

A Policy Research for an Effective Annual Budget Preparation of the Local Government Unit in Paracale, Camarines Norte

Marlo Arejola Dela Peña

Student, Doctor of Public Administration, Camarines Norte State College, Philippines 4600

Abstract

This policy research examines the annual budget preparation process of the Local Government Unit (LGU) in Paracale, Camarines Norte, focusing on the fiscal years 2021 to 2023. The study utilizes a qualitative approach, incorporating unstructured interviews and a descriptive-evaluative methodology to understand the existing process, identify challenges, and propose solutions to enhance efficiency and effectiveness. Key findings highlight delays caused by external factors like late NTA share releases and internal challenges such as manpower shortages and insufficient information dissemination on priority programs. Recommendations include increasing budget allocation for personnel, implementing an eBudget system, and conducting regular refresher courses for budget personnel. The research aims to contribute to the development of a more responsive, efficient, and transparent budget preparation process in Paracale, fostering economic growth and improved public service delivery.

Keywords: Local Budget Preparation, LGU Budget Operations, Participatory Budgeting, Public Choice Theory, New Public Management

1. Introduction

Government budget is the allocation of public funds to attain the socio-economic objectives of the policymakers at all levels of government structures. In Article VI, Section 29 of the Philippine Constitution states that, “No money shall be paid by the Treasury except in pursuance of an appropriation made by law.” This provision establishes the need for all government agencies to undergo the budgeting process in securing appropriations for their respective programs, projects and activities.

In the national level, the Department of Budget and Management (DBM) consolidated the estimated expenditures prepared by individual agencies for inclusion in the President’s proposed budget. Such budget will be submitted to the Congress subject for separate hearings by the House of Representatives and the Senate for inclusion in the General Appropriation Bill, then the President signs the bill into law known as the General Appropriation Act (GAA).

In the local government units (LGUs), government budget refers to the receipts or estimated income available for appropriation and expenditures program to achieve local objectives, strategies and programs. Receipts program includes the locally-sourced income and national tax allocation shares of the LGU. The expenditure program is portion of the local budget that pertains to the current operating expenditures and capital outlays necessary for the implementation of the programs, projects and activities (PPAs).

Historically, government expenditures have always exceeded the total amount available for appropriation which results in annual budget deficits. National government usually borrows money from foreign sources such as World Bank and Asian Development Bank (ADB); domestic borrowing from the Bangko Sentral ng Pilipinas (BSP); or withdraw funds from its cash balances in the Bureau of Treasury (BTr). While the local government opt for domestic borrowing from Land Bank of the Philippines and Development Bank of the Philippines to cover said deficits.

Lesser government borrowing correspondingly reduce government's requirements for interest and principal payments, and greater appropriations for maintenance and operating expenditures. These triggered the researcher to take an in-depth study on the local budget operations particularly the budget preparation phase of the local government unit in Paracale, Camarines Norte. It is necessary for a policy research that support effective budget preparation process to encourage economic growth in the local level. The study focused on the local budget operations of the local government unit in Paracale, Camarines Norte for fiscal year 2021 to 2023. The area will be covered are the department/unit heads in the municipality. It is limited to the annual budget preparation phase of local budget operations from issuance of budget call up to the submission of executive budget to the sangguniang bayan. As the local budget preparation constitute the first step and the prime requisite of the local budget process, should place the highest possible priority to enhance the budget operations over other phases of budgeting work such as budget authorization, budget review, budget execution and budget accountability.

Research Objectives

To better understand the process and issues surrounding the local budget operations, the researcher utilized qualitative approach in achieving the following objectives: To know the budget preparation process in the local government unit; To evaluate the existing budget preparation process; and to proposed a resolution/appropriation ordinance that will enhance the LGU budget preparation procedures.

Theoretical Framework

The theoretical paradigm for this study is a blend of Public Choice Theory, New Public Management (NPM), and Participatory Budgeting, applied within the context of the Philippine Local Budgeting Framework. This framework is designed to understand and analyze the budget preparation process in Paracale, Camarines Norte, focusing on its efficiency, effectiveness, and inclusivity.

