,
Accounting,
Planning and Development,
Assessment,
General Services Office, and
Chair of the Bids and Awards
Committee (BAC), among others.**

LGU Public Financial Management Team

1. The LGU PFM Team shall:

- 2.1 undertake regular PFM Assessment;**
- 2.2 design, sequence and lead in the implementation of PFM improvement measures as contained in their PFM Improvement Plans (PFMIP)**

Regional Inter-Agency
Team (RIAT) on LGU Public
Financial Management



LGU Public Financial
Management Team



II. PUBLIC FINANCIAL MANAGEMENT

**DEFINITION, ELEMENTS, VISION,
GOAL, and STRATEGIC
DIRECTIONS**

PUBLIC FINANCIAL MANAGEMENT

*System of
rules,
procedures
and
practices for
government
to manage
public
finances*



**PUBLIC
REPORTING OF
PUBLIC
SECTOR
FINANCIAL
OPERATIONS**

BUDGETING

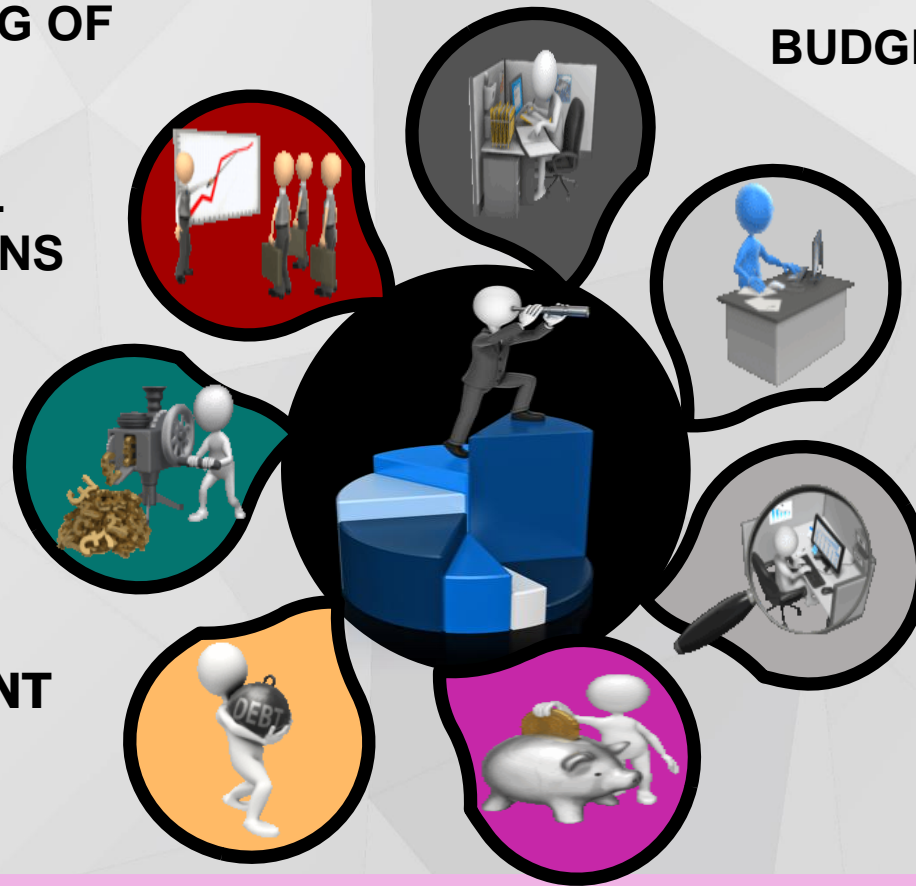
ACCOUNTING

**REVENUE
GENERATION**

AUDITING

**MANAGEMENT
OF PUBLIC
DEBT**

**CASH
MANAGEMENT**



ELEMENTS OF PUBLIC FINANCIAL MANAGEMENT

VISION FOR LGU-PFM REFORM:



“An LGU service delivery system that lowers the cost of doing business, stimulates private investments, generates employment and income opportunities, thereby improving the welfare of LGU constituents and reducing the incidence of poverty.”

Goals of Public Financial Management:

**Aggregate
Fiscal
Discipline**

**Strategic
allocation of
Resources**

**Efficient
Service
Delivery**

Discipline

Resources

Delivery



PFM

**PUBLIC REPORTING ON
FINANCIAL OPERATIONS**

REVENUE GENERATION

BUDGETING
EXPENDITURE MANAGEMENT + PROCUREMENT

CASH MANAGEMENT

DEBT MANAGEMENT

AUDITING

ACCOUNTING

GOAL FOR LGU-PFM REFORM:

“An open and transparent LGU PFM System that is stable and sustainable, renders financial compliance, ensures the highest level of accountability and provides genuine citizens’ participation, thus, enabling efficient and effective delivery of services.”

PUBLIC FINANCIAL MANAGEMENT AND GOOD GOVERNANCE



Good
GOVERNANCE

**Open and Orderly PFM
System**



Effective and Accountable PFM

FISCAL

Spending within means

- Spending on the right things
- Obtaining best value for money

SOCIAL

Transparency & accountability in LGU financial operations

OPERATIONAL

- Ability in terms of competent people to operate and maintain the LGU PFM system

STRATEGIC DIRECTIONS

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**Effective and
Accountable PFM**



**LGU PFM
REFORM ROADMAP
AND IMPLEMENTATION
STRATEGY**

**HOW DO WE
GET THERE?**



III. MANUALS USED BY LGUs

1.0 REFORM ROADMAP

2.0 IMPLEMENTATION STRATEGY

3.0 PUBLIC FINANCIAL MANAGEMENT ASSESSMENT TOOL

A strategic guide on what LGUs want to do and achieve with their PFM in the immediate, medium and long term periods to attain their desired end-state (vision)



The Local Government Units
Public Financial Management
REFORM ROADMAP




The Local Government Units
Public Financial Management
**IMPLEMENTATION
STRATEGY**

complemented by a well-designed action program that details the activities and timeframe on how and when they could reach their PFM goals and vision.

REFORM ROADMAP & IMPLEMENTATION STRATEGY :

Provide LGUs with strategic directions to strengthen their PFM systems towards improved **revenue generation and **expenditure management****

Two crucial systems in the efficient and effective delivery of services.



