Local Public Financial Management Tools for the

Electronic Statement of Receipts and Expenditures

2015

REPUBLIC OF THE PHILIPPINES
BUREAU OF LOCAL GOVERNMENT FINANCE
DEPARTMENT OF FINANCE

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LOCAL PUBLIC FINANCIAL MANAGEMENT TOOLS FOR THE ELECTRONIC STATEMENT OF RECEIPTS AND EXPENDITURES (eSRE)

Department of Finance
BUREAU OF LOCAL GOVERNMENT FINANCE

June 2015

This Manual was developed under the European Union (EU)-funded "*Support to the Local Government Units for More Effective and Accountable Public Financial Management (LGU PFM 2)* Project."

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Table of Contents

BOOK 2: GUIDEBOOK FOR THE NEW LOCAL GOVERNMENT FINANCIAL PERFORMANCE MONITORING SYSTEM (New LGFPMS)

LIST OF TABLES, FIGURES, AND BOXES
BOOK 1: A MANUAL ON DETERMINING LOCAL GOVERNMENT FISCAL CAPACITY AND RECONCILING LOCAL REVENUE FORECASTS

BOOK 2: GUIDEBOOK FOR THE NEW LOCAL GOVERNMENT FINANCIAL PERFORMANCE MONITORING SYSTEM (New LGFPMS)

ACRONYMS

ADB	Asian Development Bank
AGILE	Accelerating Growth Investment and Liberalization with Equity
BLGF	Bureau of Local Government Finance
CCR	Cost to Collection Ratio
CIETRR	Capital Investment Expenditures to Total LGU Revenue Ratio
COA	Commission on Audit
CTAR	Cash Target Accomplishment Rate
DBM	Department of Budget and Management
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DNAR	Debt to Net Asset Ratio
DSER	Debt Service Expenditure Ratio
DSR	Debt Service Ratio
EC	Expenditures per Capita
EER	Economic Expenditure Ratio
EPR	Enterprises Profitability Rate
ER	Expenditure Ratio
ESER	Economic Services Expenditure Ratio
eSRE	Electronic Statement of Receipts and Expenditures
GDP	Gross Domestic Product
GRDP	Gross Regional Domestic Product
GFSM	Government Financial Statistics Manual
GOSDSR	Gross Operating Surplus to Debt Service Ratio
IFR	Internal Financing Ratio
IMF	International Monetary Fund
IRA	Internal Revenue Allotment
LGAS	Local Government Accounting System
LGFPMS	Local Government Financial Performance Monitoring System
LGU	Local Government Unit
LSR	Locally Sourced Revenue
MOOE	Maintenance and Other Operating Expenditures
NGAS	New Government Accounting System

NOSTRR	Net Operating Surplus to Total LGU Revenue Ratio
PIDS	Philippine Institute for Development Studies
PSA	Philippine Statistical Association
PSER	Personal Services Expenditure Ratio
PSERC	Personal Services Expenditure Ratio Codal
PSERT	Total Personal Services Expenditure Ratio
QRPT	Quarterly Reports on Real Property Tax Collection
QRRPA	Quarterly Reports on Real Property Assessment
RC	Revenue per Capita
RPTAR	Real Property Tax Accomplishment Rate
RTAR	Revenue Target Accomplishment Rate
SEF	Special Education Fund
SER	Social Expenditure Ratio
SIE	Statement of Income and Expenditures
SRE	Statement of Receipts and Expenditures
SR/DSR	Savings Rate/Dissaving Rate
SSER	Social Services Expenditure Ratio
TROCC	Total Revenue Office Operations Cost
UCBTER	Uncommitted Cash Balance to Total LGU Expenditures Ratio
USAID	United States Agency for International Development
WB	World Bank

ACKNOWLEDGMENT

This Manual on Local Public Financial Management Tools for the Electronic Statement of Receipts and Expenditures (eSRE) is the result of the comprehensive studies under the auspices of the Asian Development Bank (ADB) Technical Assistance (TA) projects since 2007 (ADB TA 4556, ADB TA 4778, and ADB TA 7451), and the European Union (EU)-funded "Support for Local Government Units for More Effective and Accountable Public Financial Management" (LGU PFM 2) Project for the Bureau of Local Government Finance and the local treasury offices. With the support of the EU LGU PFM 2 Project, the public financial management tools which utilize the eSRE data and eSRE system have been manualized with the aim of improving local public financial management.

We extend our gratitude to the Local Chief Executives, officials and personnel from the Local Treasury offices, as well as the pilot LGUs, who unselfishly gave their valuable time and participation in the development of this Manual. We also thank the BLGF Officials, Regional Directors and personnel who participated in the SRE Trainings for their contribution to the enhancement of this Manual, as well as its advocacy and capacity building. We would also like to acknowledge the efforts of the Local Financial Data Analysis Division under the BLGF LGU Operations Service for coordinating and processing the improvement of this Manual, as well as the invaluable assistance extended by the officials and staff of other oversight agencies in providing us with the information needed to formulate this Manual.

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BLGF MEMORANDUM CIRCULAR NO. 16-2015

TO : All Bureau Officials and Personnel; Regional Directors for the Bureau of Local Government Finance; Provincial, City and Municipal Treasurers and Others Concerned

SUBJECT : **LOCAL PUBLIC FINANCIAL MANAGEMENT TOOLS FOR THE ELECTRONIC STATEMENT OF RECEIPTS AND EXPENDITURES**

DATE : 19 June 2015

Pursuant to DBM-DILG-DOF-NEDA Joint Memorandum Circular No. 2015-1 dated February 24, 2015, providing for the adoption of the local government units Public Financial Management Reform Roadmap and Implementation Strategy in pursuit of attaining the Philippine Development Plan's goal of inclusive growth and poverty reduction and promoting good governance and strong public financial management (PFM) at the local levels, the Department of Finance particularly the Bureau of Local Government Finance (BLGF) shall lead in capacitating LGUs in resource mobilization, revenue generation and related treasury and assessment enhancement tools which include, among others, **revenue and cash flow forecasting tools**.

The BLGF developed the Manual for the Local Public Financial Management Tools for the electronic Statement of Receipts and Expenditures (eSRE). This Manual is the result of the comprehensive studies under the auspices of the Asian Development Bank Technical Assistance projects since 2007 (ADB TA 4556, ADB TA 4778, ADB TA 7451) and the European Union project "Support for Local Government Units for More Effective and Accountable Public Financial Management" (LGU PFM 2) for the BLGF and the local treasury offices.

The Manual consists of two books, as follows:

1. A Manual on Determining Local Government Fiscal Capacity and Reconciling Local Revenue Forecasts

   The Manual describes the BLGF Revenue Forecasting Model which utilizes the eSRE data and is incorporated in the eSRE system. The forecasting model generates annual revenue forecasts for key LGU own-source revenue items per LGU, which serves as the basis for the annual regular revenue targeting exercise. These targets are then subjected to a revenue target reconciliation process, also prescribed in this Manual, which involves the

BLGF Regional Office and the LGU's treasury office. The agreed revenue targets will be used for the annual budgeting exercise. The Manual guides the BLGF Central Office and LGUs on the meaning and use of the revenue forecasts and the target reconciliation process.

In addition, the Local Treasurers are provided an objective process by which to gauge their own forecasts and if necessary, rationally justify or defend it vis-a-vis the forecasts generated by the model by citing qualitative factors specific to the LGU not captured by the model. Through this process of statistical estimation and rationalized and objective review by both the BLGF and Local Treasurers, income forecasting and targeting is now more firmly grounded in the principles of good public financial management.

2. Guidebook for the New Local Government recommends Activities leading to the adoption of the LGU revenue and cash flow forecasting Tool shall be included in the regular functions of the BLGF particularly of its Regional Offices.

   The New LGFPMS, which improved on the original LGFPMS, a set of twenty (20) indicators – levels, ratios and percentages – clustered into four main areas: revenue indicators, expenditure indicators, debt and investment capacity indicators, and financial management capacity indicators. The Guidebook for the New Local Government Financial Performance Monitoring System describes in detail the composition of each of these indicators, how they are computed using the eSRE database, what they mean in terms of measuring performance in public financial management, how they are currently being utilized, in part or in whole, and how they can be prospectively utilized.

Activities leading to the adoption of the Manual for the Local Public Financial Management Tools for the electronic Statement of Receipts and Expenditures (eSRE) shall be included in the regular functions of the BLGF.

All concerned are hereby enjoined to support the implementation of the abovementioned Local Public Financial Management Tools.

ATTY. SALVADOR M.DEL CASTILLO
OIC-Executive Director

INTRODUCTION

The Statement of Receipts and Expenditures (SRE) is the official financial management reporting system prescribed by the Department of Finance (DOF) to monitor the LGUs' financial performance[1]. This report is system-generated through the Electronic Statement of Receipts and Expenditures system (eSRE System) of the Bureau of Local Government Finance (BLGF). It captures data that generate the fiscal capacity, level of borrowings, and creditworthiness of the LGUs.The SRE report is also a source of financial information that the Local Chief Executive will find useful for decision-making purposes.

In general, the eSRE is used for:

1. **LGU Monitoring System**. Local fiscal and financial performance can be evaluated through the data inputted to the system based from the reports submitted by the LGUs.

2. **Policy Development.** SRE offers detailed financial information to assist policymakers and legislators in drafting local and national legislations, policies, rules and regulations

3. **Forecasting and Planning.** Consolidated data are useful in planning, forecasting, debt certification, creditworthiness rating, LGU income classification, among others.

4. **Statistics.** The SRE provides granular datasets on local finance that can be used to develop and maintain regular local finance stastics and to draw economic and fiscal capacity models.

Since 2007[2], the BLGF has designed and pilot-tested a number of public financial management tools utilizing the eSRE system and database. With support from the EU LGU PFM 2 Project, two of these public financial management tools have reached fruition and have been manualized for the improvement of local fiscal management, namely, (1) the Manual on Determining Local Government Fiscal Capacity and Reconciling Local Revenue Forecasts, and (2) the Guidebook for the New Local Government Financial Performance Monitoring System or the New LGFPMS.

The Manual on Determining Local Government Fiscal Capacity and Reconciling Local Revenue Forecasts informs BLGF and LGU users on the BLGF Revenue Forecasting Model, which is incorporated in the eSRE system. The forecasting model generates annual revenue forecasts for key LGU own-source revenue items per LGU, which serves as the basis for the annual regular revenue targeting exercise. These targets are then subjected to a revenue target reconciliation process, also prescribed in this Manual, which involves the BLGF Regional Office and the LGU's treasury office. The agreed revenue targets will be used for the annual local budgeting exercise. The Manual, thus, guides the BLGF Central Office and LGUs on the meaning and use of the revenue forecasts and the target reconciliation process.

The Manual enhances local public financial management because the revenue targets are now based on more objective measures, such as forecasts of general economic conditions (e.g., GDP growth) instead of simply using past LGU performance as basis. The revenue forecasts are now generated on per LGU account, instead of the previous practice of setting a

[1] Per Department Order 8-2011 dated February 11, 2011
[2] With the support from ADB TA 4556, ADB TA 4778, ADB TA 7451.

regional target that is divided among component LGUs. In addition, the local treasurers are involved in an objective process by which they themselves can gauge their own forecasts, and if necessary, justify or defend the targets vis-a-vis the forecasts by citing qualitative factors specific to the LGU not captured by the model. Through this process of statistical estimation, and rationalized and objective review by both the BLGF and local treasurers, income forecasting and target setting are now more firmly grounded on the principles of good public financial management.

On the other hand, one can only know if an LGU is practicing good public financial management if the indicators can be objectively measured based on sound financial information. This is one of the main objectives of the Statement of Receipts and Expenditures – having the necessary financial information in order to measure good public financial management. However, financial data are for the most part meaningless unless they are given context. This is the reason why financial indicators and ratios were designed, which eventually led to the creation of the Local Government Financial Performance Monitoring System or LGFPMS. The New LGFPMS is clustered into four main areas: revenue indicators, expenditure indicators, debt and investment capacity indicators, and financial management capacity indicators. Thus, the Guidebook for the New LGFPMS, which forms part of this publication, describes in detail the composition of each of these indicators, how they are computed using the eSRE data, what they mean in terms of measuring performance in public financial management, how they are currently being utilized, in part or in whole, and how they can be prospectively utilized.

Although the eSRE system automatically generates the LGFPMS on an annual basis for all LGUs, it is important for BLGF users, LGUs, and even analysts to understand what these indicators mean and how they can used for operational and policy reform, locally and nationally. By instructing current and potential users on the LGFPMS, this guidebook will expand the use of these indicators and continuously support the drive for good public financial management at the local level.

Currently, some of the indicators have found their way into the LGU Fiscal Sustainability Scorecard of the Department of Finance and the BLGF, and the Local Governance Performance Management System (LGPMS) of the Department of the Interior and Local Government (DILG). In the future, these PFM indicators will be incorporated in other performance measures such as the Seal of Good Local Governance (SGLG) of the DILG which is the eligibility criteria for the Performance Challenge Fund (PCF) grant.

BOOK I:

A MANUAL ON DETERMINING LOCAL GOVERNMENT FISCAL CAPACITY AND RECONCILING LOCAL REVENUE FORECASTS

BOOK I: A MANUAL ON DETERMINING LOCAL GOVERNMENT FISCAL CAPACITY AND RECONCILING LOCAL REVENUE FORECASTS

BUREAU OF LOCAL GOVERNMENT FINANCE
DEPARTMENT OF FINANCE

I. INTRODUCTION

The Philippines has ***1,715***[3] local government units (LGUs) and the forecasting of revenue for these LGUs has largely been "***ad-hoc***" exercises. Using either ***compound growth rate*** techniques or just ***judgmental qualitative estimates*** based on the past year's performance, LGU treasurers can come up with revenue forecasts used in the preparation of the annual budget of the LGU.

The ***Bureau of Local Government Finance*** (BLGF) since 2010 has adopted an ***annual revenue forecasting exercise*** on the ***regional*** level. Regional revenue targets are set for four (4) key LGU revenue sources — real property tax (RPT), business tax (BT), fees and charges (FC), and income from economic enterprises (IEE). The revenue targets for the latter three are based on ***revenue elasticities*** with respect to Gross Domestic Product (GDP) and on target growth rates set by the NEDA while that for real property taxes are partly based on market value of the real property. The objective of these guidelines are to provide Local Finance Committees (LFCs) useable techniques for developing ***annual budgets*** that are ***explicitly linked*** to a ***comprehensive development and land use plan*** and a ***multi-year development investment program***.