Public Choice Theory provides a lens to examine the motivations of key actors in the budget process, including department heads, local politicians, and the community. It helps understand how self-interest and political dynamics influence budget allocation and resource utilization. For example, this theory can be used to analyze the influence of local political pressures on budget priorities and the potential for rent-seeking behavior.

New Public Management (NPM) emphasizes efficiency, effectiveness, and accountability in public service delivery. This theory can be used to assess the effectiveness of the fixed budget calendar, the potential benefits of digitizing budget preparation through eBudget systems, and the need for performance-based budgeting to track and improve the effectiveness of local spending. NPM can also be used to analyze the implementation of the Mandanas ruling and its impact on local revenue allocation and expenditure priorities.

Participatory Budgeting emphasizes the involvement of citizens in the budget process, aiming for greater transparency and accountability. This theory can be used to explore the potential for increased citizen

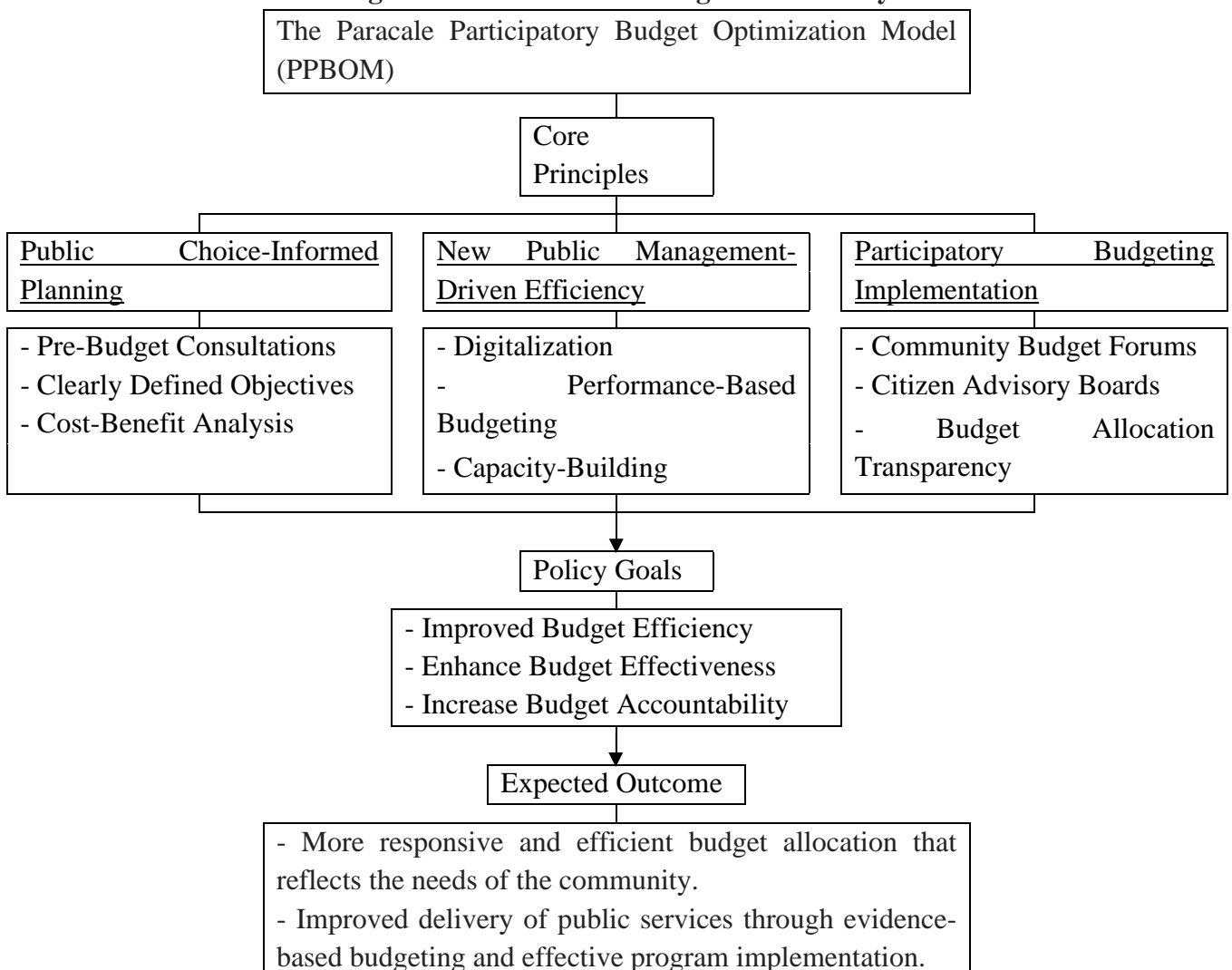
engagement in budget preparation, particularly in identifying local needs and priorities, and the potential role of community organizations in the budget hearing process.