Assist the **OAs** to **strengthen their coordination** in better supporting PFM reforms identified, designed and being implemented by the LGUs

Guide **Development Partners** in identifying possible entry points for financial support and other interventions

2

PFMAT

PUBLIC FINANCIAL
MANAGEMENT
ASSESSMENT TOOL
FOR LGUs

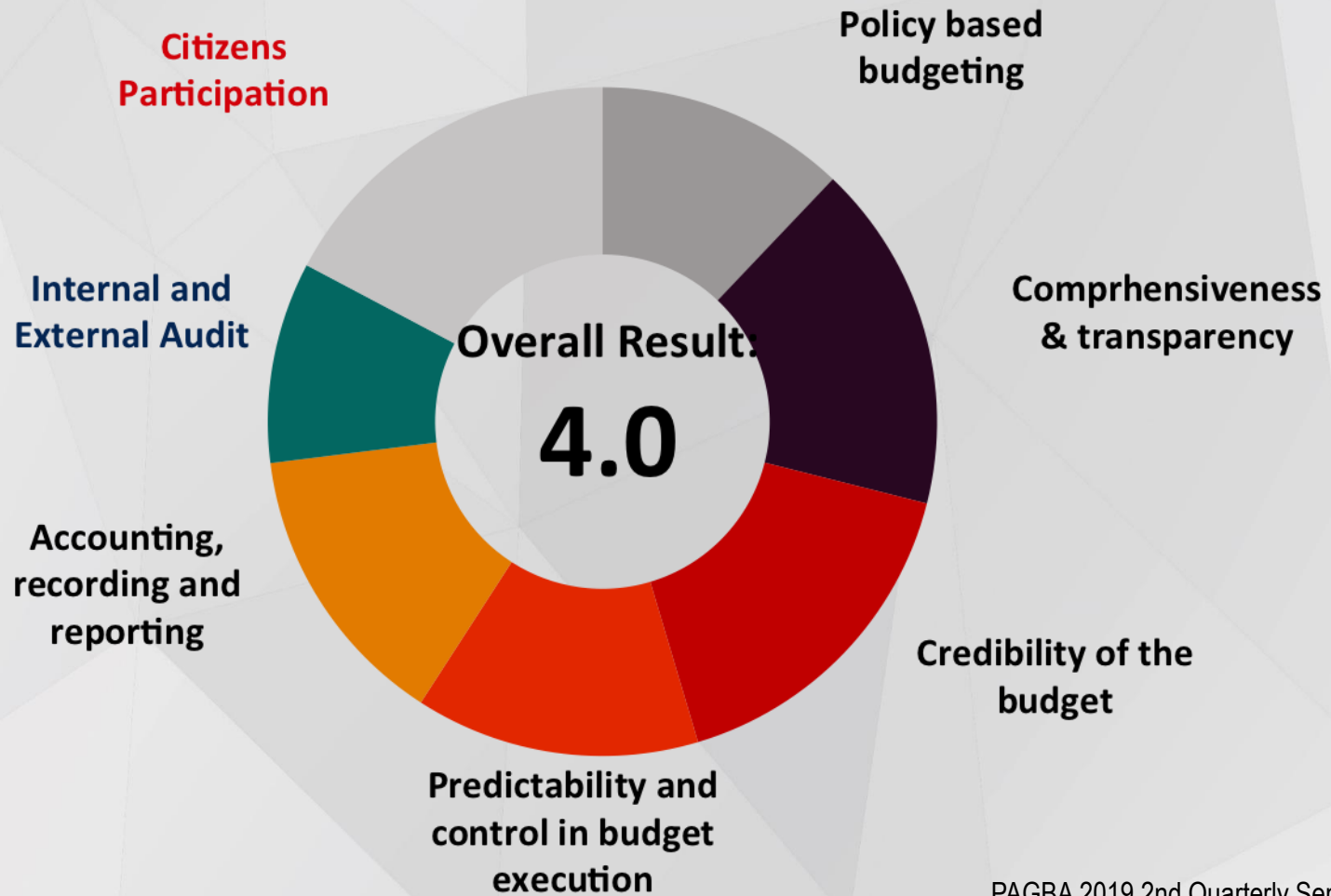


Public Financial Management
Assessment Tool for
Local Government Units
(PFMAT for LGUs)

 Department of Budget and Management

 European Union

PFMAT ASSESSMENT TO BE DONE BY LGUs and FOCUSED ON 7 CRITICAL DIMENSIONS & 20 Sub-Indicators