Under the ADB TA 4556, a formal ***revenue and expenditure forecasting approach*** was developed utilizing available BLGF Budget Operating Statement (BOS) data for 1991 to 2000 and the Statement of Income and Expenditures (SIE) data from 2001 to 2005. Subsequent parameters update will make use of data from the Statement of Receipts and Expenditures (SRE). The developed model is intended to generate ***forecasts*** for the current operating revenue and ***expenditure*** items of BLGF's improved SRE.

The BLGF financial and economic model contains ***two*** (2) major components: 1) the ***current operating revenue*** block, and 2) the ***current operating expenditure (including debt service)*** block.

The BLGF revenue forecasting model, which combines ***econometric*** as well as ***simple elasticity approaches***, generates ***annual revenue forecasts*** at the ***LGU level*** that is then subjected to "***negotiations***" (if necessary) at the BLGF regional level prior to adoption as formal annual LGU revenue targets. The ***regional negotiations*** serve to ***reconcile*** the ***initial*** LGU-level ***revenue targets*** set by the ***BLGF central office*** using the BLGF model with ***locally estimated forecasts*** (if any) prepared by the local treasurers. This process, which seeks to ***reconcile*** the "***top-to-bottom***" BLGF central office forecasts with "***bottom-up***" local treasurer forecasts, is expected to support the ***systematic*** generation of ***local revenue forecasts*** that will be ***owned*** and ***utilized*** by ***LGUs*** in the preparation of their ***annual budgets***.

[3] Includes provinces, cities and municipalities as of December 31, 2014. Count does not include Barangays which number 42,028.

The ***current operating expenditure block*** forecasts ***current operating expenditure*** (excluding debt service) at the LGU level based on ***elasticities*** of each ***expenditure item***, by ***LGU type***, and by ***specific LGU*** with respect to ***current operating revenues***. These elasticities are calculated using econometric techniques. ***Debt service*** is calculated using three ***linear econometric equations*** for each LGU type - province, city, and municipality - relating ***debt service*** (financial expenses) in Year t to the ***outstanding debt*** of the LGU in Year (t-1).

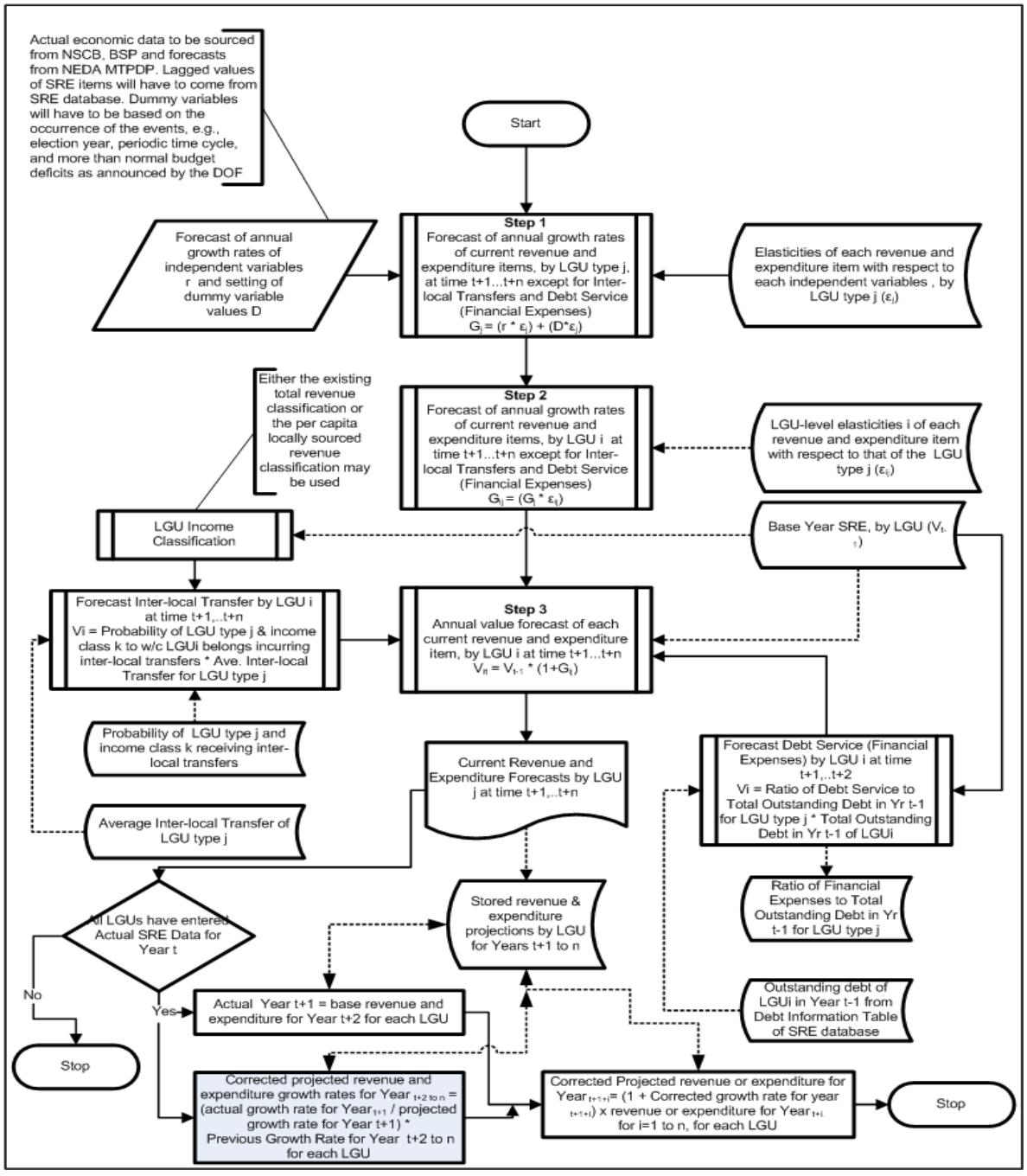
The use of the estimated model parameters for forecasting purposes assumes that the LGU ***revenue and expenditure structure*** observed since the advent of the ***Local Government Code (LGC)*** will be ***stable*** over the forecast period. Major ***amendments*** to the LGC and related implementation rules and regulations could significantly ***alter*** the ***elasticity*** estimates, and the resulting revenue and expenditure ***forecasts***.[4]

[4] Simulations of the impact of improved business-related tax assessment and billing and collection procedures developed under ADB TA 4556 indicate a potential increase ranging from 50% to a doubling of LGU business-related taxes over the base forecast as generated by the BLGF revenue forecast model.

II. THE BUREAU OF LOCAL GOVERNMENT FINANCE (BLGF) FINANCIAL AND ECONOMIC MODEL FOR DETERMINING LOCAL GOVERNMENT FISCAL CAPACITY

The BLGF Financial and Economic Model forecasts at the LGU level the current operating revenue and expenditure items contained in the Statement of Receipts and Expenditures (SRE). Figure 1 below presents the structure of the Model.

Figure 1. Financial and Economic Model Algorithm



A. The BLGF Revenue Forecasting Model – Summary Overview

The BLGF revenue forecasting model arrives at LGU-level projections via a ***three-step forecasting*** process.

Step 1:

The ***annual growth rates*** for each ***revenue category*** in the Statement of Receipts and Expenditures (SRE), e.g., real property tax, business tax, other taxes, fees and charges, etc., and for each ***LGU type*** — province, city, and municipality, excluding Inter-Local Transfers, are forecasted. The calculation is based on estimated elasticities econometrically estimated from available BOS and SIE data from 1991 to 2005. Box No. 1 presents the mathematical derivation of the elasticity estimates.

Box No. 1. Mathematical Derivation of the Elasticity Estimate

In general, the term **Elasticity** in economics measures the sensitivity by which one variable (e.g., demand for food) changes given a change in another variable (e.g., income) that can be theorized or postulated to have a behavioral relationship to the first variable. For example, we can say that our demand or consumption of food is affected by the level of our income. We can further postulate, that all other things held constant or equal, an increase in our income increases our demand or consumption of food. Elasticity is the measure by which the sensitivity of this relationship is estimated. Using this example, an elasticity of say, 1.4 means that a 10% increase in income will result in our demand or consumption of food to increase by 14%. We then say that this relationship is elastic. An elasticity of say, 0.9, means that a 10% increase in income will only result in an increase in our demand or consumption of food by 9%. This relationship is defined as inelastic. Finally, an elasticity of 1, means that a 10% increase in income will result in an equal 10% increase in our demand or consumption of food. This is commonly referred to as unitary elastic.

The relevant elasticities are estimated by fitting a multivariate logarithmic function ($Y = \alpha + B_1 \ln X_1 + B_1 \ln X_2 +, \ldots B_n \ln X_n$) using multiple regression analysis on the paired time series and cross-section data for each revenue item, by LGU type and where the variables are expressed in terms of natural logarithms (ln). The partial slope coefficients (Bs) of the estimated multiple regression equations for each revenue item and for each LGU category measures the elasticity (% change) of the revenue item for each LGU type with respect to a % change in each of the explanatory variables, e.g., gross value added in real estate, gross domestic product, etc. The mathematical derivation is as follows:

The elasticity of Y with respect to X ($\acute{\varepsilon}$) = $\frac{dY}{dX} \cdot \frac{X}{Y}$

With the functional form $Y = AX^B$

$$\acute{\varepsilon} = \frac{dY}{dX} \cdot \frac{X}{Y} = BAX^{B-1} \cdot \frac{X}{AX^B} = \frac{BAX^B}{AX^B} = B$$

This can be shown more rigorously as follows,

If Y = f(X) and a change ΔX is imposed leading to a change ΔY, then

$$\frac{\Delta Y}{Y} \div \frac{\Delta X}{X} = \frac{\Delta Y}{\Delta X} \cdot \frac{X}{Y}$$

measures the proportionate change in Y per unit proportionate change in X, i.e., the % change in Y resulting from a 1% change in X. The elasticity of Y with respect to X is defined as the limiting value of this ratio as ΔX→0, that is.

Elasticity of Y with respect to X (έ) = $\frac{dY}{dX} \cdot \frac{X}{Y} \equiv \frac{d(\ln Y)}{d(\ln X)}$

where ln denotes the natural log.

Given a double-log functional form

ln Y= A + β ln X, $\frac{d(\ln Y)}{d(\ln X)}$ = β

Step 2:

The ***annual growth rates*** for each ***revenue category*** by ***individual LGU are forecasted***. The calculation utilizes individual LGU revenue elasticities, by revenue category, with respect to the LGU type to which they belong calculated from SIE 2001 to 2005 data.

Step 3:

The ***annual growth rates*** for each revenue category, by individual LGU, are applied on the ***actual base year*** (time = t) ***LGU revenue estimates*** as stored in the SRE to come up with the forecast revenue in year t+1. The forecast in year t+1 becomes the base year for forecasting t+2, and so on, for multi-year forecasts.

For ***Inter-Local Transfers***, the forecasting process is as follows:

- The ***LGU type***, e.g., province, city, municipality, and its ***income class*** within the type to which it belongs, e.g., 1st class province, 2nd class city, 3rd class municipality[5] is determined.

- The ***expected value*** of the inter-local transfer that the LGU will probably receive in forecast year t is calculated. This is done by multiplying the ***probability of the LGU receiving*** inter-local transfers based on its type and income class by ***average inter-local transfer*** received by an LGU for the LGU type to which it belongs.

[5] Either the existing income classification system based on total revenues or the proposed real per capita locally sourced revenue classification system may be used.

The forecasting process ***iterates across time***, e.g., t+2, t+3, etc., to arrive at a set of ***multi-year*** revenue targets.

B. The BLGF Expenditure Forecasting Model

The BLGF expenditure forecasting model develops LGU-level current operating expenditure forecasts for all items covered in the SRE. Except for debt service (financial expenses), all other current operating expenditure items are determined by total current operating revenue.

Similar to current operating revenues, the BLGF current operating expenditure forecasting model arrives at LGU-level projections via a ***three-step forecasting*** process.

Step 1:

The ***annual growth rates*** for each ***expenditure category*** in the Statement of Receipts and Expenditures (SRE), e.g., General Public Service, Health, Nutrition and Population Control, Labor and Employment etc., and for each ***LGU type*** — province, city, and municipality, excluding Debt Service (Financial Expenses) are forecasted. The calculation is based on estimated elasticities econometrically estimated from available BOS and SIE data from 1991 to 2005.

Step 2:

The ***annual growth rate*** for each ***expenditure category*** by ***individual LGU*** is forecasted. The calculation utilizes individual LGU expenditure elasticities, by revenue category, with respect to the LGU type to which they belong calculated from SIE 2001 to 2005 data.

Step 3:

The ***annual growth rates*** for each expenditure category, by individual LGU, are applied on the ***actual base year*** (time = t) ***LGU expenditure estimates*** as stored in the SRE to come up with the forecast expenditure in year t+1. The forecast in year t+1 becomes the base year for forecasting t+2, and so on, for multi-year forecasts.

For ***Debt Service (Financial Expenses)***, the model utilizes three (3) econometric equations estimated from Year 2004 and Year 2005 COA data relating ***debt service in Year t*** of LGU i to ***outstanding debt*** of LGU i in ***Year t-1***.

Debt Service Financial Expenses Elasticity Estimation[6]

- Run a simple regression equation using cross-section SRE data for each of the LGU type for the relevant updating year, e.g. 2008. If the outstanding debt level is not available or are seriously lacking in the SRE data, data from the COA can be used

[6] Based on A Financial and Economic Model for Determining LGU Fiscal Capacity for Use by the Bureau of Local Government Finance (BLGF) prepared by Norman R. Ramos

- Financial expenses in year t, e.g. 2008 becomes the dependent variable.
- Outstanding debt in year t-1, e.g. 2007 becomes the explanatory variable.

➢ The estimated regression parameter can be interpreted as a measure of the average cost of money for the borrowings of LGU type and is the updated parameter to be used in forecasting debt service for year t.

III. THE REVENUE TARGET SETTING PROCESS

International experiences in local revenue target setting indicate that the ***forecast result*** is ***equally important*** as the ***process*** that generated the forecasts. The process seeks to ***systematically*** develop a ***single set*** of ***LGU-level revenue targets*** to serve as the ***revenue basis*** of the annual LGU ***budget*** process. The proposed BLGF revenue target-setting process is shown in Figure 2. For the results of the process to be useful to the LGU budget process, the final revenue targets should be ready by the time of the ***budget call — 1st week of July***.