Philippine Local Budgeting Framework provides the overarching structure for the study. It guides the analysis of the budget process by focusing on the five interconnected phases: budget preparation, budget authorization, budget review, budget execution, and budget accountability. This framework ensures that the study considers the budget process in its entirety, not just the preparation phase.

By combining these theories and the Philippine Local Budgeting Framework, the study can offer a comprehensive understanding of the budget preparation process in Paracale, Camarines Norte. This framework can be used to: identify the factors that contribute to delays in the budget preparation process; analyze the effectiveness of the existing budget preparation process in meeting local needs and priorities; evaluate the potential for improving the efficiency, effectiveness, and inclusivity of the budget preparation process; and develop recommendations for improving the budget preparation process in Paracale, Camarines Norte.

Below is a theoretical model entitled Paracale Participatory Budget Optimization Model which can be applied in formulating policy for an effective budget preparation in Paracale, Camarines Norte

Figure 1: Theoretical Paradigm of the Study



- Increased public trust and confidence in the local government's fiscal management.

The Paracale Participatory Budget Optimization Model (PPBOM) is a framework for improving the effectiveness of budget preparation in Paracale, Camarines Norte. Recognizing the influence of self-interest and political dynamics on budget decisions, PPBOM emphasizes transparency, stakeholder engagement, and a participatory approach. It draws on the principles of Public Choice Theory, New Public Management (NPM), and Participatory Budgeting to address the challenges identified in the research study.

PPBOM advocates for a transparent and open budget process where stakeholders actively engage in informed dialogue and negotiation. This involves holding public forums and meetings with community groups, civil society organizations (CSOs), and department heads to discuss local priorities and resource allocation. Clear, measurable objectives for the annual budget are articulated, aligning with the Local Development Plan and national development goals. Thorough cost-benefit analyses are conducted for proposed projects and programs, making transparent how budget decisions impact various groups.

PPBOM seeks to improve the efficiency and effectiveness of budget preparation by leveraging best practices from public and private sectors. This involves implementing an eBudget system to streamline budget preparation, data management, and communication between departments, improving transparency and reducing paperwork. Establishing clear performance indicators for programs and projects, tying budget allocations to measurable outcomes, and using data to evaluate the effectiveness of spending is a key component. Investing in training programs for budget personnel to enhance their skills in budget planning, analysis, and management, leveraging expertise from other LGUs or professional organizations, is crucial for capacity building.

PPBOM emphasizes citizen participation in budget decisions, empowering communities to voice their needs and contribute to shaping the budget. Regular forums are established for residents to present their needs and priorities, providing a platform for direct input into the budget process. Citizen advisory boards are formed to provide feedback and oversight on budget proposals, promoting greater accountability and transparency. The budget document is published in clear, accessible language, and regular updates on budget allocations and spending are provided to ensure transparency.

The PPBOM aims to achieve several policy goals: improved budget efficiency by reducing delays and inefficiencies in the budget preparation process; enhanced budget effectiveness by ensuring that budget allocations are aligned with local needs and priorities, maximizing the impact of public spending; and increased budget accountability by promoting transparency, citizen participation, and oversight in the budget process, building trust and accountability.

Expected outcomes of the PPBOM model include more responsive and efficient budget allocation that reflects the needs of the community, improved delivery of public services through evidence-based budgeting and effective program implementation, and increased public trust and confidence in the local government's fiscal management.