CLUSTERS OF REFORM SEQUENCE

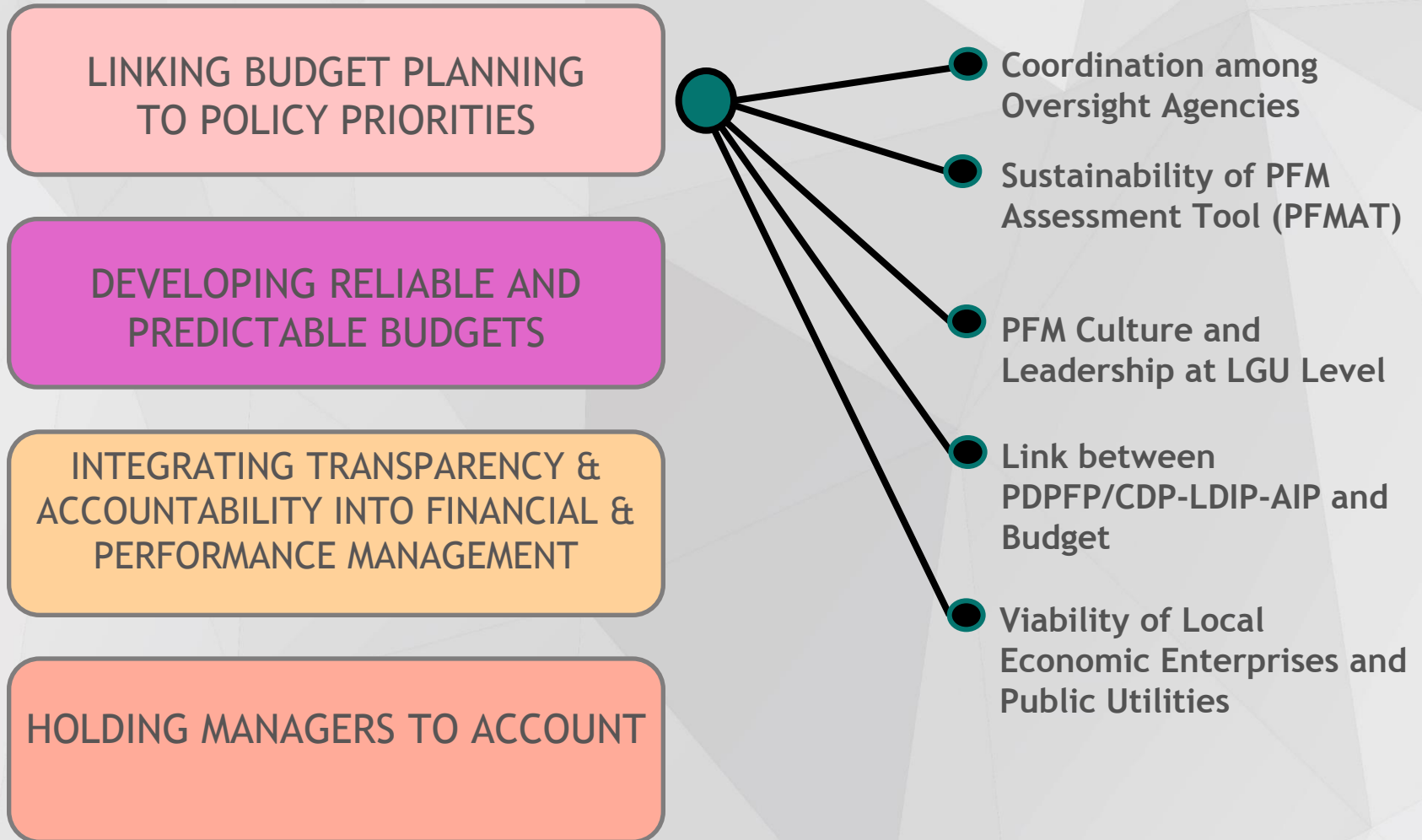
**LINKING BUDGET PLANNING
TO POLICY PRIORITIES**

**DEVELOPING RELIABLE AND
PREDICTABLE BUDGETS**

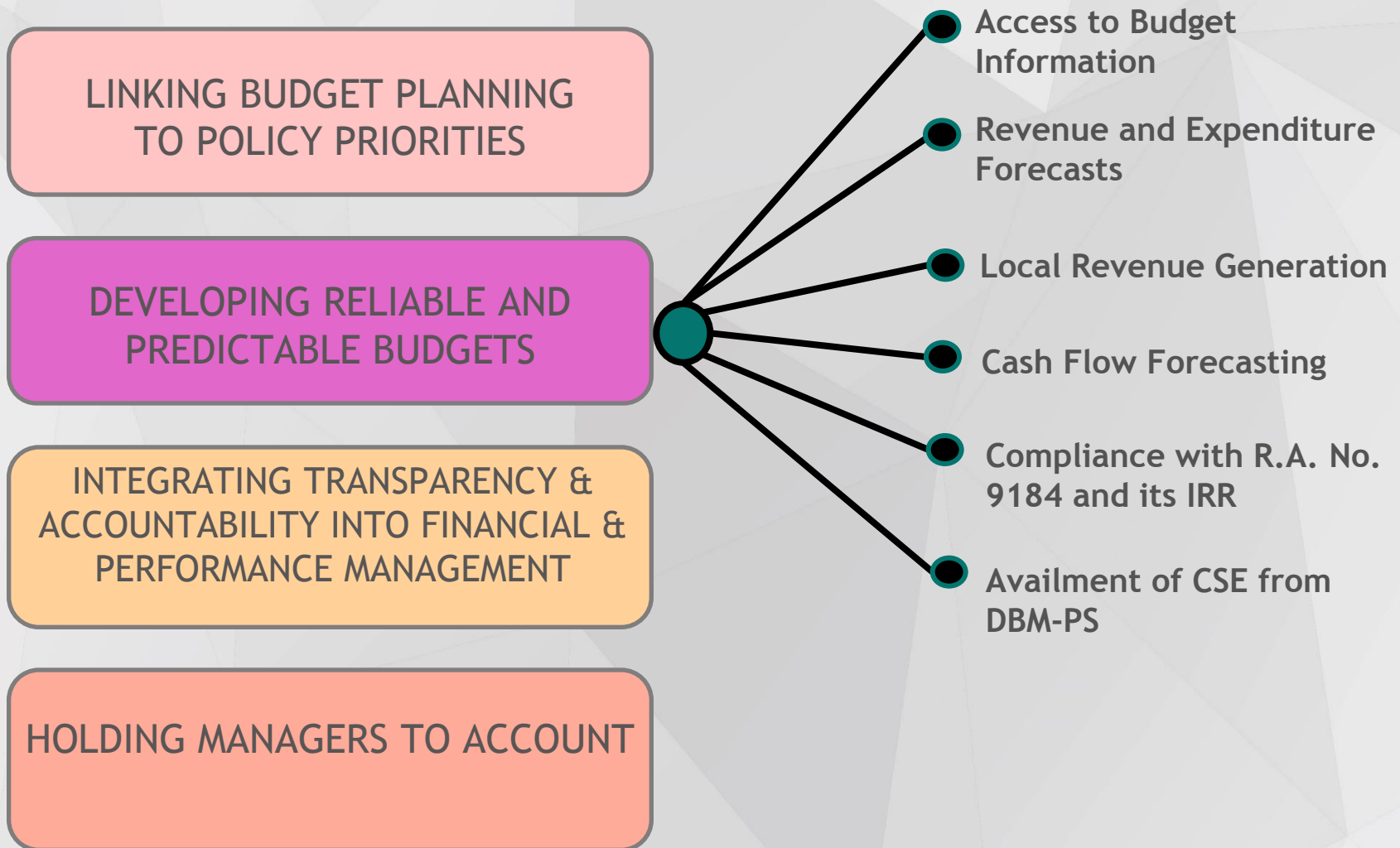
**INTEGRATING TRANSPARENCY &
ACCOUNTABILITY INTO FINANCIAL &
PERFORMANCE MANAGEMENT**