During the budget cycle, it is the responsibility of the Local Treasurer to provide the Local Finance Committee with forecasts from the different sources of own-source revenues as well as prospective timing for the release from the National Government of the mandated transfers such as the Internal Revenue Allotment (IRA) and Special Shares. On locally sourced income, the Local Treasurer is best equipped to make these forecasts since he/she monitors the historical flows of revenues, which is a critical element in forecasting. The Local Treasurer is also best equipped to determine which of the sources of revenues can be improved in order to meet financial shortfalls in the course of budgeting.

The process begins with the generation of a financial and economic model-based set of ***initial LGU-level forecasts*** by the ***BLGF central office*** (CO). The initial targets should be ***sent out*** to the LGUs and to the regional offices ***no later than 15 May***.

This is followed by a ***review process*** of the applicable initial revenue forecasts to be done by the individual local treasurers including discussions with the other members of the Local Finance Committee (LFC). A ***maximum review period*** of ***15 days*** shall be allotted to the LGU treasurers so that their ***agreement*** or ***counter forecasts*** in case of disagreement should be sent to the ***BLGF regional offices no later than 31 May***.

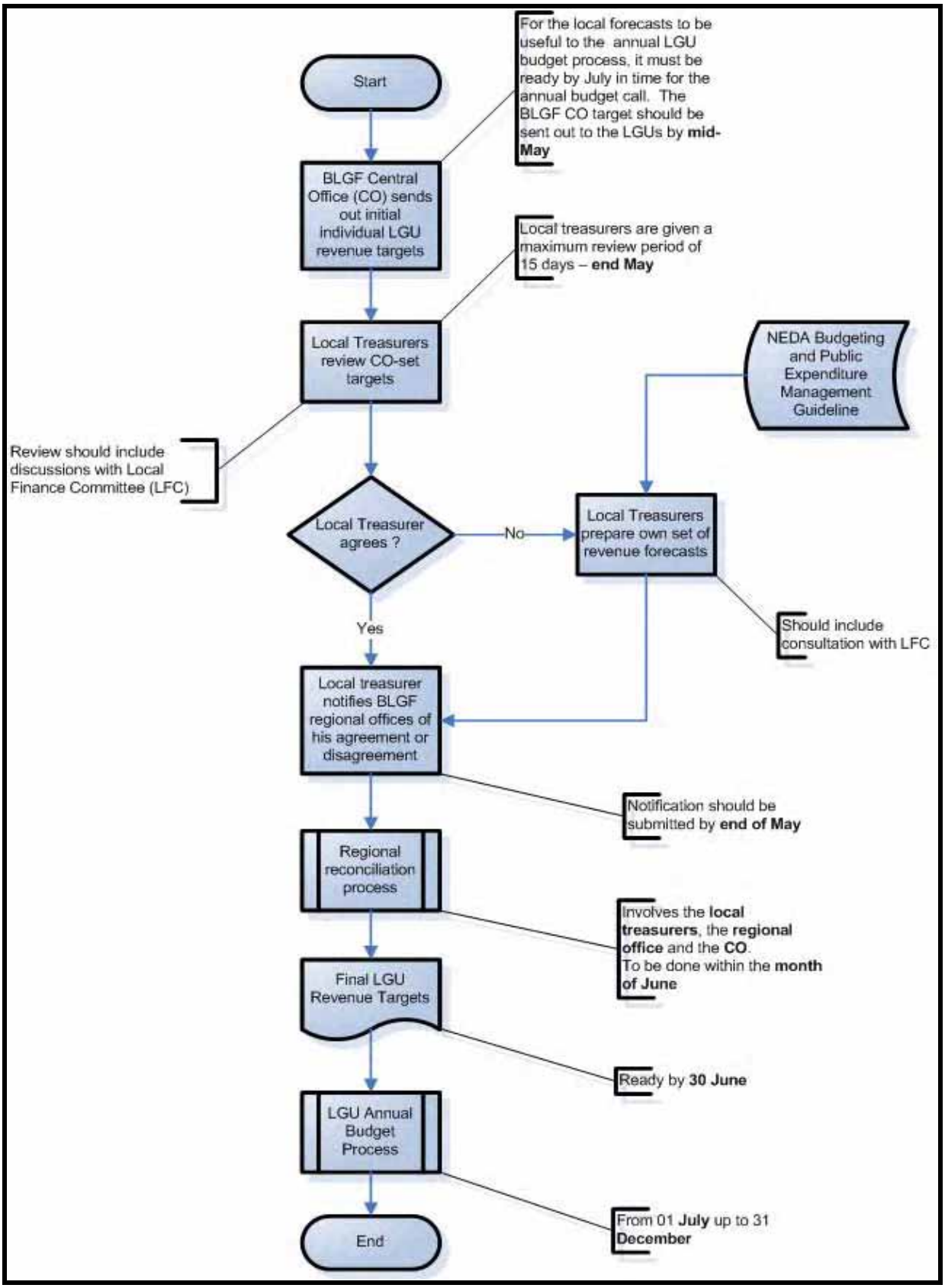
In case the Local Treasurers ***disagree*** wholly or in part with the initial revenue targets, they can prepare their "***counter***" ***projections*** using the techniques presented in the NEDA Budgeting and Public Expenditure Guidelines.[7]

The set of initial and counter-projections are then subjected to a ***regional reconciliation process*** where the LGU ***treasurers***, the BLGF ***regional*** and ***central office*** staff participate during the ***month of June***.

The ***results*** of the reconciliation process will form the ***final*** and ***single set*** of LGU ***revenue targets*** to serve as the revenue ***basis*** of the ***LGU annual budget*** that should be ready ***no later than 30 June*** in time for the ***budget call*** by the ***1st week of July***.

[7] This will facilitate harmonization of BLGF-set revenue targets with the process outlined in the NEDA guidelines.

Figure 2. BLGF Revenue Target Setting Process



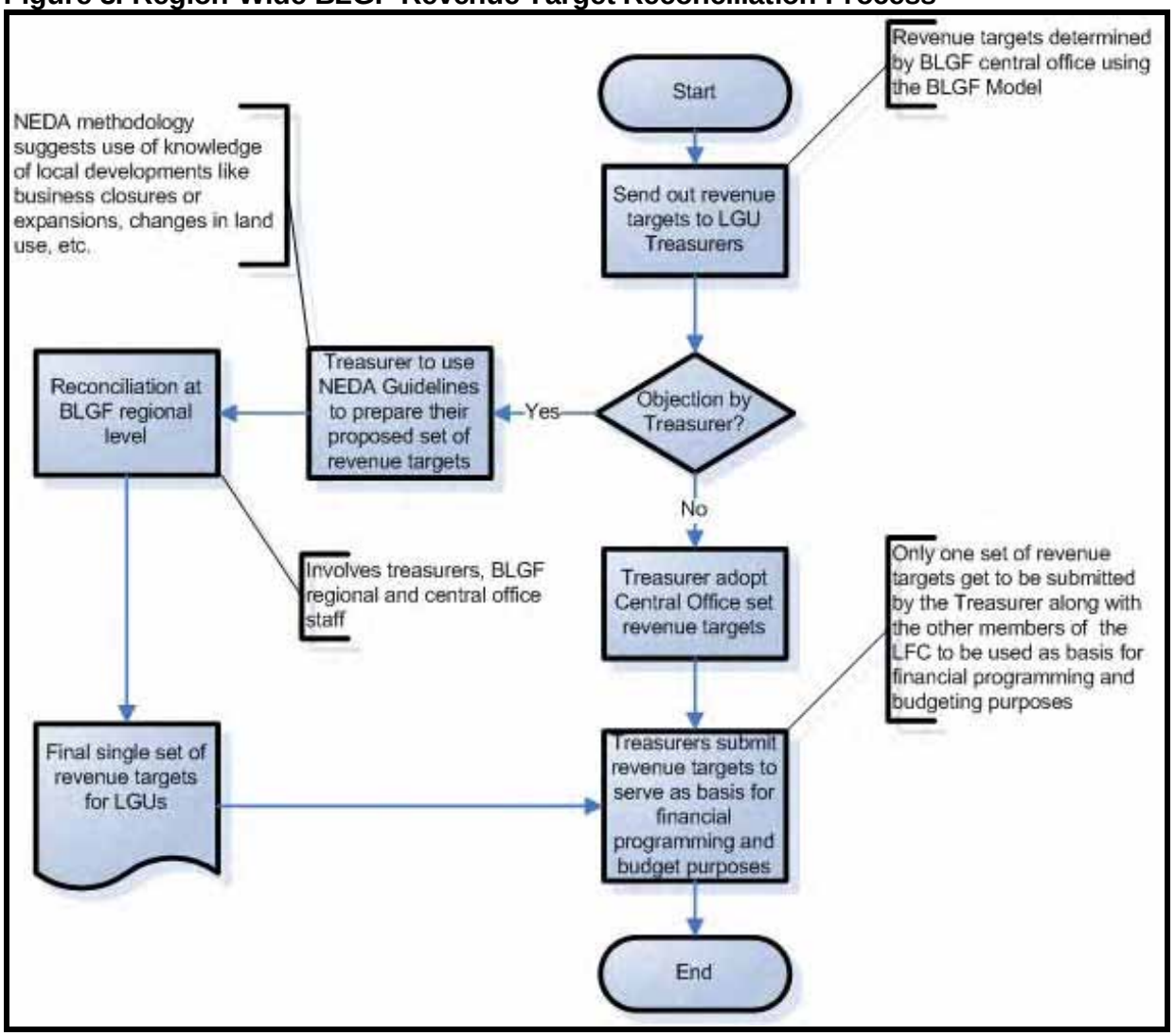
IV. THE CENTRAL OFFICE-LOCAL TREASURER REVENUE TARGET RECONCILIATION PROCESS

This process is necessary to ***reconcile*** BLGF Central Office (***CO)-generated*** financial and economic model-based revenue targets with any NEDA guideline-based ***locally generated*** revenue forecasts, to ***refine*** the initially set targets based on local inputs to be provided by the local treasurers, and to ***promote local ownership*** of revenue targets.

This refinement process is important in cases where major ***tax bases*** as well as local ***policy*** and ***implementation*** changes occur, e.g., property revaluations, business closure or openings, use of improved billing and collection systems, etc.

Figure 3 presents the revenue target reconciliation process.

Figure 3. Region-Wide BLGF Revenue Target Reconciliation Process



V. THE LGU REVENUE FORECASTING TEMPLATE

A. Overview:

- The LGU Revenue Forecasting Template is based on historical moving average annual growth rates to be used by LGU Treasurers to generate revenue forecasts for key local revenue sources, namely;

    a) Real Property Taxes;
    b) Business Taxes;
    c) Fees and Charges; and
    d) Income from Economic Enterprises.

- Data used for the computations come from the quarterly SRE reports for the current and the past 3 years as well as current year assessed data of taxable properties and the current tax rates.

- Revenues from Business Taxes, Fees and Charges, and Economic Enterprises will be forecasted using historical average growth rates.

- Revenues from Real Property Tax Collections will be forecasted using the existing tax rates and the assessed value of real property based on the Quarterly Report on Real Property Assessments (QRRPA)

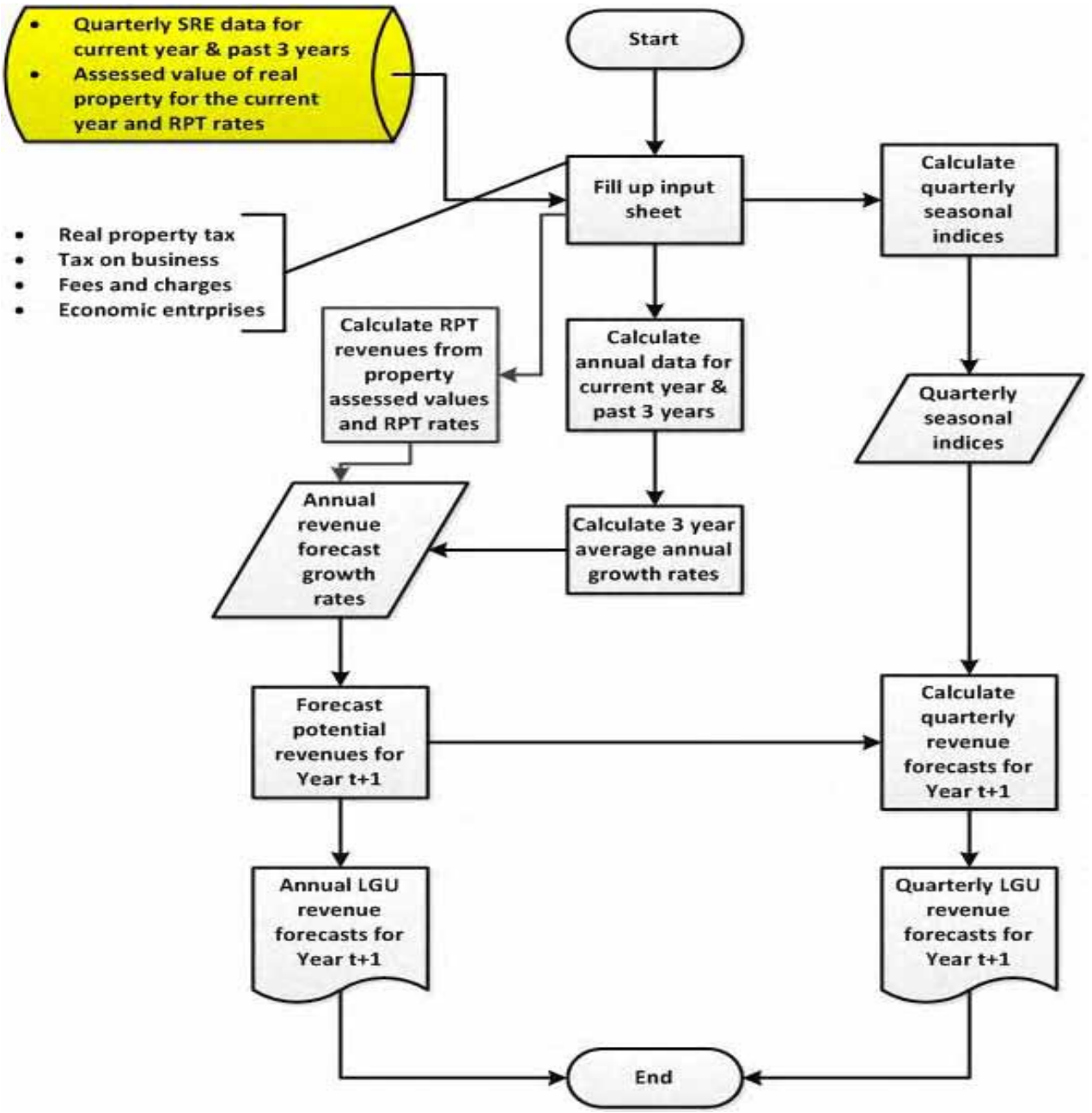
- The initial forecasts of the local treasurer will be discussed and agreed with the other members of the Local Finance Committee (LFC).