The PPBOM model offers a comprehensive approach to budget preparation, integrating theoretical frameworks with practical steps to improve efficiency, effectiveness, and inclusivity in the budget process in Paracale, Camarines Norte. It provides a foundation for policy development, ensuring that the local budget serves as a tool for sustainable development, community empowerment, and good governance.

2. Methodology

The study is qualitative in nature employing field research design using unstructured interview as a method. The study relied on such method to provide an in-depth understanding of the budget preparation procedures, issues and concerns, and strategies or programs in efficient budget operations process. This study began with the planning phase, in which general research questions, the budget operation phase, and the types of participants needed were identified.

In addition, the study also employed the descriptive-evaluative method of research since it described the local budget preparation phase and status of implementation processes in the local government unit. It is a combination of quantitative and qualitative approach in data analysis. The researcher also used survey questionnaire in gathering data from the participants. In order for the responses to be both reliable and valid it is important that the questions are constructed properly.

Participants

The participants of this study are four department heads of the local government unit in Paracale, Camarines Norte who have first-hand experience in budget operations that is needed to accomplish the objective of this study. They are the local budget officer, local treasurer, local planning officer and local accountant in LGU which plays an important role in the budget operation. The local treasurer jointly with the local accountant shall certify all statement of actual and estimated income for the three-year period as basis of total available for appropriations. The local planning officer assures the inclusion of all funded programs, projects and activities in the annual investment plan. Moreover, local budget officer consolidated the annual proposed budget per offices and submit the annual budget to the reviewing authority.

Research Instrument

The main research instrument used in this study is an unstructured interview guide. The researcher prepared the general questions to lead to the description of the annual budget operations of local government unit through the information being shared by the key informants. To document the responses of the key informants, the researcher used a cellphone recording application, as per consent by the informants and LCE too.

In order to obtain the complete and accurate information, the researcher also prepared a set of questionnaires for the participants. The questionnaire contains two parts: a) the common problems encountered in local budget preparation; and b) recommendation/suggestions to enhance local budget operations. The framings of questions were anchored on the study's objectives.

Study Context

This study focused on describing the annual budget preparation procedures and local budget operation for the three-year period covered. This study was conducted to address the gap in the few or no studies conducted yet to described the government budget operations in the local settings. The researcher was able to get meaningful information from the prospective informants who are considered the sources and key players in budget preparation of the local government unit (LGU) in Paracale, Camarines Norte.

Research Locale

In order to determine and understand the budget operations of the local government unit, the researcher conducted the study in the municipality of Paracale. Despite having a third income classification, the National Competitiveness Commission recognized the town of Paracale as the 2022 Most Improved Municipality among all third-class component municipality in the country. In this LGU, the researcher managed to get appropriate information that is necessary and relevant to achieve the purpose of this study.

Data Collection Method

As soon as permission was obtained from the local chief executive, the researcher identifies the possible informants and set the date to interview them. Key informants were chosen based on the extensiveness of their knowledge about their lived experiences in local budget preparations. A cellphone-recorded interview was conducted after their approval.

Unstructured interviews are the most popular interview method for being dialogic, conversational and open. It aids in collecting valuable inputs and provide an opportunity for clarifications and addressing the misunderstandings. Moreover, the unstructured interview in the participant’s workplace as a context for discussion generates information that might not have otherwise been revealed but may have meaningful contribution in this study.

Each interview was cellphone-recorded; the recording started after the researcher reviewed the informed consent at the beginning of interview and the recording concluded at the end of the participants answer to the final prompt. The researcher listened to the recorded interviews with the key informants and noted significant details related to the topic. Triangulation method was employed in this study to compare the data gathered to determine the similarities between their responses, and to identify some areas that needed for clarifications. Further, the application of QDA Miner Lite are also utilized in analyzing variables.

3. Results, Analysis and Discussions

This part presents the analysis and interpretation of results anchored on the Budget Preparation of the Local Government in Paracale, Camarines Norte. Tables and figures for the findings are presented to properly visualize each result and aid its immediate understanding. Implications are also included as part of the in-depth analysis to substantiate the findings presented in all tables.