**HOLDING MANAGERS TO
ACCOUNT**

CLUSTERS OF REFORM SEQUENCE



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LINKING BUDGET PLANNING
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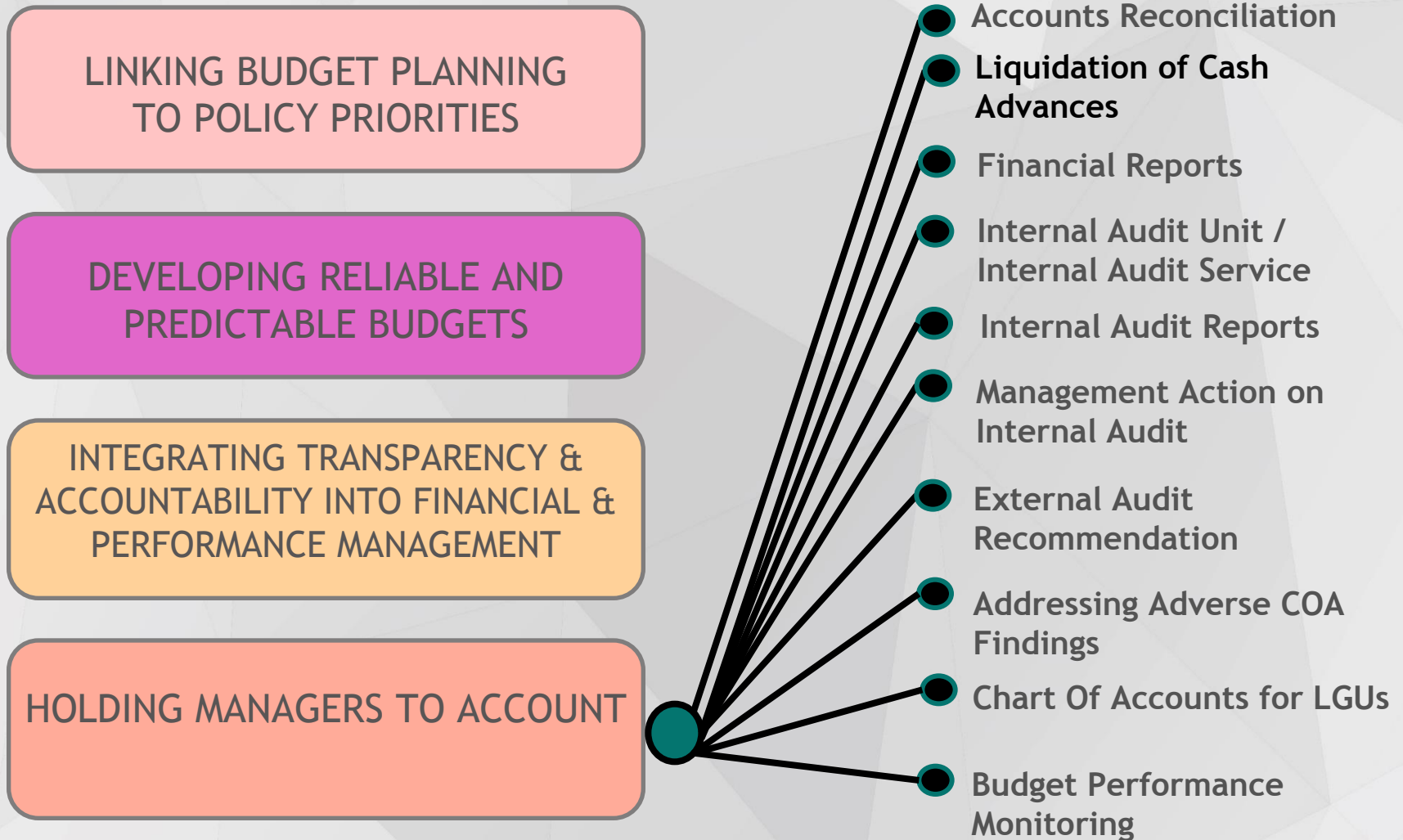
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CLUSTERS OF REFORM SEQUENCE





IV. THE STATE OF PFM SYSTEMS

- 1.0 COUNTRYWIDE SAMPLE 550 LGUs (2013)**
- 2.0 CENTRAL VISAYAS FOR ALL 136 LGUS**
- 3.0 COMPARISON OF SCORES FOR 2 ASSESSMENT PERIOD (2011-2013/2013-2015)**

THE STATE OF LGU PFM:

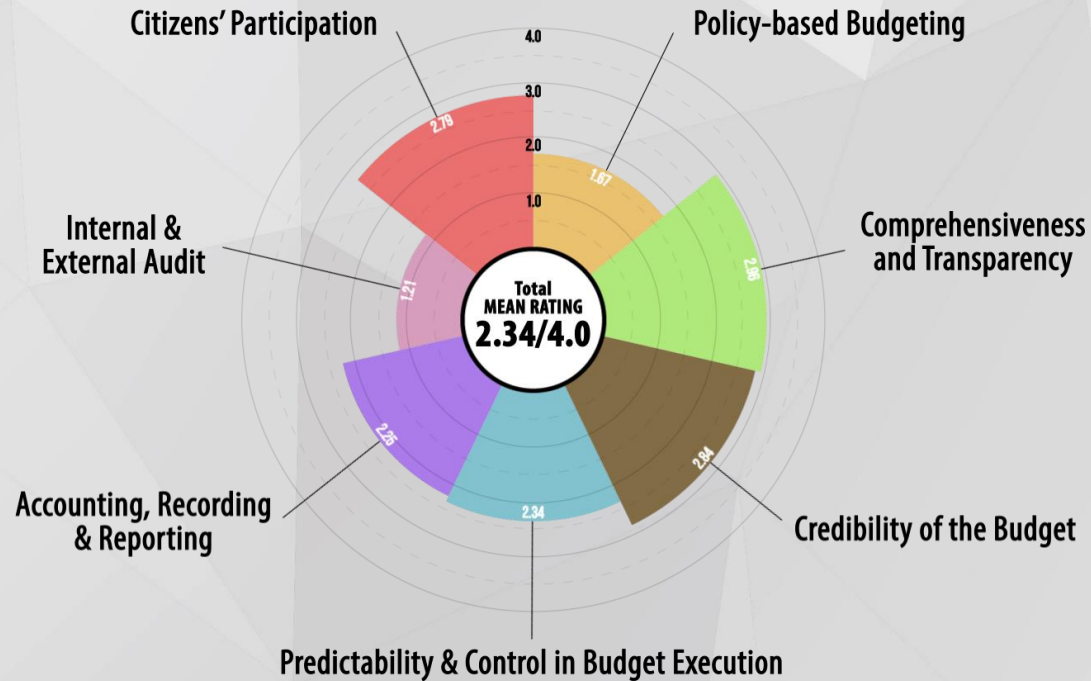
Public Financial Management Assessment Tool (PFMAT) results for 550 FY 2013 Bottom-up Budgeting (BuB) Focus LGUs