- If necessary, the forecasts will be subjected to a reconciliation process with the BLGF central office forecasts at the regional level.

- An LGU revenue forecasting template has been designed to facilitate and document this process.

- The template breaks down the annual forecasts into quarterly forecasts using seasonality weights calculated from the quarterly input data.

Figure 4: LGU Revenue Forecasting Process



B. Uses of the Template:

- The BLGF Regional Offices can use the template to help LGUs in their respective jurisdictions to develop locally generated or the LGU's own forecasts.

- These initial forecasts can serve as the LGUs' initial position during the region-based target reconciliation process where the BLGF Regional Office would compare these with the BLGF Central Office forecasts.

- The forecasts agreed upon by the LGU and BLGF Regional Office during the reconciliation process will serve as the final and official "Target" for the LGUs.

- The quarterly breakdown of the "Target" forecasts will aid LGUs in their cash flow forecasting.

C. Characteristics of LGU Revenue Forecasting Template:

- The LGU Revenue Forecasting Template is an MS Excel-based spreadsheet.

- It is made of nine (9) linked worksheets:

    - **Two (2) Input sheets:**

        - A Base Input sheet (yellow color)
        - A Final Annual Forecast sheet (yellow color)

    - **Three (3) Output sheets:**

        - Initial Annual Forecast sheet (gray color)
        - Initial Quarterly Forecast sheet (gray color)
        - Final Quarterly Forecasts sheet (light blue)

    - **Four (4) Quarterly Weight Calculation sheets:**

        - Real Property Tax (brown color)
        - Business Tax (peach color)
        - Fees and Charges (red color)
        - Economic Enterprises (green color)

D. The LGU Revenue Forecasting MS Excel Spreadsheets:

- The MS-Excel spreadsheets that comprise the LGU Revenue Forecasting Template can be downloaded at **www.blgf.gov.ph.**

Figure 5: Base Input Sheet

1	LGU Name			Historical Quarterly and Annual Data						
2	Forecast Year									
3	Year	Qtr	Quarterly RPTax	Annual RPTax	Quarterly BTax	Annual BTax	Quarterly F & C	Annual F & C	Quarterly Eco Ent	Annual Eco Ent
4	2011	1	81,420,686		125,935,407		46,369,851		25,222,921	
5		2	16,296,085		38,110,673		12,253,684		15,415,641	
6		3	11,858,507		41,860,712		11,049,841		23,158,521	
7		4	29,329,946	138,905,224	29,402,722	235,309,514	10,668,238	80,341,614	13,289,851	77,086,934
8	2012	1	89,111,409		139,669,840		50,913,670		20,514,819	
9		2	31,418,309		41,263,788		12,653,677		14,803,342	
10		3	8,221,161		45,198,871		10,496,297		27,756,844	
11		4	30,273,684	159,024,564	30,186,674	256,319,172	10,934,423	84,998,068	23,280,407	86,355,411
12	2013	1	87,772,650		147,954,152		54,811,945		24,310,930	
13		2	20,214,912		39,501,276		17,291,609		21,092,048	
14		3	13,047,558		47,423,109		12,464,469		22,567,792	
15		4	43,298,959	164,334,079	35,539,430	270,417,967	15,255,787	99,823,811	24,861,325	92,832,094
16	2014	1	94,862,404		61,687,355		24,157,463		24,532,453	
17		2	15,181,537		62,780,070		29,873,511		22,853,893	
18		3	12,958,905		100,431,963		35,334,338		22,076,536	
19		4	13,721,556	136,724,401	78,933,552	303,832,940	25,435,283	114,800,595	21,270,301	90,733,183
20	INSTRUCTIONS	*Cells shaded yellow requires manual inputs*								
21		*1*	*Input LGU name in Cell C1*							
22		*2*	*Input forecast year in Cell C2*							
23		*3*	*Input quarterly collections for RPT, BT, F & C, and EcoEnt in Columns C, E, G, and I*							
24		*Columns D, F, H, and J in red fonts are automatically calculated*								
25										
26										
27	Want to use historical growth rate for RPT forecast			1						
28	- Input "1" for "Yes", "0" for "No"									
29	Additional Inputs for RPT		Taxable Value of Real Property	Basic Tax Rate	SEF Rate					
30			-1	0	0					
31			7,686,606,240	2.00%	1.00%					
32	INSTRUCTIONS	*Input: Taxable value of real property, the basic tax rate and the SEF rate*								
33		*The RPT collectible will be automatically calculated and reflected in the initial annual forecast*								

Figure 6: Initial Annual Forecast Sheet

Local Revenue Item	Past 4 Years Historical Values				Past 3 Years Historical Growth Rates					Forecast
	2011	2012	2013	2014	2012	2013	2014	With Negative Values ?	3 Year Ave.	2015
Real Property Tax	138,905,224	159,024,564	164,334,079	136,724,401	14.48%	3.34%	-16.80%	1	3.34%	141,289,358
Tax on Business	235,309,514	256,319,172	270,417,967	303,832,940	8.93%	5.50%	12.36%	0	8.93%	330,960,960
Fees and Charges (Regulatory fees + Service Income or User Charges	80,341,614	84,998,068	99,823,811	114,800,595	5.80%	17.44%	15.00%	0	12.75%	129,434,411
Income from Economic Enterprises (Business Income)	77,086,934	86,355,411	92,832,094	90,733,183	12.02%	7.50%	-2.26%	1	7.50%	97,538,200

Instructions:	
	Cells shaded in yellow require manual inputs
	- Input 0 if there is no negative growth rate during the past 3 years and 1 if there is
	Cells shaded in gray are the forecast results

RPT Forecasting Module	Basic	SEF	Total
	0	0	0
	153,732,125	76,866,062	230,598,187

Note:

If there are negative values in any of the past three (3) years growth rate, enter "1" on the appropriate box so that the 3-year average will be based on the median which will be less affected by the decline in the growth of the revenue item (e.g., business taxes).

Figure 7: Initial Quarterly Forecast Sheet

LGU Name						
Forecast Year	**2015**					
Revenue Item	**Q1**	**Q2**	**Q3**	**Q4**	**Annual**	**Chk**
Real Property Tax	**80,816,823**	**20,071,427**	**10,011,506**	**30,389,601**	**141,289,358**	**Ok**
Tax on Business	**158,270,314**	**61,180,666**	**63,915,840**	**47,594,141**	**330,960,960**	**Ok**
Fees and Charges (Regulatory Fees + Service Income or User Charges)	**64,497,531**	**26,840,538**	**18,029,199**	**20,067,143**	**129,434,411**	**Ok**
Income from Economic Enterprises (Business Income)	**25,696,350**	**21,259,472**	**28,014,702**	**22,567,676**	**97,538,200**	**Ok**

Note:

The sum of the quarterly forecasts is checked against the Initial Annual Forecasts in the Initial Forecast sheet. If there is no discrepancy, then an "OK" mark is placed in the appropriate box in the "CHK" column. If there is a discrepancy, then "CHK calculation" warning is entered.

Figure 8: Target Reconciliation Documentation Sheet

Region **Revenue Source**

LGU NAME	LGU TYPE	LGU INCOME CLASS	CENTRAL OFFICE GENERATED FORECAST	LGU GENERATED FORECAST	AGREED UPON TARGET

Note:

To be accomplished for the four (4) major local revenue sources: 1) Real Property Tax (RPT); 2) Business Tax; 3) Fees and Charges; and 4) Income from Economic Enterprises.

Figure 9: Final Forecast Sheet

LGU Name	
Target Year	**2015**
Real Property Tax	**142,289,358**
Tax on Business	**332,960,960**
Fees and Charges (Regulatory Fees + Service Income or User Charges)	**129,434,411**
Income from Economic Enterprises (Business Income)	**97,538,200**
Instructions:	Input target revenue values agreed upon in the regional reconciliation workshop.

Note:

The agreed forecasted values for the four (4) locally-generated income sources resulting from the region-based review and reconciliation process involving the BLGF Regional Office and the LGUs are manually entered in the table above.

Figure 10: Final Annual Quarterly Forecast Sheet

LGU Name						
Forecast Year	2015					
Revenue Item	Q1	Q2	Q3	Q4	Annual	Chk
Real Property Tax	84,932,903	18,977,375	13,477,442	24,901,638	142,289,358	Ok
Tax on Business	169,710,920	56,752,475	56,519,237	49,978,328	332,960,960	Ok
Fees and Charges (Regulatory Fees + Service Income or User Charges)	62,039,067	24,826,848	29,378,787	13,189,709	129,434,411	Ok
Income from Economic Enterprises (Business Income)	24,433,586	23,583,157	24,879,911	24,641,545	97,538,200	Ok

Note:

The Final Forecast Sheet automatically generates the values in the final quarterly forecast sheet based on the final agreed forecasted values for the four (4) income sources.

E. List of Reports:

1. Regional Level:

a. Regional Summary of LGU Financial Performance for the year; and
b. Summary of LGU-generated local revenue forecasts vis-à-vis BLGF Central Office-generated forecasts and final agreed revenue targets.

2. National Level:

a. Compilation of Regional Reports; and
b. Inter-regional Comparisons.

BOOK II:

GUIDEBOOK FOR THE NEW LOCAL GOVERNMENT FINANCIAL PERFORMANCE MONITORING SYSTEM (New LGFPMS)

BOOK II: GUIDEBOOK FOR THE NEW LOCAL GOVERNMENT FINANCIAL PERFORMANCE MONITORING SYSTEM (New LGFPMS)

A. BACKGROUND

A.1. A Concept of Financial Performance Indicators

The Merriam-Webster Dictionary defines an "Indicator" as "a sign that shows the condition or existence of something." Therefore, a Financial Performance Indicator is a measure that shows the financial condition of something which could be a person, a firm, an industry, a country, or in this case, a Local Government Unit (LGU).

Most Financial Performance Indicators are **ratios** or a quantifiable relationship that exists between the size, number, or amount of two things. In less technical terms, it is the relationship of two things expressed in numbers. In mathematical terms, it is the quotient or result of dividing a numerator with a denominator.

Why do we use ratios? Because numbers by themselves do not have any meaning and only have any significance when "contextualized". For example, an LGU that generates billion pesos in own-source revenues annually makes it neither financially, stable or unstable, if simply taken by itself. One can make informed and meaningful conclusions about an LGU's financial health when it is related to other financial data such as its annual expenditures, or own-source revenues of other LGUs in its level and income class. Ratios allow us not only to contextualize the financial information but provides a common language for financial analysts to use.

In short, one need not be a long-term industry expert to analyze the financial health of an LGU. What is needed is to know how to interpret the meaning of the financial ratios in relation to other financial ratios, the average performance as provided by the average of a ratio across LGUs in the industry, and the firm's performance over time as provided by the behavior of the ratios year to year. Furthermore, one can compare the ratio of own-source revenues to total regular income and the ratio of spending in the health sector to total spending and the ratio of personnel expenditures to total spending. Alternatively, the ratio of own-source revenues to total regular income of a fourth class municipality to the average of the ratios of own-source revenues to total regular income of all fourth class municipalities can be compared. Finally, tracking the ratio of the share of the IRA to total income of a third class municipality over time or year to year can also be pursued.

A.2. Importance and Uses of Financial Performance Indicators in the LGU setting

A system of financial performance indicators for LGUs can be an effective tool in the performance of the following functions:

- "*As an aid in strategic planning and forecasting*" — it can provide LGUs with a good assessment of its fiscal situation to serve as a basis for setting future plans and forecasts.

- "*Performance accounting and benchmarking*" — it can compare performance versus targets and how LGUs compare relative to other similarly situated LGUs.

- "*Early warning system*" — it can give danger signals to ensure that remedial actions are made soon enough before things get out of hand.

- "*Quality management*" — it ensures that correct information is available at the right time to help LGU managers establish trends as well as scientifically developed gut feel.

- "*Incentive system*" — it can promote a well-planned incentive scheme can be anchored on a good system of financial indicators

B. First Local Government Financial Performance Monitoring System (LGFPMS 1) of the Bureau of Local Government Finance (BLGF)

B.1 Brief History

The Local Government Financial Performance Monitoring Systems would not have been possible if not for the creation of the Statement of Receipts and Expenditures (SRE) Financial Reporting System. During the mid-1990s, private sector interest in financing LGU projects was beginning to rise mainly because of the development of LGU bonds as a viable financial instrument for private participation in LGU financing. Prior to this, public financial institutions, such as the Philippine National Bank, have begun to lend to LGU again in earnest, and the DOF began to explore an LGU financing framework following the recommendations of a World Bank (WB)-funded study by the Philippine Institute for Development Studies (PIDS) on financing the LGU market. Amidst these developments, issues began to arise related to enhancing private sector interest in LGU financing. Key among this, was the nature of government financial statistics and financial management reports on LGUs which the private sector complained they could not understand because they differed significantly to private sector financial statements.

In response to this, a study titled "A Statement of Income and Expenditures for Local Government Units" was commissioned by the WB and prepared by former DOF Secretary Juanita D. Amatong, former Department of Budget and Management (DBM) Secretary Emilia T. Boncodin, and former BLGF Regional Director Romulo N. Zipagan. In 2004, under the United States Agency for International Development (USAID) program Accelerating Growth, Investment and Liberalization with Equity (AGILE), a manual was developed based on the aforementioned study consequently creating the first LGU financial management reporting system – the Statement of Income and Expenditures (SIE).

In 2006, in the light of changes in the New Government Accounting System (NGAS), the SIE was revised transforming it into the Statement of Receipts and Expenditures (SRE). It was also during this time and through Asian Development Bank (ADB) Technical Assistance No. 4556-PHI that the SRE was first automated turning it into the electronic SRE (e-SRE) and initiatives were taken to use the financial data to develop financial performance indicators. This first attempt jumpstarted the Local Government Financial Performance Monitoring System Version 1 or LGFPMS 1.