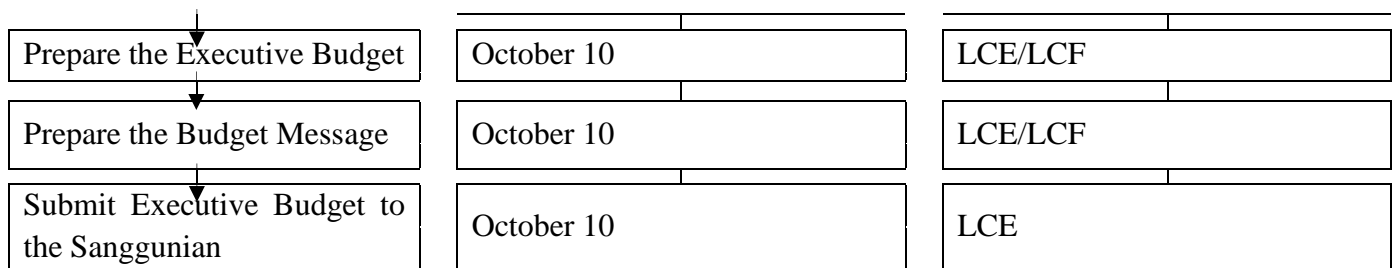
Annual Budget Preparation in Local Government Unit

Budget preparation is the first phase of the local budget process which involves cost estimates of programs, projects and activities (PPAs); executive review of budget proposals; preparation of local expenditures program and budget message. Section 318 of Republic Act No. 7160 serves as the legal basis of local government unit in budget preparation phase. Upon receipt of certified statement of estimated income from the treasurer, the budget proposals from different department and estimates of revenue and budgetary ceilings from the local finance committee will be consolidated, then the local chief executive shall prepare the executing budget for the ensuing year.

Figure 3 shows the sequence of activities in preparing the local expenditures program in which the local government unit shall be harmonized with the indicative schedule in preparing local budget.

Figure 2: Budget Preparation Flow Chart

Activity	Indicative Schedule	Responsible Officials
Issue the Budget Call	June 16	Local Chief Executive (LCE)
Conduct Budget Forum	June 16	LCE/Local Finance Committee (LCF)/ Department Heads
Prepare and Submit Budget Proposals	July 15	Department Heads
Conduct Budget Hearing	August 15	LCE/LCF



Source: Department of Budget and Management, Budget Operations Manual

The above flow chart demonstrates the six steps in completion of budget preparation phase. Budget Call is an executive directive based on the duly approved Annual Investment Program and Local Government Code. It emphasized the budget policy objective, guidelines to be observed, output aimed to be produced during the budget year, and prescribed the budget preparation forms and schedules. Budget call shall be provided to the accredited CSOs and Department Heads, then a one-day forum shall be schedule to explain the major thrusts and policy directions, sources of income, spending ceiling and budget strategies.

Each department heads prepares budget proposals using uniform templates to ensure the comprehensiveness of budget information and submit to the local budget officer for review and consolidation. The accredited CSOs may proposed projects for consideration by the department head concerned, while the local chief executive (LCE) ensures that the department heads consulted with accredited CSOs relative to their proposals.

The hearing and evaluation of budget proposals shall follow this procedure. The local finance committee (LFC) shall conduct the technical budget hearings to validate the revenue sources, PPAs, cost estimates and expected outputs for the budget year. This shall be conducted for at least ten working days to evaluates all budget proposals using the output and cost criteria. The LGU may replicate the best practices of other local government unit in engaging CSOs, on the other hand, the CSOs may replicate the best practices of other sectoral organizations in engaging LFC.

The Local Expenditure Program (LEP) shall primarily consist of total available for appropriations or estimates of receipts and the proposed appropriations for the budget year which serves as the material document for deliberation and authorization by the Sanggunian. The first part shall cover the immediate past year actual receipts, current year actual and estimated receipts, and the budget year estimated receipts. The second part is the expenditure program that includes the performance information, proposed new appropriations by object of expenditures, and special purpose appropriations.