Indicates that elements of an open and orderly PFM system are not complete but what exist are already fully operational

2

PFMAT

PUBLIC FINANCIAL MANAGEMENT ASSESSMENT TOOL FOR LGUs



Overall State of the PFM Systems of Sample LGUs

All Sample LGUs			Sample Size	550
CD No.	Critical Dimension (CD)	Mean score	% Contribution to overall PFMAT score	Rank as a PFM concern
1	Policy based budgeting	1.70	10.5%	2
2	Comprehensiveness and transparency	2.99	18.4%	7
3	Credibility of the budget	2.85	17.5%	6
4	Predictability and control in budget execution	2.36	14.6%	4
5	Accounting, recording and reporting	2.26	14.0%	3
6	Internal and external audit	1.24	7.7%	1
7	Citizens' participation	2.82	17.4%	5
Overall PFMAT Score		2.32	100.0%	

Overall PFMAT score of 2.32 (between 2.0 and 2.9) across LGUs indicate that the elements of an open and orderly PFM system are not complete but what are in place are fully operational.

Overall State of the PFM Systems of Sample LGUs

All Sample Cities			Sample Size	50
CD No.	Critical Dimension (CD)	Mean score	% Contribution to overall PFMAT score	Rank as a PFM concern
1	Policy based budgeting	2.08	11.7%	2
2	Comprehensiveness and transparency	3.24	18.2%	7
3	Credibility of the budget	2.87	16.1%	5
4	Predictability and control in budget execution	2.61	14.7%	4
5	Accounting, recording and reporting	2.38	13.3%	3
6	Internal and external audit	1.55	8.7%	1
7	Citizens' participation	3.07	17.3%	6
Overall PFMAT Score		2.54	100.0%	

Overall State of the PFM Systems of Sample LGUs

All Sample Municipalities			Sample Size	500
CD No.	Critical Dimension (CD)	Mean score	% Contribution to overall PFMAT score	Rank as a PFM concern
1	Policy based budgeting	1.67	10.4%	2
2	Comprehensiveness and transparency	2.96	18.4%	7
3	Credibility of the budget	2.84	17.7%	6
4	Predictability and control in budget execution	2.34	14.6%	4
5	Accounting, recording and reporting	2.25	14.0%	3
6	Internal and external audit	1.21	7.5%	1
7	Citizens' participation	2.79	17.4%	5
Overall PFMAT Score		2.29	100.0%	



V. PFMAT RESULTS ANALYSIS AND INTERPRETATION (BASIS IN PREPARING LGU IMPROVEMENT PLANS: PFMIP)

DIAGNOSING THE OVERALL STATE OF LGU PFM

- **PFMAT result for the LGU – PFMAT measures “all or some aspects of its PFM that require attention.”**
 - ❖ **Overall state of LGU PFM: Description of (lower 4 of the 5 score ranges) the overall average score of the LGU expressed as a deficiency. Thus, the overall PFM scores of any LGU can either be of 4 types:**

TYPES OF SCORES:

(3.0-3.9) Complete open and orderly PFM system are not fully operational

(2.0-2.9) Incomplete elements of an open and orderly PFM system are in place and these partial elements are fully operational

(0.1-1.9) Incomplete elements of an open and orderly PFM system are in place and these partial elements are not fully operational

(0) All elements of an open and orderly PFM system are not in place


RANKING the areas needing improvement

- The **lower** the CD score, the lower is its contribution to the overall PFMAT score, the **higher** is its priority as a LGU PFM concern.
- Within each CD, rank “causes” according to the PI and SI scores.

Summary of Results

 Except for Citizens' Participation, weakest PFM Critical Dimensions are the same for Cities and Municipalities:

1. Internal and External Audit
2. Policy-Based Budgeting
3. Accounting, Recording and Reporting
4. Predictability and Control in the Budget
5. Citizens' Participation
6. Credibility of the Budget
7. Comprehensiveness and Transparency

 Citizens' Participation appears to be stronger in Cities than in Municipalities

Ranking of PFM Priorities

1. **Internal and external audit in terms of:**
 - **Weak internal audit system – IAS in LGUs is virtually non-existent, and therefore both the frequency and quality of internal audit reports suffer. Whatever reports are generated are often not properly acted on by management; and**
 - **Lack of follow-up actions on the results of external audit in terms of the settlement of COA disallowances and compliance with audit recommendations.**

Ranking of PFM Priorities

2. Policy-based budgeting primarily arising from:

- Tenuous linkages between multi-year development plans, the corresponding multi-year investment programs, and the Annual Investment Program incorporated in the LGU annual budget; and
- Delays in the submission of the duly enacted LGU budget to the appropriate reviewing authority, which undermines the orderliness of the budget process.

Ranking of PFM Priorities

- 3. Accounting, reporting and recording in terms of timeliness and regularity of bank reconciliation, which delays the discovery of irregularities in LGU financial transaction.**
- 4. Predictability and control in budget execution arising from:**
 - 4.1 Poor Real Property Tax (RPT) accomplishment rate;**

Ranking of PFM Priorities

4.2 Ineffective tax enhancement measures including ineffective use of civil remedies for tax collection; poor data linkages of the RPT database system; and poor collection strategies on delinquent RPT accounts;

4.3 Poor cash flow forecasting which often results in non-availability of cash to meet expenditure obligations though the budget is sufficient; and

Ranking of PFM Priorities

4.4 Weak “*value for money*” considerations as well procurement controls primarily arising from poor availment of the economies of scale provided by DBM’s Procurement Service in the procurement of commonly-used supplies and equipment and poor compliance with the public bidding process in the procurement of non-commonly used supplies and equipment.