B.2 LGFPMS 1 Framework

Table 1. BLGF LGU Financial Performance Indicators

Financial Element	No.	Indicator
1. Revenue	1.	Revenue Target Accomplishment Rate (RTAR)
	2.	Real Property Tax Accomplishment Rate (RPTAR)
	3.	Cost to Collection Ratio (CCR)
	4.	Revenue per Capita (RC)
2. Expenditure	5.	Expenditure Rate (ER)
	6.	Social Expenditure Ratio (SER)
	7.	Economic Expenditure Ratio (EER)
	8.	Personal Services Expenditure Ratio (PSER)
	9.	Internal Financing Ratio (IFR)
	10.	Expenditures per Capita (EC)
3. Debt	11.	Debt Servicing Ratio (DSR)
4. Overall Financial[8]	12.	Cash Target Accomplishment Rate (CTAR)
	13.	Savings (Dissaving) Rate (SR/DSR)
	14.	Enterprises Profitability Rate (EPR)

The objectives of the LGFPMS 1 are:

- To assess individual LGU performance;
- To provide active advisory to LGUs;
- To support LGU credit assessment; and
- To support policy formulation

The LGFPMS 1 indicators were grouped into four (4) categories.

- ***Revenues indicators – or those that reflect revenue generation capacity***. These indicators show the existence of an appropriate revenue ***level*** and the extent of the ***predictability*** of local revenues.
- ***Expenditures indicators – or those that reflect expenditures rigidity***. These indicators define the degree of ***flexibility*** that an LGU has to allocate resources for different purposes.
- ***Debt indicator***. It reflects the ***debt carrying*** capacity of an LGU. It is compared against the statutory limitation of 20% of annual regular income for debt service by LGUs.
- ***Overall Financial (Operating result) indicators – or those that reflect the financial management capacity***. These indicators refer to the ***relation*** between ***revenues*** and ***expenditures*** and define the extent to which the LGU implements an efficient financial resources management.

[8] These are supposed to be 'bottom line indicators" reflecting the net results of financing operations or change in cash balances.

LGUs are considered "financially ***weak*** if at least ***one third*** of the ***benchmarks fail*** and its regular operation incur ***cash deficit***." Otherwise, they are financially strong.[9]

BLGF has strongly advised that "LGUs be ***sorted*** out by ***income class***, ***political level*** (i.e., municipalities, cities, and provinces) or by level of ***internal revenue allotment*** before application of the fiscal/financial performance indicators to make the assessment fair and meaningful."[10]

In a review of the LGFPMS, it was noted that there was a need for BLGF (DOF) to review the proposed ***benchmarks*** for the already integrated indicators and establish a clear standard among LGU classes for the indicators. At the same time, the report pointed to the need to define an "***analytical framework*** for analyzing ***financial performance reports*** vis-à-vis LGPMS capacity, productivity and development indicators."

In the 2006 LGFPMS Status and Issues Report[11], the BLGF emphasized that the analytical framework should also cover ***linkages*** between the ***LGFPMS*** to ***credit rating***.

Finally, the BLGF expressed the reservation that 14 indicators may ***not be comprehensive*** to reflect on LGU performance.

[9] See Nathaniel von Einsiedel et al.. Philippines: Performance Measurement at the Local Level, Final Report, ADB, May 2006, p. 12. The italics are that of the Consultant.

[10] Ibid. The author quoted an undated and unpublished BLGF document. The italics are that of the Consultant.

[11] See BLGF PowerPoint presentation on the 2006 LGFPMS Status and Issues Report.

C. The New Local Government Financial Performance Monitoring System (New LGFPMS) of the BLGF

The set of twenty (20) local government financial performance monitoring indicators combines the indicators from the original LGFPMS proposed by BLGF and the newly developed creditworthiness ranking indicators.

Comparing Table 1 and 3, **8** were from or equivalent to the ***original*** LGFPMS of BLGF[12], **12** are ***new*** indicators and **13** are ***creditworthiness*** indicators[13]. As in the previous version of the LGFPMS, the indicators in the new LGFPMS are grouped under four areas: Revenue Indicators, Expenditure Indicators, Debt and Investment Capacity Indicators, and Financial Management Capacity Indicators.

C.1 Revenue Indicators – or those that reflect LGU revenue generation capacity.

These indicators show the existence of an appropriate revenues ***level***, revenue ***growth*** potential, revenue ***stability***, and the extent of local government ***control*** over the local revenues.

C.1.1 Revenue Potential

1. ***Revenue Level*** as compared to the average value for the LGU income class to which the LGU belongs.

   Benchmark: LGU revenue ≥ LGU income class average

   Concern Addressed: This is a ***new*** indicator and also a ***creditworthiness*** ranking indicator and is used as evidence for the ***availability*** of an appropriate revenue level.

2. ***Revenue Growth*** or the trend in revenue across time.

   Benchmark: The average annual % increase in LGU revenues ≥ Annual regional inflation rate[14] + Annual regional population growth rate.[15]

   Concern Addressed: This is a ***new*** indicator and also a ***creditworthiness*** ranking indicator and is used as evidence of the ***sustainability*** of an appropriate revenue level.

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12 Some of the original indicators were modified given changes in the nomenclature of the SRE line items as well as policy decisions as to the composition of the indicator. However, the interpretation remains the same.

13 In addition, the creditworthiness rating system includes the Gross Operating Surplus as % of Total Revenues as an indicator.

14 Calculated as the average annual increase in the Gross Regional Domestic Product (GRDP) Implicit Price Index (2000 = 100) for the region to which the LGU belongs as published by the Philippine Statistics Authority (PSA).

15 Annual compound growth rate of the LGU population calculated from the formula $\mathbf{Pn = Po\ (1+r)^t}$ where Pt = population at year n, Po = base year population, t = number of years elapsed between the base year and year n, and r is the annual growth rate. The appropriate population levels may be taken from the PSA or in the absence of any official PSA LGU level projections can be calculated using the population projection methodology set out in Technical Report TR_06-2 prepared under this TA.

C.1.2 Revenue Stability and Reliability

3. ***Per Capita Locally Sourced Revenue and Special Education Fund (SEF)*** or the amount of revenues under LGU control and oversight on a per capita basis.

Benchmark: Per capita locally sourced revenue + SEF ≥ average for the LGU income class to which the LGU belongs.

Concern Addressed: This is a ***new*** indicator and is used as evidence of the degree of tax effort exerted by the LGU.

4. ***Per Capita Growth in Locally Sourced Revenue*** or the growth in the amount of revenues under LGU control on a per capita basis.

Benchmark: Growth in locally sourced revenue per capita ≥ average for the LGU income class to which the LGU belongs.

Concern Addressed: This is a ***new*** indicator and is used as evidence of the degree of improvement of the tax effort exerted by the LGU.

5. ***% Locally Sourced to Total LGU Revenue*** or the share of revenues that are under LGU control and results from local economic activity.

Benchmark: % Share of locally sourced revenue to total LGU revenue ≥ average share for the LGU income class to which the LGU belongs.

Concern Addressed: This is a ***new*** indicator and also a ***creditworthiness*** ranking indicator and is used as evidence of the ***reliability*** of an appropriate revenue level.

6. ***% Annual Regular Income to Total Revenue***

Benchmark: % Share of recurring revenue to total LGU revenue ≥ average share for the LGU income class to which the LGU belongs

Concern Addressed: This is a ***new*** indicator and also a ***creditworthiness*** ranking indicator and is used as evidence of the ***predictability*** of an appropriate revenue level.

C.1.3 Revenue Mobilization Efficiency

7. **Ratio of *Total Revenue Office Operations Cost to Total Revenues Collected (TROOC)*** or the cost of collecting a peso of revenues to account not only the collection cost of the revenue offices (i.e., Treasury and Assessors Offices) but also the cost of subsidizing other operations of these offices or revenue centers (e.g., disbursement).

Benchmark: TROOC(P)(C)(M) $\leq$ average for the LGU income class to which the LGU belongs.

Concern Addressed: This is a ***new*** indicator and reflects the full cost effectiveness of the local revenue generation efforts of an LGU. The cost of collecting taxes plus other costs of the revenue offices unrelated to collection can be considered highly indicative of the full cost effectiveness of the local revenue efforts of an LGU, since this also includes the portion of the revenue office's operational costs which will be supported by the collected revenues. The previous cost to collection ratio refers to real property tax only.

8. Real Property Tax Accomplishment Rate (RPTAR) or the % of current RPT collected within the year to the total RPT due for the year as estimated from the assessed value of taxable real properties.

The real property tax is the major source of local revenues for most LGUs and also mirrors the local economy as the real property tax base (the value of existing properties) reflects the status of the local economy, especially in urban areas.

This indicator is one of the four (4) revenue indicators in the original BLGF LGFPMS, and is also a creditworthiness ranking indicator.

As such, the collection efficiency for the real property tax largely mirrors the overall collection efficiency of the LGU.[16]

Benchmark: 80% of Total Current Collectibles and 35% Cumulative Five-Year Delinquencies

Concern Addressed: This is an ***original*** BLGF LGFPMS indicator and is also a ***creditworthiness*** ranking indicator and is used as evidence of the ***collection efficiency*** of the LGU.

C.2 Expenditure Indicators or those that define the degree of flexibility that an LGU has to allocate resources for different purposes

The first indicator reflects the amount of services extended by the LGU to its constituents on a per capita basis.

The proposed expenditure indicators distinguish between rigid or ***compulsory*** expenditures that cannot be avoided by the LGU and those ***discretionary*** expenditures.

The next two indicators show how ***flexible*** or rigid certain LGU expenditures are. Expenditure flexibility could help a local government to be more financially credible. Expenditure flexibility gives options to the LGU to reduce or realign expenditures during economic downturns.

On short term, personnel[17] and debt service expenditures are more rigid than the ones related to maintenance and other operating expenditures (MOOE) and capital outlays

[16] Many LGUs require a certificate of full payment of RPT before the issuance of a new or renewed business permit.

[17] This usually represents the first priority of LGUs.

because in case of revenue shortfalls, they cannot be postponed as the actual expenditures have already been incurred.

The last two indicators show the degree of ***priority*** that an LGU places on ***discretionary*** expenditures that tend to promote ***constituency*** welfare.

9. ***Per Capita Total Expenditures*** or the amount spent by the LGU per constituent.

Benchmark: Per capita total LGU expenditures ≥ average for the LGU income class to which the LGU belongs.

Concern Addressed: This is a new indicator and is indicative of the amount of services extended by the LGU to its constituent on a per capita basis.

10. ***Personal Services Expenditure Ratio Codal*** (PSERC) or the ratio of LGU expenditures for personal services in the General Fund to Annual Regular Income of the LGU in the next preceding fiscal year pursuant to Sec. 325 (a) of the LGC.

Benchmark: PSER ≤ 45% for 1st to 3rd class LGUs and 55% to 4th or lower class LGUs[18] and should exhibit a decreasing trend.

Concern Addressed: This is a recommended ***creditworthiness*** ranking indicator and is regarded as the most rigid expenditure category for an LGU.

11. ***Total Personal Services Expenditure Ratio*** (TPSER) or the ratio of Total LGU expenditures for personal services to Total LGU Expenditures.

Benchmark: PSERT ≤ average for the LGU income class to which the LGU belongs and should be decreasing over time.

Concern Addressed: This is a variation on the ***original*** BLGF LGFPMS indicator and also a recommended ***creditworthiness*** ranking indicator being the most rigid expenditure category for an LGU.

12. ***Total Debt Service Expenditure Ratio*** (DSER) or the ratio of LGU expenditures for debt service[19] to total LGU expenditures

Benchmark: DSER ≤ average for the LGU income class to which the LGU belongs and should be decreasing.

Concern Addressed: Debt service is regarded as an equally rigid expenditure category for an LGU. DSER is a ***new*** indicator and also a recommended ***creditworthiness*** ranking indicator.

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[18] These are legal ceilings imposed under Section 325 (a) of the 1992 Local Government Code (LGC).

[19] Interest + Loan Amortization.

13. ***Social Services Expenditure Ratio*** (SSER) or the ratio of LGU social expenditures to total LGU expenditures

Benchmark: SSER ≥ average for the LGU income class to which the LGU belongs and should be increasing.

Concern Addressed: The level of LGU social expenditures has a high degree of relationship with poverty alleviation and improvement in the human development index. This is an ***original*** BLGF LGFPMS indicator.

14. ***Economic Services Expenditure Ratio*** (ESER) or the ratio of LGU economic expenditures to total LGU expenditures

Benchmark: ESER ≥ average for the LGU income class to which the LGU belongs and should be increasing.

Concern Addressed: The level of LGU economic expenditures also has a high degree of relationship with poverty alleviation and improvement in the human development index. This is an ***original*** BLGF LGFPMS indicator.

C.3 Debt and Investment Capacity Indicators or those that define the extent to which the LGU services debt obligations and considers the importance of capital expenditures and local government capacity to attract long term financing for investments.

15. ***Debt Service Ratio*** (DSR) or the ratio of LGU expenditures for debt service to total LGU Annual Regular Income.

Benchmark: DSR ≤ 20% of annual regular income and ratio should at least be stable if not decreasing across time.

Concern Addressed: The debt service cap is a statutory limitation imposed under Section 324 of the 192 LGC. The DSR is an ***original*** LGFPMS indicator and also a recommended ***creditworthiness*** ranking indicator. This indicator defines the extent to which a local government could engage additional debt, taking into account the debt limits provided by the law. These limits give decision autonomy to the local government as long as the expenditures related with the debt service remain within the prudent acceptable limits set by law.

16. ***Gross Operating Surplus to Debt Service Ratio*** (GOSDSR) or the ratio of LGU operating surplus to debt service.

Benchmark: GOSDSR ≥ average for the LGU income class to which the LGU belongs and should be increasing.

Concern Addressed: The gross operating result represents the main and essential source that could be mobilized by the LGU in order to finance the public service infrastructure investments or the servicing of loans contracted for these purposes. This is a ***new*** indicator and a recommended ***creditworthiness*** ranking indicator.

17. ***Debt to Net Asset Ratio (DNAR)*** or the ratio of an LGU's debt to its depreciated asset base.

Benchmark: DNAR should be ≤ 1 indicating that an LGU has a sufficient asset base to back up its debt.