Pursuant to Section 314 of RA 7160, “A budget message of the local chief executive set forth in brief the significance of the executive budget, particularly in relation to the approved local development plan.” Budget message shall highlight the previous years’ fiscal performance, development goals and objectives, policy thrusts, priority PPAs, estimated income and sources thereof, major items in the expenditures program, and major final outputs.

The local expenditure program together with the budget message, plantilla of personnel, statement of indebtedness, and annual investment program shall submit to the Sangguniang Bayan not later than October 16 of the current year.

Evaluation of Existing Budget Preparation Process

Table below present the comparative data of budget preparation’s indicative schedule and actual period of completion in the local government unit of Paracale from fiscal year 2021 to 2023. Based on the FY2023 Public Financial Management (PFM) assessment, the LGU Paracale has weak performance as to the

adherence to a fixed calendar for budget preparation. The existing annual calendar for budget preparation is observed but there are delays in some steps particularly in technical budget hearing.

Table 1: Comparative Data of Budget Preparation’s Indicative Schedule and Actual Period of Completion

Activity	Indicative Schedule	Actual Period Completed (Budget Year)		
		2021	2022	2023
1. Issue the Budget Call	June 16	June 10, 2020	July 05, 2021	July 06, 2022
2. Prepare and submit budget proposals	July 15	July 10, 2020	July 13, 2021	August 15, 2022
3. Conduct Budget Hearing	August 15	September 9, 2020	November 29, 2021	August 31, 2022
4. Prepare the Executive Budget	October 10	October 09, 2020	November 30, 2021	October 07, 2022
5. Prepare the Budget Message	October 10	October 13, 2020	December 01, 2021	October 07 2022
6. Submit Executive Budget to the Sanggunian	October 16	October 13, 2020	December 01, 2021	October 14, 2022

Source: Public Financial Management Assessment Tool, LGU-Paracale

The late advisory of the Department of Budget and Management (DBM) on the indicative National Tax Allocation (NTA) shares of the municipality is an external factor of delayed issuance of budget call for fiscal year 2021 to 2022. With the implementation of Mandanas-Garcia ruling, the budget increased to 37.89 percent as a whole, however, such adjustments delayed the issuance of LGU’s NTA shares. DBM regional advisory determined the NTA shares of local government and prescribed the guidelines for the preparation of the budget year expenditure programs.

This is supported by the result of interview where the informant mentioned that the NTA shares for the fiscal year 2022 increase because of Mandanas-Garcia ruling, then declined by year 2023 (See Appendix B).

“Increasing, tas alam mo ba yung Mandanas ruling na yan ang naging problema natin ngayon, kasi dun sa Mandanas rulling na yun biglang lumaki. Okey lang yung dating anu, kasi pag tiningnan mo yung increase noon, anu yun kung бага napapagkasya natin dun, kasi kung бага increase ka ng kaunti para minimize kasi sya. Kung бага parang nape-percentage mo yung dagdag, eh yun biglang laki, tas biglang down fall.” (Increasing, you know, the Mandanas ruling is our problem today because of its rapid increase. The previous was enough, as we base on the increase before, we can manage to distribute. We can percentage the increase, however a rapid increase then downfall happens.)

However, the pandemic has heavily impacted the revenue collection mechanism of the government resulting to LGU budget drop by 14.47% in fiscal year 2023. The This adjustment lightens the expenditures of LGUs within their jurisdictions (The Philippine Star, 2022).

In the preparation and submission of budget proposals, the respondents identified that lack of manpower who will perform the task was the reason of delay. The informant mentioned that there is a need for personnel that persistently follow-up the budget proposal submission and consolidation because department heads usually forget the schedule due to workloads.

“Lack of manpower to perform the annual budget preparation and consolidation, Oo, kasi dapat, dapat talaga dito tao. Dapat may nangungulit palagi sa mga budget(proposals) na yan kasi at syempre gaya naming marami kaming mga papel 'pag binitang namin hindi na alam kung saan napalagay.” (Lack of manpower to perform the annual budget preparation and consolidation, Yes, there is a need for manpower. There should be someone whose always follow-up for budget proposals, because we have a lot of documents and never know where we put it.)