Ranking of PFM Priorities

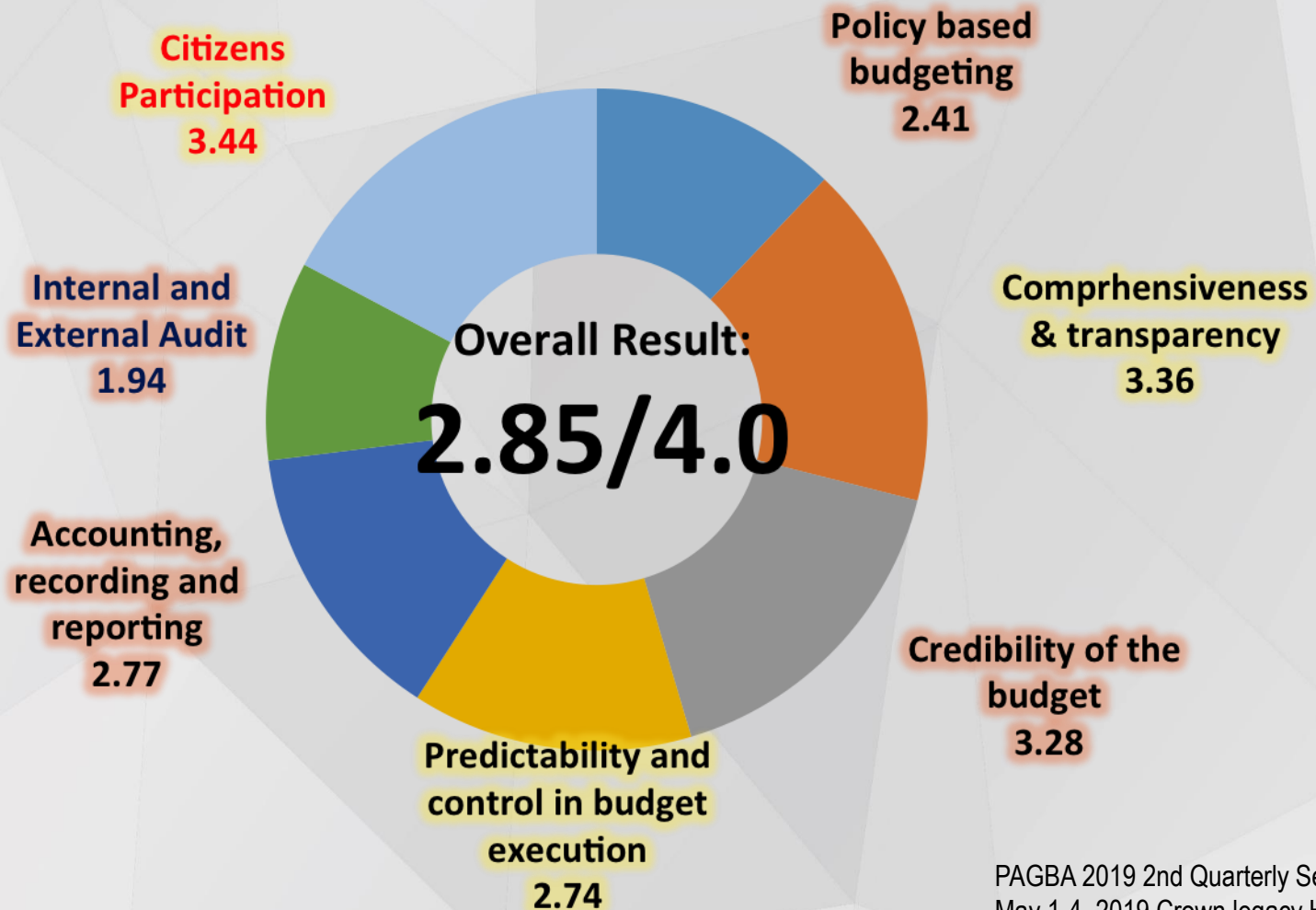
5. Citizens' participation. The accreditation process of CSOs is rated strong but participation in the critical budget process is rated weak.