Concern Addressed: This is a new indicator and reflects the value at risk to lenders of an LGU in case of a default.

18. ***Capital Investment Expenditures to Total LGU Revenue Ratio*** (CIETRR) or the % share of capital investments to total LGU revenues

Benchmark: CIETRR ≥ average for the LGU income class to which the LGU belongs and should be stable if not increasing.

Concern Addressed: Measures the extent to which the LGU considers the importance of capital expenditures. This is a ***new*** indicator and a recommended ***creditworthiness*** ranking indicator.

19. ***Net Operating Surplus to Total LGU Revenue Ratio*** (NOSTRR) or the ratio of LGU net operating surplus to total LGU revenues.[20]

Benchmark: NOSTRR ≥ average for the LGU income class to which the LGU belongs and should be increasing in case of operating surpluses and decreasing in case of operating deficits.

Concern Addressed: This indicator shows the ability of the local governments to be sure their budget will be balanced. The NOSTRR is also a recommended ***financial management capacity*** indicator, and is equivalent to the Savings Rate/Dissaving Rate (SR/DSR) of the ***original*** BLGF LGFPMS.

C.4 **Financial Management Capacity Indicators** or those that compare LGU revenues with LGU expenditures and define the extent to which the LGU implements an efficient financial resources management.

20. ***Uncommitted Cash Balance to Total LGU Expenditure Ratio*** (UCBTER). [21]

Benchmark: UCBTER ≥ average for the LGU income class to which the LGU belongs and should be increasing.

Concern Addressed: This indicator shows the ability of the LGU to ensure their budget will be balanced even in the face of financial uncertainties. This is a ***new*** indicator and a recommended ***creditworthiness*** ranking indicator.

[20] Defined as Gross Operating Revenues – Debt Service.

[21] Total Ending Cash Balance – Financial Commitments. The calculated figure reflects the uncommitted cash portion of government equity in the LGAS. This is roughly equivalent to a sort of an annual financial reserve.

Table 2 below presents the SRE data used in the computation of the above indicators.

Table 2

Glossary and Composition of Indicator Variables
(Note: Variables defined in an earlier section will not be repeated)

Variable	Composition from E-SRE Data	DATA SOURCE
C.1 Revenue Indicators – Revenue Potential		
1. Total Revenue	Real Property Tax (General Fund + SEF) + Tax On Business + Other Taxes + Regulatory Fees (Permits And Licenses) + Service/User Charges (Service Income) + Receipts From Economic Enterprises (Business Income) + Other Receipts (Other General Income)+ Internal Revenue Allotment + Other Shares From National Tax Collection + Inter-Local Transfer + Extraordinary Receipts	SRE
2. Locally Sourced Revenue	Real Property Tax (General Fund) + Tax On Business + Other Taxes + Regulatory Fees (Permits And Licenses) + Service/User Charges (Service Income) + Receipts From Economic Enterprises (Business Income)	SRE
C.1 Revenue Indicators – Revenue Stability And Reliability		
3. Locally Sourced Revenue	Real Property Tax (General Fund) + Tax On Business + Other Taxes + Regulatory Fees (Permits And Licenses) + Service/User Charges (Service Income) + Receipts From Economic Enterprises (Business Income)	SRE
4. Special Education Fund (SEF)	Special Education Fund (SEF)	SRE
5. Population	Census Population	PSA
6. Annual Regular Income[22]	Real Property Tax (General Fund) + Tax On Business + Other Taxes + Regulatory Fees (Permits And Licenses) + Service/User Charges (Service Income) + Receipts From Economic Enterprises (Business Income) + Internal Revenue Allotment (Current Year) + Other Shares From National Tax Collection + Interest Income	SRE
C.1 Revenue Indicators – Revenue Mobilization Efficiency		
7. Total Revenue Office Operations Cost	PS and MOOE of the LGU's Assessor's Office + PS and MOOE of LGU's Treasurer's Office	SOE
8. Actual Real Property Tax (RPT) Collections	Real Property Tax Collection (General Fund + SEF)	SRE - QRPT
9. Targeted Real Property Tax (RPT) Collections	Real Property Tax Collectibles – Net of Restriction (General Fund + SEF)	QRRPA
C.2 Expenditure Indicators		
10. Total Expenditures	Total General Fund (GF), Special Education Fund (SEF) and Trust Fund (TF) Current Operating Expenditures (PS + MOOE + FE) + Total General Fund (GF), Special Education Fund (SEF) and	SRE

[22] Formerly Regular Revenues

Variable	Composition from E-SRE Data	DATA SOURCE
	Trust Fund (TF) Non-Operating Expenditures (Capital Outlay)	
11. Personal Services Expenditures General Fund	Personal Services Expenditures General Fund	SOE
12. Total Personal Services Expenditures	Personal Services Expenditures General Fund + Trust Fund + Special Education Fund (SEF)	SOE
13. Total Debt Service Expenditures	Debt Service (FE) (Interest Expense & Other Charges) + Debt Service (Principal Cost) (GF + TF + SEF)	SRE
14. Social Services Expenditures	Education, Culture & Sports/Manpower Development + Health, Nutrition & Population Control+ Labor And Employment + Housing And Community Development + Social Services And Social Welfare (GF + SEF + TF)	SRE
15. Economic Services Expenditures	Economic Services (GF + SEF + TF)	SRE
C.3 Debt And Investment Capacity Indicators		
16. Debt Service (GF)	Debt Service (Fe) (Interest Expense & Other Charges) + Debt Service (Principal Cost) (GF)	SRE
17. Gross Operating Surplus/Deficit	Net Operating Income/(Loss) From Current Operations + Debt Service(FE) (GF)	SRE
18. Total Outstanding Debt	Total Outstanding Debt	SRE
19. Total Net Assets	Total Assets (Net of Depreciation)	SRE – Fund Balance Composition
20. Capital Investment Expenditures	Capital/Investment Expenditures	SRE
C.4 Financial Management Capacity Indicators		
21. Net Operating Surplus/Deficit	Net Operating Income/(Loss) from Current Operations	SRE
22. Uncommitted Cash Balance	Amount Available For Appropriations/Operations	SRE – Fund Balance Composition

Table 3 summarizes all the indicators above and how the variables in Table 2 are used in the computation of the indicators.

Table 3. The New LGU Financial Performance Management Indicators

No.	Indicator	Formula	Definition	Benchmark	Concern Addressed
C.1. Revenue Indicators – reflect LGU revenue generation capacity.					
C.1.1 Revenue Potential					
1	Revenue Level	Total Revenues	Total Revenues as compared to the average value for the LGU income class to which the LGU belongs.	LGU revenue ≥ LGU income class average.	Also a creditworthiness ranking indicator. Used as evidence for the ***availability*** of an appropriate revenue level.
2	Revenue Growth	$\frac{(\text{Total Revenues}_{Yr1} - \text{Total Revenues}_{Yr0})}{\text{Total Revenue}_{Yr0}} \times 100$	Revenue Growth or the trend in revenue across time.	The average annual % increase in LGU revenues ≥ Annual inflation rate [23] + Annual population growth rate.[24]	Also a creditworthiness ranking indicator. Used as evidence of the sustainability of an appropriate revenue level.
C.1.2 Revenue Stability and Reliability					
3	Per Capita Locally-Sourced Revenue + SEF	$\frac{\text{Locally Sourced Revenue + SEF}}{\text{Population}}$	Amount of revenues under LGU control and oversight on a per capita basis.	Per capita locally sourced revenue + SEF ≥ average for the LGU income class to which the LGU belongs.	This is used as evidence of the degree of tax effort exerted by the LGU.

[23] Calculated as the average annual increase in the Gross Regional Domestic Product (GRDP) Implicit Price Index (1985=100) for the region to which the LGU belongs as published by the National Statistical Coordination Board (NSCB).

[24] Annual compound growth rate of the LGU population calculated from the formula $\mathbf{Pn = Po\ (1+r)^t}$ where Pt = population at year n, Po = base year population, t = number of years elapsed between the base year and year n, and r is the annual growth rate. The appropriate population levels may be taken from the National Statistical Office (NSO) PSA.

No.	Indicator	Formula	Definition	Benchmark	Concern Addressed
4	Per Capita Growth in Locally Sourced Revenue (LSR)	$\frac{(\text{LSR per Capita}_{Yr1} - \text{LSR per Capita}_{Yr0})}{\text{LSR per Capita}_{Yr0}} \times 100$	Growth in the amount of revenues under LGU control on a per capita basis.	Growth in locally sourced revenue per capita ≥ average for the LGU income class to which the LGU belongs.	Used as evidence of the degree of improvement of the tax effort exerted by the LGU.
5	% Locally Sourced Revenues to Total LGU Revenue	$\frac{\text{Locally Sourced Revenues}}{\text{Total Revenues}} \times 100$	The share of revenues that are under LGU control and results from local economic activity.	% Share of locally sourced revenue to total LGU revenue ≥ average share for the LGU income class to which the LGU belongs.	Also a ***creditworthiness*** ranking indicator and is used as evidence of the ***reliability*** of an appropriate revenue level.
6	% Annual Regular Income to Total Revenue	$\frac{\text{Annual Regular Income}}{\text{Total Revenues}} \times 100$	% Annual Regular Income to Total Revenue	% Share of recurring revenue to total LGU revenue ≥ average share for the LGU income class to which the LGU belongs.	Also a ***creditworthiness*** ranking indicator and is used as evidence of the ***predictability*** of an appropriate revenue level.
C.1.3 Revenue Mobilization Efficiency					
7	Ratio of Total Revenue Office Operations Cost to Locally Sourced Revenues + SEF Collected	$\frac{\text{TROOC}}{\text{LSR + SEF}} \times 100$	The full cost of collecting a peso of revenues.	TROOC ≤ average for the LGU income class to which the LGU belongs.	This reflects the full cost effectiveness of the local revenue generation efforts of the LGU. The cost of collecting taxes plus the cost of non-revenue collection operations of the revenue office can be considered highly indicative of the full cost effectiveness of the

No.	Indicator	Formula	Definition	Benchmark	Concern Addressed
					local revenue efforts the LGU.
8	Real Property Tax Accomplishment Rate (RPTAR)	$\frac{\text{Actual RPT Collections (General Fund + SEF)}}{\text{Targeted RPT Collections (General Fund + SEF)}} \times 100$	% of current RPT collected within the year to the total RPT due for the year as estimated from the assessed value of taxable real properties.[25]	80% of Total Current Collectibles and 35% Cumulative Five-Year Delinquencies	Also a ***creditworthiness*** ranking indicator and is used as evidence of the ***collection efficiency*** of the LGU
C.2 Expenditure Indicators – define the degree of flexibility that an LGU has to allocate resources for different purposes. The expenditure indicators distinguish between rigid or *compulsory* expenditures that cannot be avoided by the LGU and *discretionary* expenditures.					
9	Total Expenditures per Capita	$\frac{\text{Total Expenditures}}{\text{Population}}$	Average amount spent by the LGU per constituent.	Per capita total LGU expenditures ≥ average for the LGU income class to which the LGU belongs.	This is indicative of the amount of services extended by the LGU to its constituent on a per capita basis.
10	Personal Services Expenditures Ratio Codal (PSERC)	$\frac{\text{PSE General Fund}_t}{\text{ARI}_{t+1}[26]} \times 100$	The ratio of LGU expenditures for personal services in the General Fund to Annual Regular Income of the LGU in the next preceding fiscal year.	PSER ≤ 45% for 1st to 3rd income class LGUs and 55% for 4th or lower income class LGUs[27] and should exhibit a decreasing trend.	Also a ***creditworthiness*** ranking indicator and is regarded as the most rigid expenditure category for an LGU.
11	Total Personal	$\frac{\text{Total Personal Services Expenditures}}{} \times 100$	The ratio of LGU	PSERT ≤ average for the LGU income	Also a

[25] The real property tax is the major source of local revenues for most Philippine LGUs and also mirrors the local economy as the real property tax base (the value of existing properties) reflects the status of the local economy, especially in urban areas. As such, the collection efficiency for the real property tax largely mirrors the overall collection efficiency of the LGU. Many LGUs require a certificate of full payment of RPT before the issuance of a new or renewed business permit.

[26] Annual Regular Income in the next preceding fiscal year

[27] These are legal ceilings imposed under Section 325 (a) of the 1991 Local Government Code (LGC).

No.	Indicator	Formula	Definition	Benchmark	Concern Addressed
	Services Expenditure Ratio (TPSER)	Total Expenditures	expenditures for personal services to total LGU expenditures.	class to which the LGU belongs and should be decreasing.	***creditworthiness*** ranking indicator and is regarded as the most rigid expenditure category for an LGU.
12	Total Debt Service Expenditure Ratio (DSER)	Total Debt Service Expenditures x 100 Total Expenditures	The ratio of LGU total debt service[28] expenditures to LGU total expenditures	DSER ≤ average for the LGU income class to which the LGU belongs and should be decreasing.	Debt service is regarded as an equally rigid expenditure category for an LGU. Also a recommended ***creditworthiness*** ranking indicator.
13	Social Services Expenditure Ratio (SSER)	Social Services Expenditures x 100 Total Expenditures	The ratio of LGU social expenditures to total LGU expenditures	SSER ≥ average for the LGU income class to which the LGU belongs and should be increasing.	The level of LGU social expenditures has a high degree of relationship with poverty alleviation and improvement in the human development index.
14	Economic Services Expenditure Ratio (ESER)	Economic Services Expenditures x 100 Total Expenditures	The ratio of LGU economic expenditures to total LGU expenditures	ESER ≥ average for the LGU income class to which the LGU belongs and should be increasing.	The level of LGU economic expenditures also has a high degree of relationship with poverty alleviation and improvement in the human development index.
C.3 Debt and Investment Capacity Indicators – define the extent to which the LGU considers the importance of capital expenditures and local government capacity to attract long term financing for investments.					
15	Debt Service Ratio (DSR)	Debt Service Payments (GF) x 100 Annual Regular Income	The ratio of LGU expenditures for debt	DSR ≤ 20% of annual regular income and ratio should at least be stable if not	The debt service cap is a statutory limitation

[28] Debt Service = Interest + Loan Amortization.