The study further revealed that absence of information/education campaign on priority programs, projects and activities (PPAs) in budget preparation also delayed the process. Participants divulged that offices sometimes unaware on the updated in legal guidelines for objects of appropriations and expenditures which was supported by an informant interview result.

“Kasi kung baga, yun alam lang talaga pag may mga memo yung mga opisina. Oo madalas MO (mayor's office) at budget(office), yung ibang mga department head, di syempre nakakaalam nun na may adjustment pala na may bagong guidelines pala sa ganito. So. Sa pag-submit nila ng mga propose nakabase pa din sila doon sa dating guidelines. Yun pala may nagbago na katulad ng sa 20%(development fund), di ba dati lahat na lahat, ultimo barangay hall kasama? Nitong mga nakaraan, Multi-purpose Hall nalang pwede. Mga ganyan, actually yan yung kung tutuusin sana pag lalo sa part ni Engineer Gil(planning officer) dapat updated din sya.” (Because they just inform when there is an issued memo in the offices, mostly MO and budget, the rest of the department head not aware of any adjustment in the existing guidelines. an example is changes in the 20% development fund, unlike before that all are included even barangay hall? Then previously, multi-purpose hall is only allowable. Actually, on the part of Engineer Gil, he must be updated.)

The evaluation of the existing budget preparation process in Paracale revealed significant delays, primarily attributed to external factors such as the late issuance of National Tax Allocation shares by the DBM. Internally, the study identified lack of manpower for budget consolidation and a lack of information dissemination among department heads about priority programs and activities as contributing factors to the observed delays. The findings highlight the need for a more streamlined and efficient budget preparation process, addressing both external and internal challenges.

Conclusions

This study concludes that the budget preparation phase involves issuance of budget call and conduct of budget hearing, followed by preparation and submission of proposed budget per department. After the consolidation of proposals is the budget hearing, then preparation of executive budget and budget message. Finally, the executive budget shall be submitted to the Sangguniang Bayan for the enactment of an Appropriation Ordinance authorizing the annual budget of the ensuing fiscal year.

Despite of having an existing mandate on the fixed budget calendar of activities, the compliance in LGU is still very low, wherein there are delays in budget preparation process. The late issuance of the indicative NTA shares by the DBM is an external factor that may hamper the efficient preparation of local budget. Meanwhile, the internal factor of delay is lack of manpower that will focus in the consolidation of budget

proposals and the absence of information/education campaign among department/units on priority projects and activities to be included in the local expenditure program and its legal basis.

Recommendations

The following recommendations are hereby proposed based on the findings of the study. For the reason of lack for manpower performing budget preparation and consolidation, the researcher together with the department head may lobby to the local government officials the inclusion of additional budget in this matter. Adequate supply of human resources performing such tasks will secure the compliance of local government in the prescribed fixed budget operations schedule. Moreover, having additional personnel that persistently follow-up with the department heads will avoid the delayed submission of proposed annual budget. The Sangguniang Bayan through a resolution and appropriation ordinance may create a Budget Officer III – Salary Grade 18 position that shall aid in the local budget operations (See Appendix A).

The local government may consider the installation of Electronic Budget (eBudget) System and/or ECPAC Software system linking the three departments for digitized budget preparations and enhancing public financial management. The eBudget System for LGUs was designed and developed by the DBM for more effective and accountable public financial management. The LGU may opt for the installation of ECPAC Software System to obtain the best value of money by expanding its own revenue sources and ensuring that public funds will always be spent in a cost-effective manner.

In addition to this, there is a need to intensify the conduct of regular refresher course on local budget operations and records validation particularly for new recruits assigned in treasury, budget and accounting units. Refresher course allows employees to strengthen skills which need to be improved. It also helps increase the employee's capacity to adopt new technologies and methods of budget preparation.

The local government should religiously conduct the budget preparation activities within the prescribed fixed calendar by the Department of Budget and Management. Hence, this study may be submitted to the Local Finance Committee of the Sangguniang Bayan for review, evaluation, adoption and policy formulation.

4. References

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