6. Credibility of the budget. Expenditure forecasts are perceived to be more reliable than revenue forecasts

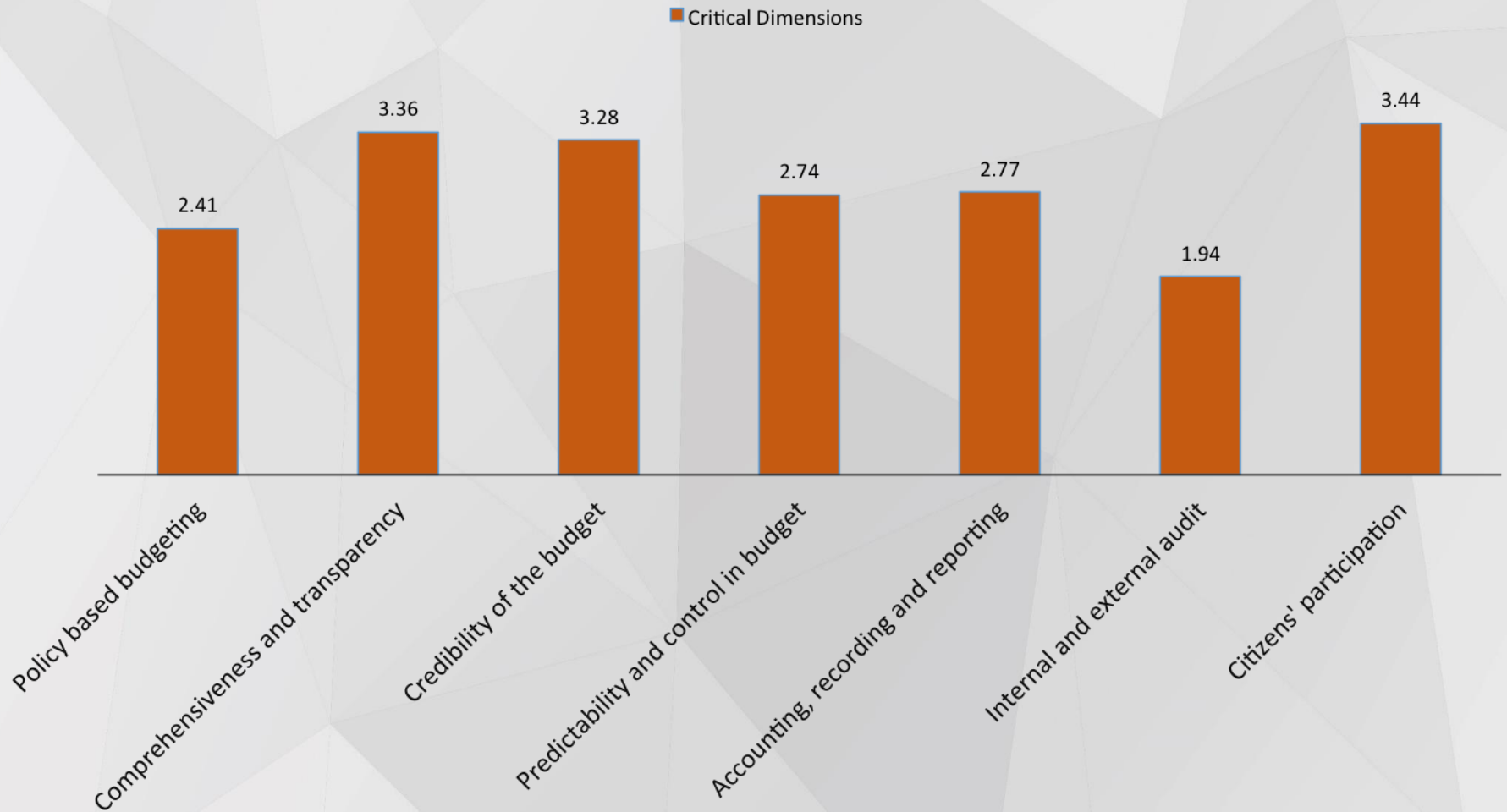
Ranking of PFM Priorities

7. Comprehensiveness and transparency.
The comprehensiveness of budget information contained in the appropriation ordinance is highly rated. Public access to information is rated to be slightly weaker.

RESULTS OF THE PFM ASSESSMENTS UNDERTAKEN BY THE LGUs-Central Visayas Region (2013-2015)



Overall State of the PFM Systems of 136 LGUs in Region VII



**Overall PFMAT score
of 2.85**

Weakest Critical Dimension

Score:
1.94

INTERNAL & EXTERNAL AUDIT

- Most LGUs do not have Internal Audit Service (IAS) Units
- No internal audit reports which are prepared for management to act upon
- Settlement of disallowances and compliance with audit recommendations by the LGUs are low

Score:
2.41

POLICY BASED BUDGETING

- Strong link between Annual Investment Program (AIP) and Budget but weak linkage among Development Plans (PDPFP/CDP-LDIP-AIP)*
 - *Comprehensive Development Plans (CDP) not prepared by most LGUs
- Local Economic Enterprises (LEEs) not financially self-reliant
- Only 1 to 2 PFM Improvement Policies included in the Budgets

Weakest Critical Dimension

Score:
2.74

PREDICTABILITY & CONTROL IN BUDGET EXECUTION

- Most LGUs have tax maps but are not updated
- Some LGUs have computerized tax database but are not linked among relevant offices in the LGU

Score:
2.77

ACCOUNTING, RECORDING & REPORTING

- Slow detection of irregularities in financial transactions due mainly to bank reconciliations not being prepared in “real time”
- Poor quality of financial reports due to limitations in the number & competence of staff, & the use of manual system for recording & reporting of financial transactions

STRONG CRITICAL DIMENSIONS

Score:
3.28

CREDIBILITY OF THE BUDGET

- Actual local revenue collections compared with estimated revenues in the budget of most LGUs ranges from 90% to 100%
- Disbursements BUR relatively high with a percentage rating that ranges 95% to 100%, however, needs improvement when it comes to

CREDIBILITY OF THE BUDGET

- Obligations BUR (allotment vs obligations) which ranges 85% to 90%

STRONG CRITICAL DIMENSIONS

Score:
3.36

COMPREHENSIVES & TRANSPARENCY

. LGUs are better at ensuring that budget information as attached to the Appropriation Ordinances AOs covering the Budget is comprehensive

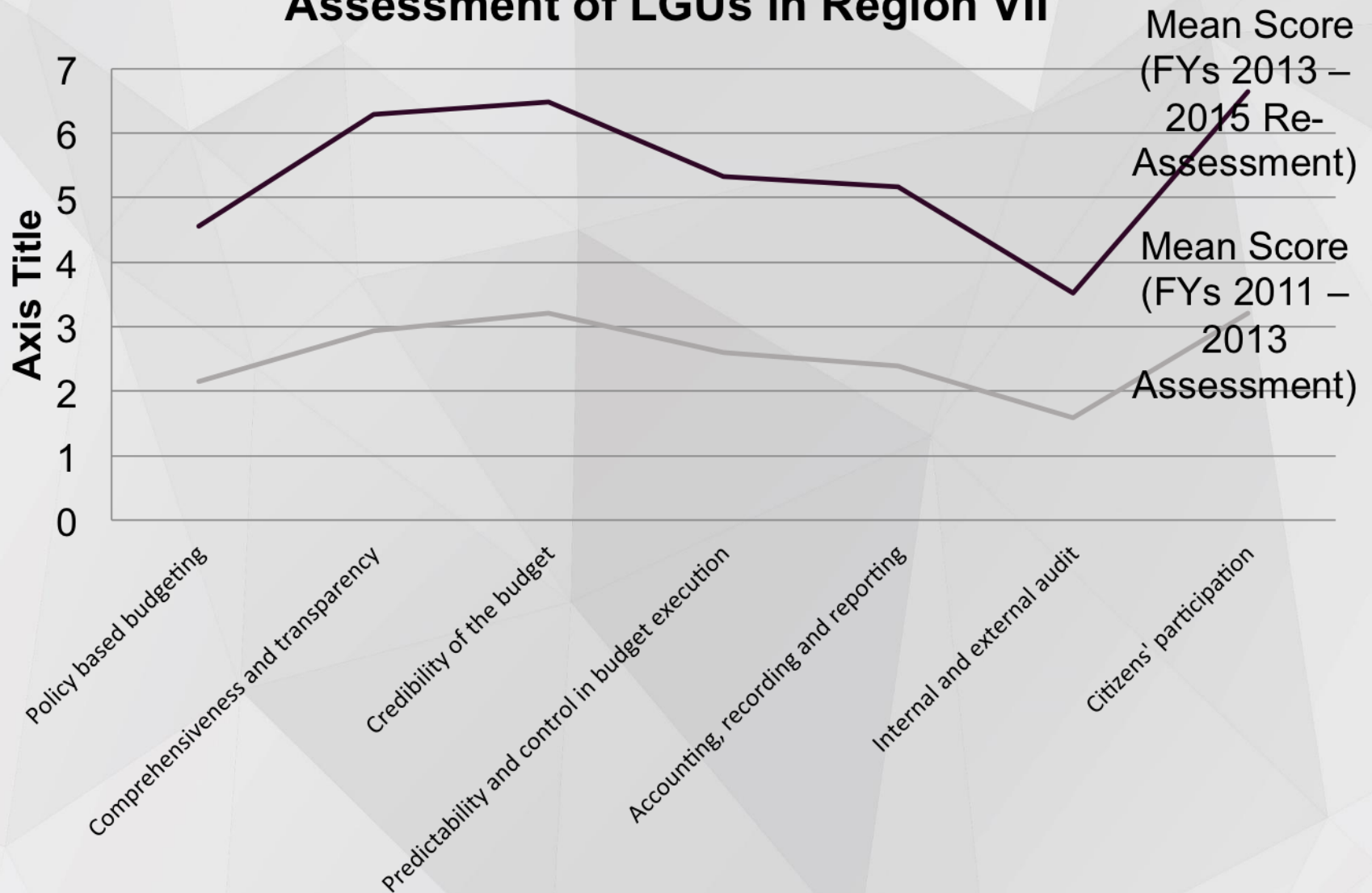
- Most LGUs are 100% compliant as to the posting of reports pursuant to Full Disclosure Policy (FDP) of the DILG