No.	Indicator	Formula	Definition	Benchmark	Concern Addressed
			service to total LGU annual regular income.	decreasing across time	imposed under Section 324 of the 192 LGC. Also a recommended ***creditworthiness*** ranking indicator. This indicator defines the extent to which a local government could engage additional debt, taking into account the debt limits provided by the law. These limits give decision autonomy to the local government as long as the expenditures related with the debt service remain within the prudent acceptable limits.
16	Gross Operating Surplus (GF) to Debt Service Ratio (GF) (GOSDSR)	Gross Operating Surplus(Deficit) (GF) / Debt Service Payments (GF)	The ratio of LGU operating surplus[29] to debt service.	GOSDSR ≥ average for the LGU income class to which the LGU belongs and should be increasing.	The gross operating result represents the main and essential source that could be mobilized by the LGU in order to finance the public service infrastructure investments or the servicing of loans contracted for these

[29] Operating Surplus = Operating Revenues - Operating Expenditures.

No.	Indicator	Formula	Definition	Benchmark	Concern Addressed
					purposes. This is also a ***creditworthiness*** ranking indicator.
17	Debt to Net Asset Ratio *(DNAR)*	Total Outstanding Debt / Total Net Assets x 100	The ratio of an LGU's outstanding debt to its depreciated asset base.	DNAR should be ≤ 1 indicating that an LGU has a sufficient asset base to back up its debt.	This reflects the value at risk of lenders to a LGU in case of a default.
18	Capital Investment Expenditures to Total Revenues Ratio (CIETRR)	Capital Investment Expenditures / Total Revenues x 100	The % share of capital investment to total LGU revenues	CIETRR ≥ average for the LGU income class to which the LGU belongs and should be stable if not increasing.	Measures the extent to which the LGU considers the importance of capital expenditures. Also a ***creditworthiness*** ranking indicator.
19	Net Operating Surplus to Total LGU Revenue Ratio (NOSTRR)	Net Operating Surplus(Deficit) / Total Revenues x 100	The ratio of LGU net operating surplus to total LGU revenues. .	NOSTRR ≥ average for the LGU income class to which the LGU belongs and should be increasing in case of operating surpluses and decreasing in case of operating deficits.	This indicator shows the ability of the local governments to be sure their budget will be balanced. The NOSTRR is also a recommended ***financial management capacity*** indicator.
C.4 Financial Management Capacity Indicators – compare LGU revenues with LGU expenditures and define the extent to which the LGU implements an efficient financial resources management.					
20	Uncommitted Cash Balance to Total LGU Expenditure Ratio (UCBTER)	Uncommitted Cash Balance [30] / Total Expenditures x 100	The calculated figure reflects the uncommitted cash portion of government equity in the LGAS. This is roughly	UCBTER ≥ average for the LGU income class to which the LGU belongs and should be increasing.	Few LGUs explicitly provide for a financial reserve, and the nearest equivalent will be the uncommitted or free cash balance of

[30] Uncommitted Cash Balance = Total Ending Cash Balance – Financial Commitments.

No.	Indicator	Formula	Definition	Benchmark	Concern Addressed
			equivalent to a sort of an annual financial reserve.		LGUs. This indicator shows the ability of the LGU to ensure their budget will be balanced even in the face of financial uncertainties. Also a ***creditworthiness*** ranking indicator.

In order that the indicators can be used to categorize or classify LGUs based on the typology of Table 2, the indicators can also be regrouped in terms of Revenue Performance and Expenditure Performance. Thirteen (13) of the twenty (20) indicators are related to revenue (financial) resources mobilization while seven (7) of the twenty (20) indicators are related to expenditure. Table 4 below categories and summarizes these indicators:

Table 4:
Summary of LGU Financial Performance Indicators Based on Revenue Performance and Expenditure Performance - New LGFPMS Indicators

Revenue Performance (13)		**Expenditure Performance (7)**	
Indicator Number	**Indicator Description**	**Indicator Number**	**Indicator Description**
1	Revenue Level	9	Total expenditure per capita
2	Revenue Growth	10	Personal Services Expenditure Ratio Codal (PSERC)
3	Per Capita Locally-Sourced Revenue + SEF	11	Total Personal Services Expenditure Ratio (TPSER)
4	Growth in Per Capita Locally-Sourced Revenue	12	Total Debt Service Expenditure Ratio (DSER)
5	% Locally-Sourced Revenue to Total LGU Revenue	13	Social Services Expenditure Ratio (SSER)
6	% Annual Regular Income to Total LGU Revenue	14	Economic Services Expenditure Ratio (ESER)
7	Ratio of Total Revenue Office Operations Cost to Total Revenues Collected (TROOC) for Provinces (P), Cities (C), or Municipalities (M).	18	Capital Investment Expenditures to Total LGU Revenue Ratio (CIETRR)
8	Real Property Tax Accomplishment Rate (RPTAR)		
15	Debt Service Ratio (DSR)		
16	Gross Operating Surplus to Debt Service Ratio (GOSDSR)		
17	Debt to Net Asset Ratio (DNAR)		
19	Net Operating Surplus to Total Revenue Ratio (NOSTRR)		
20	Uncommitted Cash Balance to Total Expenditure Ratio (UCBTER)		

D. An Integrated Framework for LGU Comparative Performance Assessment

The overall comparative performance assessment of LGUs should be based on a ***combination*** of parameters linked to ***service delivery*** and ***financial performance***. Thus, the need to effectively link the data and analytical results of the financial assessment systems being developed by BLGF — income classification scheme for LGUs, fiscal performance monitoring indicators, and debt certification and credit rating system — to the Local Governance Performance Management System (LGPMS) of the Department of Interior and Local Government (DILG).

Figure 1 presents a framework that could provide, through the proper integration of BLGF's financial performance assessment results into DILG's LGPMS, a more complete assessment of LGU performance.

The framework is made up of three (3) major components — i). LGU income classification, ii) LGU financial performance assessment, and iii) overall LGU performance assessment.

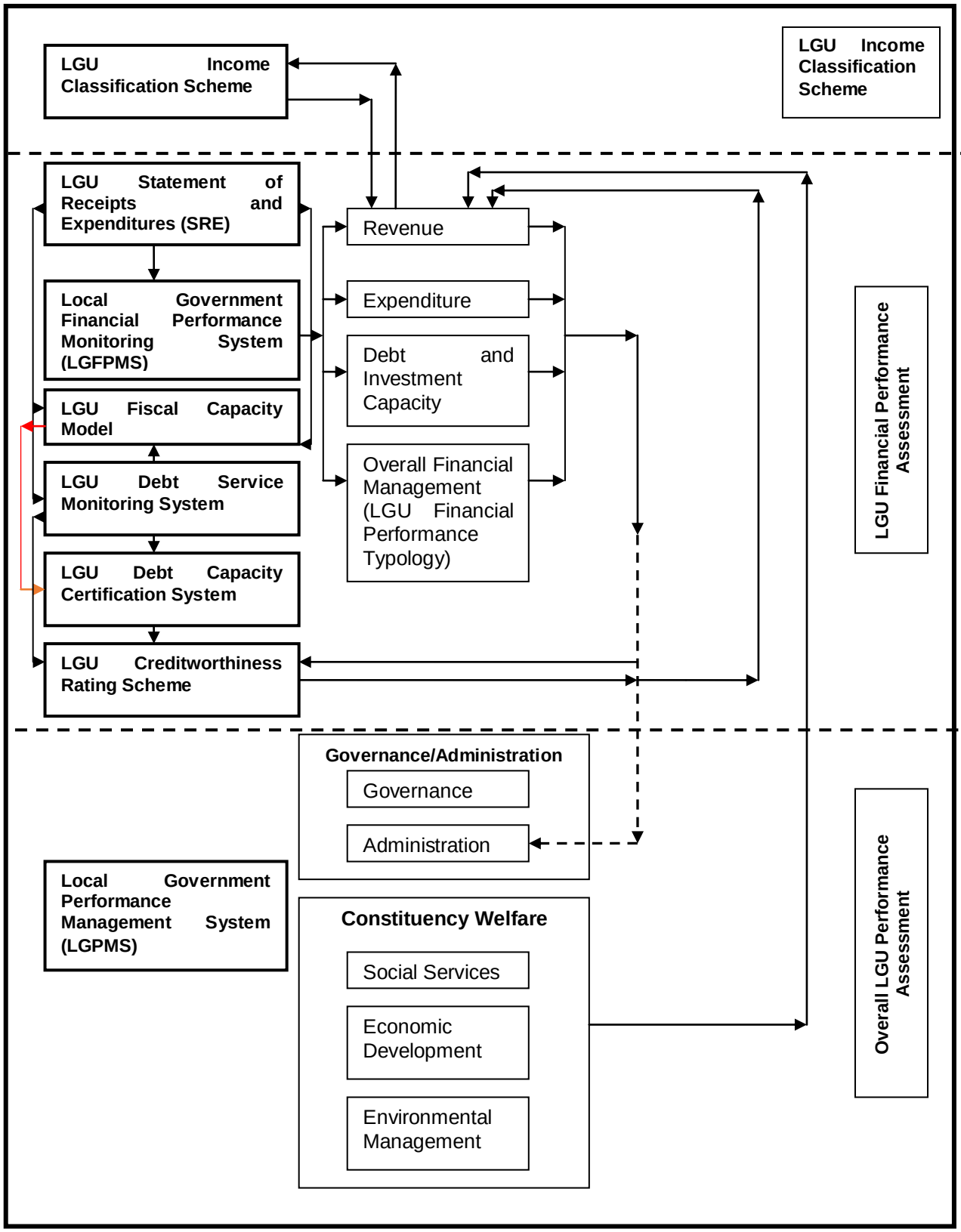
The LGU ***income classification*** component "***pre-sorts***" LGUs by ***political level*** and by ***income class*** to make the application of the performance measures "fair and meaningful" as stressed by BLGF. The pre-sorting system will be the ***income classification scheme*** for LGUs that is currently in use.

The ***financial performance*** component of the LGFPMS "***statically***"[31] assesses LGU's fiscal performance vis-à-vis benchmarks for each of the fiscal performance indicators appropriate for each political level and corresponding income classes within each political level.

Parallel to the fiscal performance indicator assessment is the fiscal capacity assessment using the fiscal capacity model that develops a ***prognosis across time*** into the future of the ***potential*** fiscal performance of the LGU.

[31] At a single point in time rather than across a time interval.

Figure 1. Integrating Framework for LGU Income Classification, Financial Performance (LGFPMS), Debt Monitoring, Credit Rating and Service Delivery (LGPMS), Indicators



Prospectively, the results of both static ***fiscal indicator analysis*** and ***fiscal capacity projections*** can be combined and could serve as the ***bases*** for the ***LGU debt capacity certification*** and the ***LGU creditworthiness rating***.

- The fiscal capacity projections could provide an estimate of what the LGU ***can borrow***[32], and this is what is traditionally certified by BLGF.

- Utilizing a set of creditworthiness ranking indicators derived directly from the fiscal performance indicators or computed from the SRE data, the creditworthiness rating system will assess the appropriate LGU ***creditworthiness rating*** — best, high, good, medium, below medium and speculative. This will then be translated into a set of ***recommended proportions*** of the maximum borrowing capacity as determined by the fiscal capacity projections.

- Applying the appropriate proportion on the LGU maximum borrowing capacity will yield what the LGU ***should borrow***. This is what will be recommended and certified by the BLGF as the ***debt capacity*** of the LGU.

The current analytical components — LGU income classification, LGU financial performance and LGU creditworthiness rating scheme — and the LGU debt monitoring component, largely depend on the SRE as the key data source. Its data capture will provide the data for the fiscal capacity model, the LGFPMS, the debt monitoring system, the creditworthiness rating system, and the debt certification process.

The SRE is compatible with the Commission on Audit (COA)'s Local Government Accounting System (LGAS) and partly compliant with the system being promoted by International Monetary Fund (IMF)'s Government Financial Statistics Manual (GFSM).

Figure 2 shows the interrelationship between the LGFPMS, the SRE, the LGU Fiscal Capacity Model and the LGU Creditworthiness Rating System in the LGU Debt Capacity Certification Process.

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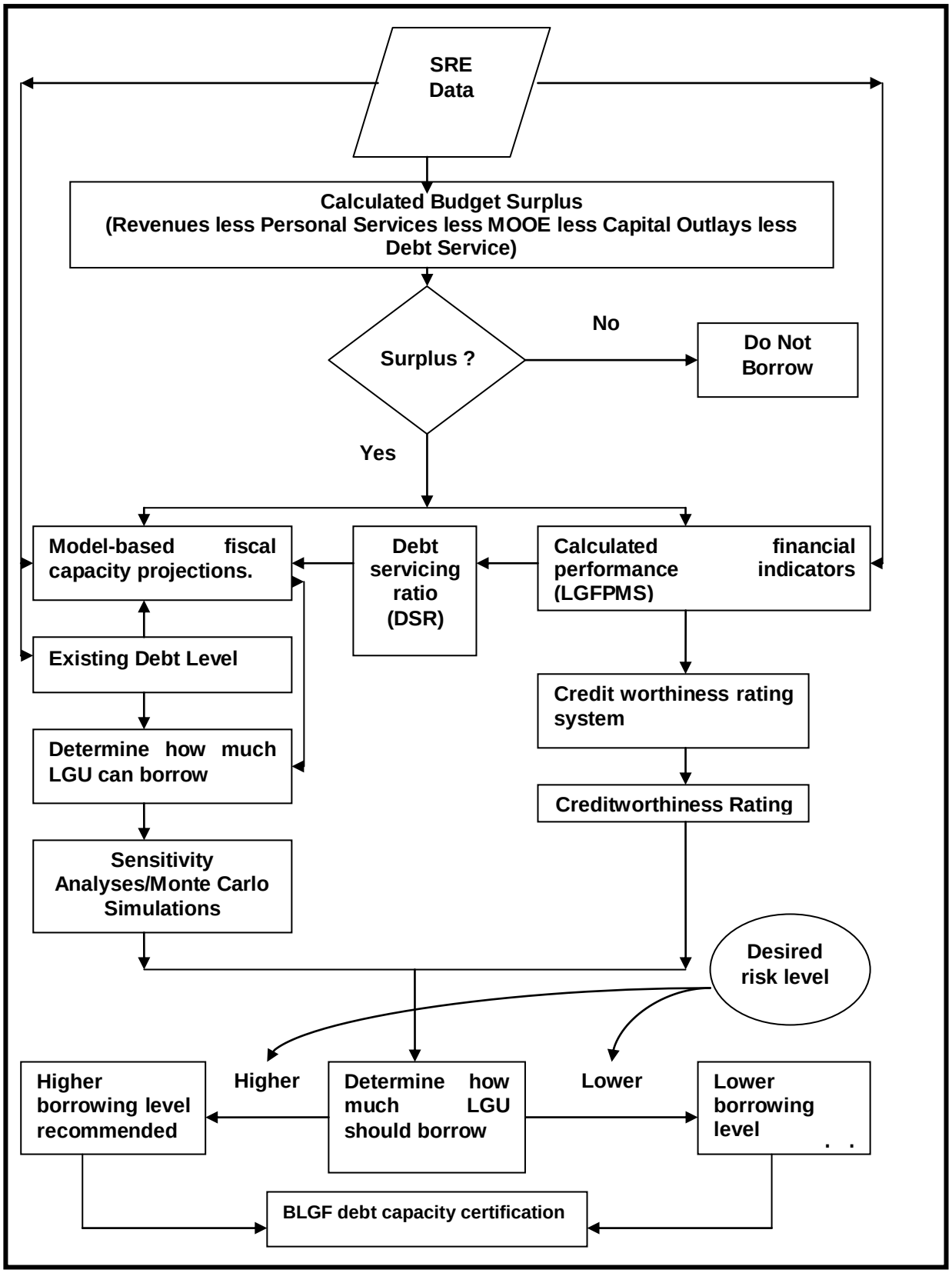
[32] Net of the existing LGU debt level as reported by the debt monitoring system.