Score:
3.44

CITIZENS' PARTICIPATION

- The Civil Society Organization (CSO) accreditation process in LGUs is strong however, the degree of CSO participation in the Budget Process still need to be improved

Trajectory of State of PFM Assessment and Re-Assessment of LGUs in Region VII



Trajectory of State of PFM System of LGUs in Region VII (PCM)

CD No.	Critical Dimension (CD)	Mean Score (FYs 2011 – 2013 Assessment)	Mean Score (FYs 2013 – 2015 Re-Assessment)
1	Policy based budgeting	2.15 (2)	2.41 (2)
2	Comprehensiveness and transparency	2.93 (5)	3.36 (6)
3	Credibility of the budget	3.21 (7)	3.28 (5)
4	Predictability and control in budget execution	2.59 (4)	2.74 (3)
5	Accounting, recording and reporting	2.39 (3)	2.77 (4)
6	Internal and external audit	1.58 (1)	1.94 (1)
7	Citizens' participation	3.20 (6)	3.44 (7)
Overall PFMAT Mean Score		2.58	2.85 (10% increase)

A positive increase of 10% from a score of 2.58 to 2.85 indicates that LGUs strongly believes that a stronger and healthier PFM Systems directly affects the delivery of public goods and services to its constituents.

THE LOWER THE SCORE THE HIGHER AS A PRIORITY FOR IMPROVEMENT

CD No.	Critical Dimension (CD)	Mean Score (FYs 2013 – 2015 Re- Assessment)	PRIORITY RANK
1	Policy based budgeting	2.41	2
2	Comprehensiveness and transparency	3.36	6
3	Credibility of the budget	3.28	5
4	Predictability and control in budget execution	2.74	3
5	Accounting, recording and reporting	2.77	4
6	Internal and external audit	1.94	1.
7	Citizens' participation	3.44	7
Overall PFMAT Mean Score		2.85	



VI. SUSTAINING LGU PFM REFORMS IN DIFFICULT & CHANGING ENVIRONMENT

1.0 CHALLENGES

2.0 SUSTAINING REFORMS

CHALLENGES IN SUSTAINING PFM REFORMS

**IN A DIFFICULT AND CHANGING
ENVIRONMENT!!!**

CHALLENGES IN SUSTAINING PFM REFORMS

- 1. There is no more FUNDER as the LGU-PFM2 EU funded project concluded in 2016**
- 2. Change in Administration resulting to changes in Cabinet Secretaries of the four (4) Departments composing the NIAT**
- 3. Reshuffling of RDs in the four (4) Oversight Agencies affecting the momentum already established in the Region**

CHALLENGES IN SUSTAINING PFM REFORMS

- 4. Change in Leadership at the LGU level every 3 years affecting sustainability of the Reforms,**
- 5. Horizontal and Vertical Trust Issues (Difficulty in having LGU based Team convene to gather the Data hence LGUs could not comply with submission to DBM ROs of assessment results for review, consolidation & analysis),**

CHALLENGES IN SUSTAINING PFM REFORMS

- 6. Need for RIAT to provide technical assistance and interventions to address low scores and in the long term improve and strengthen existing PFM Systems, and**
- 7. Need to Institutionalize the submission of Regional PFMAT Scores for consolidation, analysis and publication of “A Country Report on the Status of LGU PFM Systems” at least every 3 years.**

STRATEGIES IN SUSTAINING PFM REFORMS

- 1. For the four (4) Cabinet Secretaries of DBM, DILG, NEDA and DOF-BLGF to re-issue another JMC reiterating :**
 - 1.1 The continued use of the LGU PFM Tools by their Regional Offices and LGUs, and**
 - 1.2 To Institutionalize the Assessment of existing PFM Systems every 3 years using the PFMAT software**

STRATEGIES IN SUSTAINING PFM REFORMS

2. LGU Policy Units of the four (4) Oversight Agencies to convene as TWG:

2.1 Prepare the JMC

2.2 Development of management policies and practices taking advantage of recent technology

2.3 Sustained Capacity building both in the RIAT and LGU level

STRATEGIES IN SUSTAINING PFM REFORMS

- 3. Come up with rewards system for LGUs with marked improvement in PFMAT scores**
- 4. Include as Indicator for the Grant of Seal of Good Local Governance**

STRATEGIES IN SUSTAINING PFM REFORMS

- 5. Include as a Good governance condition in the grant of Performance Based Bonus**
- 6. Separate Awards System to be given by the DBM during its Anniversary Celebrations every April 25.**

**THANK YOU
FOR LISTENING
& MABUHAY
PAGBANS!!!**