Figure 2. Interrelationship between LGFPMS, the SRE, the LGU Fiscal Capacity Model, and the LGU Creditworthiness Rating System in the LGU Debt Capacity Certification Process



The fiscal capacity model legally bounded by the 20% debt service cap will generate the estimates of "what the LGU can borrow" or its maximum borrowing capacity. Such estimates can be subjected to ***sensitivity analyses***[33] or to a more comprehensive "***Monte Carlo***" risk simulation[34] to establish the ***statistical reliability*** of the estimates, particularly the ***confidence intervals*** or the most probable maximum and minimum estimates.

Using the financial performance indicators generated by the LGFPMS along with related data from the SRE, the creditworthiness of the LGU will be scored.

Depending on the ***desired risk*** level of BLGF, the BLGF can then attach ***equivalent % value*** of maximum borrowing capacity to each creditworthiness rating. Table 5 provides an illustrative example.

Table 5. LGU Creditworthiness Rating Scales and Illustrative % of Maximum Borrowing Capacity Equivalent

Score	Rating	Equivalent % of Maximum Borrowing Capacity
81-100	AAA – Best Quality	100
71-80	AA – High Quality	90
61-70	A – Good Quality	80
51-60	BBB – Medium Grade	70
45-50	BB – Below Medium	60
< 45	B – Speculative	50

The appropriate % value equivalent to the LGU's creditworthiness score can then be applied to the LGU's maximum borrowing capacity.

[33] Sensitivity analysis is a type of "what if analysis". What-if scenarios are usually based on the range estimates, and calculate as many scenarios as you can think of, i. e., if GDP grows between 4 to 5%. This is extremely time consuming, and results in lots of data, but still doesn't give you the categorical probability of achieving different outcomes, i. e., probability that the LGU maximum borrowing capacity could range from Php 100 to 150 million.

[34] Monte Carlo simulation was named after Monte Carlo, Monaco, where the primary attractions are casinos containing games of chance. Games of chance such as roulette wheels, dice, and slot machines exhibit random behavior. The random behavior in games of chance is similar to how Monte Carlo simulation selects variable values at random to simulate a model. When you roll a die, you know that either a 1, 2, 3, 4, 5, or 6 will come up, but you don't know which for any particular trial. It is the same with the variables that have a known range of values but an uncertain value for any particular time or event (e.g., interest rates, GDP growth, money supply, etc.) For each variable, you define the possible values with a probability distribution. The type of distribution you select depends on the conditions surrounding the variable. For example, some common distribution types are: During a Monte Carlo simulation, the value to use for each variable is selected randomly from the defined possibilities. The simulations are repeated so many times, often at least a thousand times to determine the probability distribution of the variable being forecast.

E. Operationalizing LGU Financial Performance Typology Rating Scheme

The basic premise in combining the financial performance indicators with the service delivery indicators is that ***improved LGU financial performance*** is not the goal per se but should be translated to ***improved constituency welfare*** via ***improved service delivery***.

LGUs may thus be grouped into four (4) basic types as shown in Table 6.

Table 6. LGU Performance Typology

Type 3: Poor revenue Good expenditure	**Type 1**: Good revenue Good expenditure
Type 4: Poor revenue Poor expenditure	**Type 2**: Good revenue Poor expenditure

- Comparisons will be made across LGU types – province, cities and municipalities and across LGU income classes.
- Most LGU governance rating systems require at least 1/3 of the benchmarks must be attained for a good rating.
- Rating will be done for both revenue and expenditure performance:
    - Revenue performance – must meet benchmarks for LGFPMS indicators 2 and 5 plus at least 4 of the remaining 11 revenue performance indicators – 1,3,4,6,7,8,15,16, 17, 19 and 20 to be rated good. This means a total of 6 with 2 as "musts" out of the 13 revenue performance indicators must be passed by an LGU to attain a good revenue rating.
    - Expenditure performance – must meet benchmarks for LGFPMS indicators 9 and either 13 or 14 plus at least 1 of the remaining 4 expenditure performance indicators – 10,11, 12 and 18 to be rated good. Thus, a total of 3 with 2 as "musts" out of the 7 expenditure performance indicators must be passed by an LGU to attain a good expenditure allocation rating.
- In sum, an LGU will have to pass at least nine (9) out of the twenty (20) financial performance benchmarks with 4 indicators as "musts" to attain a good revenue plus good expenditure rating.

- Given the score, the BLGF will classify LGUs according to the four (4) financial performance types can be seen in Table 6.

- Figures 3, 4 and 5 present the sample input template, sample results template, and sample reportorial format, respectively.

Figure 3: Sample Input Sheet

LGU Rating Sheet							
Region		Region X					
Name/Type		Province A			Income Class	1st	
No.	Indicator	Benchmark	Actual Value	Benchmark Value	Pass Benchmark ?	Numeric Equivalent	Trend for the past 3 years
1	Revenue Level	LGU Revenue ≥LGU Income Class Average	100	90	True	1	Increasing (Decreasing) or Constant
2	Revenue Growth	The average annual % increase in LGU revenues ≥ Annual inflation rate + Annual population growth rate.	7.0%	6.5%	True	1	
3	Per Capita Locally-Sourced Revenue + SEF	Per capita locally sourced revenue + SEF ≥ average for the LGU income class to which the LGU belongs.	100	50	True	1	
4	Per Capita Growth in Locally Sourced Revenue (LSR)	Growth in locally sourced revenue per capita ≥ average for the LGU income class to which the LGU belongs.	2.0%	3.0%	False	0	
5	% Locally Sourced Revenues to Total LGU Revenue	% Share of locally sourced revenue to total LGU revenue ≥ average share for the LGU income class to which the LGU belongs.	65.0%	60.0%	True	1	
6	% Annual Regular Income to Total Revenue	% Share of recurring revenue to total LGU revenue ≥ average share for the LGU income class to which the LGU belongs.	50.0%	65.0%	False	0	
7	Ratio of Total Revenue Office Operations Cost to Locally Sourced Revenues + SEF Collected	TROOC ≤ average for the LGU income class to which the LGU belongs	0.35	0.30	True	1	
8	Real Property Tax Accomplishment Rate (RPTAR)	RPTAR ≥ 100%	85.0%	90.0%	False	0	

LGU Rating Sheet							
Region		Region X					
Name/Type		Province A			Income Class	1st	
No.	Indicator	Benchmark	Actual Value	Benchmark Value	Pass Benchmark ?	Numeric Equivalent	Trend for the past 3 years
9	Total Expenditures per Capita	Per capita total LGU expenditures ≥ average for the LGU income class to which the LGU belongs.	100	90	True	1	
10	Personal Services Expenditures Ratio Codal (PSERC)	PSER ≤ 45% for 1st to 3rd class LGUs and 55% to 4th or lower class LGUs and should exhibit a decreasing trend.	40%	45%	True	1	
11	Total Personal Services Expenditure Ratio (PSERT)	PSERT ≤ average for the LGU income class to which the LGU belongs and should be decreasing.	45%	45%	True	1	
12	Total Debt Service Expenditure Ratio (DSER)	DSER ≤ average for the LGU income class to which the LGU belongs and should be decreasing.	0.10	0.15	True	1	
13	Social Services Expenditure Ratio (SER)	SSER ≥ average for the LGU income class to which the LGU belongs and should be increasing.	35.0%	30.0%	True	1	
14	Economic Services Expenditure Ratio (EER)	ESER ≥ average for the LGU income class to which the LGU belongs and should be increasing.	25.0%	20.0%	True	1	
15	Debt Service Ratio (DSR)	DSR ≤ 20% of annual regular income and ratio should at least be stable if not decreasing across time	18.0%	20.0%	True	1	
16	Gross Operating Surplus (GF) to Debt Service Ratio (GF) (GOSDSR)	GOSDSR ≥ average for the LGU income class to which the LGU belongs and	0.10	0.15	False	0	

LGU Rating Sheet							
Region		Region X					
Name/Type		Province A			Income Class	1st	
No.	Indicator	Benchmark	Actual Value	Benchmark Value	Pass Benchmark ?	Numeric Equivalent	Trend for the past 3 years
		should be increasing.					
17	Debt to Net Asset Ratio *(DNAR)*	DNAR should be ≤ 1 indicating that an LGU has a sufficient asset base to back up its debt.	0.50	1.0	True	1	
18	Capital Investment Expenditures to Total Revenues Ratio (CIETRR)	CIETRR ≥ average for the LGU income class to which the LGU belongs and should be stable if not increasing.	8.0%	15.0%	False	0	
19	Net Operating Surplus to Total LGU Revenue Ratio (NOSTRR)	NOSTRR ≥ average for the LGU income class to which the LGU belongs and should be increasing in case of operating surpluses and decreasing in case of operating deficits.					
20	Uncommitted Cash Balance to Total LGU Expenditure Ratio (UCBTER)	UCBTER ≥ average for the LGU income class to which the LGU belongs and should be increasing.					

Instructions	
1	Only fill up yellow shaded boxes. DO NOT CHANGE THE VALUES IN OTHER BOXES.
2	Both Actual and Benchmark values will be computed by the E-SRE.
3	The boxes formatted as % should be entered as percentages.
4	Trends for the past 3 years are to be noted for each of the indicators.

Figure 4: Sample Results Template

LGU Financial Performance Rating Results					
Region	**Region X**				
Name/Type	**Province A**		**Income Class**		**1st**
Concern	**Indicator**	**Indicator 2**	**Indicator 5**	**Overall**	**Numeric Equivalent**
Revenue Performance	Must indicators(2 & 5)	True	True	True	1
	Substitutable indicators (1,3,4,6,7,8,15,16, 17, 19 and 20)	True		True	1
Overall Revenue Performance					**Good**
	Indicator	**Indicator 9**	**Indicator 13 or 14**	**Overall**	**Numeric Equivalent**
Expenditure Performance	Must indicators (9 & 13 or 14)	True	True	True	1
	Substitutable indicators (10,11, 12 and 18)	False		False	0
Overall Expenditure Performance					**Poor**
Overall Typology of LGU Financial Performance					
LGU Financial Performance Type	**Type 1: Poor Revenue, Good Expenditure**				**False**
	Type 2: Good Revenue, Good Expenditure				**False**
	Type 3: Poor Revenue, Poor Expenditure				**False**
	Type 4: Good Revenue, Poor Expenditure				**True**
Instructions					
Automatically generate based on the inputs entered in the Input Sheet.					
Changes in the formula should reflect changes in the rating criteria.					

Figure 5: Sample Regional Tabular Reportorial Format

Region				
LGU Type	Province	City	Municipality	All Rated LGUs
Total No. of reporting LGUS	0	0	0	0
Revenue Performance Rating				
No. of LGUs rated "Good"				0
No. of LGUs rated "Poor"				0
Expenditure Performance Rating				
No. of LGUs rated "Good"				0
No. of LGUs rated "Poor"				0
Overall LGU Financial Performance Type				
No. of Type 1 LGUs: Poor Revenue Good Expenditure				0
No. of Type 2 LGUs: Good Revenue Good Expenditure				0
No. of Type 3 LGUs: Poor Revenue Poor Expenditure				0
No. of Type 4 LGUs: Good Revenue Poor Expenditure				0
Instructions				
Fill up yellow boxes with the appropriate region and appropriate number of LGUs.				

BLGF CENTRAL OFFICE DIRECTORS

ATTY. SALVADOR M. DEL CASTILLO
OIC – EXECUTIVE DIRECTOR

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Deputy Executive Director for Operations

ATTY. FLOSIE F. FANLO-TAYAG, CESO IV
Deputy Executive Director for Administration

ARMI M. ADVINCULA
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DIVINA M. CORPUZ
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BLGF Regional Directors	
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Region I	**MR. PETER PAUL D. BALUYAN** Regional Director
Region II	**MS. TESSIE S. MANGACCAT** ICO-Regional Director
Region III	**MS. LUNINGNING R. LLANTO** ICO-Regional Director
Region IV-A	**MR. EDUARDO L. DEL ROSARIO,CSEE CEO VI** Regional Director
Region IV-B	**MR. EDUARDO L. DEL ROSARIO, CSEE CEO VI** OIC-Regional Director
Region V	**MR. FLORENCIO C. DIÑO II** OIC-Regional Director
Region VI	**MS. REMA E. CALDERON** ICO-Regional Director
Region VII	**MS. HERMINIGILDA G. GARSULA** ICO- Regional Director
Region VIII	**MS. TERESITA S. ATUEL** ICO-Regional Director
Region IX	**MS. PATRICIA M. MAR** ICO-Regional Director
Region X	**MR. GILBERT B. GUMABAY** OIC-Regional Director
Region XI	**MS. AIDA D. ABREGANA** ICO-Regional Director
Region XII	**MR. DATU ABOUZEID SINSUAT** ICO-Regional Director
Region XIII	**MS. CARMELANE G. TUGAS** ICO-Regional Director

Support to the Local Government Units for More Effective and Accountable Public Financial Management (LGU PFM 2 Project)

This Project is funded by the European Union and implemented by the Government of the Philippines