LOCAL FISCAL ADMINISTRATION AFTER DECENTRALIZATION:
REVENUE AND EXPENDITURE ANALYSIS OF THE MUNICIPALITIES
IN THE PROVINCE OF ILOILO

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ABSTRACT

This is the concluding chapter of the study and presents a summary of findings, conclusions and recommendations.

The Research Problem

The purpose of the study was to analyze the income and expenditures of the municipalities in the Province of Iloilo in relation to their income enhancement measures and characteristics, such as income class, distance from Iloilo City, land area, population and political configuration.

Summary of the Findings

Half of the municipalities belong to second and third income class, while the other half also belong to fourth and fifth income class. Most of the municipalities had concentrated political configuration. Majority of the municipalities had land area of 100 square kilometers or less and the mean land area is 105.34 square kilometers. The average distance from Iloilo City is 54.21 kilometers and majority of the municipalities are 50 kilometers or less away from the city. Slightly more than half had population of more than 30,000, while slightly less than one half had less than 30,000 population.
Over a nine year period, the mean income constantly increased in absolute amount. Regardless of year, the external income was still the major source of income.

Among the internally generated income of the municipalities, real property tax was still the biggest contributor, followed by receipts from economic enterprise and business tax.

All municipalities had implemented tax information campaign, issuance of demand letter to delinquent taxpayers and enforcement of civil and administrative remedies in order to enhance their income, while majority were able to examine books of accounts, amend municipal revenue code, and establish revenue data bank. Less than half of the municipalities were able to establish revenue data bank, execute billing thru barangay, establish one stop shop, monitor large corporations, conduct field collection and formulate investment incentive code. This supports the findings of Loehr and Manasan (1999) that only few LGUs have fully exploited their own sources of revenues, yet all face hard budget constraints.

Over the nine year period, the mean expenditures of municipalities constantly increased in absolute amount. Administrative service expenditures formed the bulk of expenditures, while economic and social services respectively accounted for only a small percentage.

The data reveal that total income differ when municipalities are classified based on distance from Iloilo City, income class, population, but it did not differ according to land area and political configuration of the municipalities. Regardless of the size of land area of the municipalities, and its political configuration, the total income is not affected.
The data further reveal that there is significant difference in external income when municipalities are categorized according to land area, income class and population, but there is no difference in external income when municipalities are grouped according to distance from Iloilo City and political configuration.

A relationship exists between income class of municipalities and the internal income. Also, internal income is related to population size of municipalities, but no relationship is observed when municipalities are grouped according to distance from Iloilo City, land area, and political configuration.

Similarly, total expenditures in administrative services, economic services and social services differ when grouped according to income class and population size. No relationship is observed when grouped based on land area, distance from Iloilo City and political configuration.

The income enhancement measures implemented by the municipalities are significantly related to total income and external income but not with internal income. The total income and external income of municipalities will be higher when municipalities implement more income enhancement measures. However, income enhancement measures do not have bearing on the internal income of municipalities.

On the other hand, expenditures differ according to income enhancement measures adopted.

The result of the study also show that income and expenditure are significantly related to each other.
Conclusions

Based on the findings of the study, the following conclusions are drawn.

1. The municipalities' total income is affected by its income class, population and land area. Municipalities with bigger population and larger land area can expect higher total income compared to those with lesser population and smaller land area. Obviously, municipalities that belong to higher income bracket can expect bigger amount of total income.

2. The municipalities' internal income is influenced by its income class and population. Since the data show that internal income is affected by population size, it is expected that the more inhabitants a municipality had, the higher internal income can be generated. However, the municipalities land area, distance from Iloilo City and political configuration has no bearing on the amount of internal income of municipalities. Hence, the internal income is not expected to change regardless of the measurement of the area of municipalities, its location from the city, and political configuration,

3. The municipalities' income class, land area and population have bearing on its external income. Municipalities with higher income class, larger land area and bigger population can expect to receive higher external income compared to other municipalities. It should be remembered that the determination of IRA share per municipality is based on population, and land area. Hence, the amount municipalities expect to receive each year from IRA share is dependent on population and land area.

4. The lion share of the total expenditure had been tied up in administrative services, meanwhile the growth for social and economic services, respectively remain modest proved that LGUs cannot provide basic social service as much as they expected.
5. The total expenditure is affected by the municipalities’ income class, and population which imply that higher income class and bigger population size will result to bigger amounts of total expenditures.

6. The data show that municipalities’ location, size, and political configuration, do not have bearing on the total expenditures spent by municipalities. Hence, municipalities should spend on administrative service, social service and economic service not on the basis of the municipalities’ size, location and political configuration, rather it should be in accordance with what the Local Government Code mandates the LGUs to perform.

7. The expenditure for administrative services, social services and economic service differ when municipalities are grouped according to income class and population. Hence, the more inhabitants municipalities have imply higher expenditure spent on administrative service, social service and economic service, respectively.

8. The fact that only three income enhancement measures were implemented by all municipalities, while most of the income enhancement measures were practiced by only few municipalities in the province of Iloilo confirms the observations made in various studies that LGUs did not maximize their efforts for revenue generation, hence, failed to strengthen their earning capacity.

9. The income enhancement measures have effect on the total income and external income of municipalities. Consequently, the study show that municipalities in the province of Iloilo were not able to utilize the powers granted by the Local Government Code.
10. Surprisingly, the income enhancement measures have effects on the total expenditures, administrative service, economic service and social services.

11. The income and expenditures are highly dependent on each other. This is in adherence to the provisions of the Local Government Code which mandates that local governments shall formulate sound financial plans, and shall endeavor to have a balanced budget in each fiscal year of operation. No expenditure shall be obligated unless supported by corresponding availability of funds.

**Recommendations**

In the light of the findings and conclusions of this study, the following recommendations are presented.

1. The fact that internal income account for a small percentage of the total income, local legislators should review the Municipal Revenue Code to improve locally generated income. The Local Sanggunian must ensure that the ordinance cover all tax bases present in the LGU and contain detailed administrative provisions for its implementation. The ordinance should comply with all legal and procedural requirements in its enactment.

2. While tax on sand, gravel and quarry resources belong to the domain of provincial governments, yet, the proceeds are shared with municipalities at 30 percent and barangays at 40 percent, respectively. It is recommended that municipalities perform close monitoring on compliance with rules and regulations related to removal and disposition of sand, gravel and other quarry products.

3. To improve efficiency for collection of business taxes, it is recommended that municipalities study the applicability and replicability of notable practices shared by
some cities. Among the measures which are recommended for replication are: use of presumptive income levels in validating sales declared by taxpayers; conduct business tax mapping and establish revenue data bank; conduct regular census and listing of taxpayers; educate and inform taxpayers to be more tax conscious; enforcement of administrative action; closely monitoring of large taxpayers; issuance and posting of official receipt; and require submission of certified income tax return copy.

4. The proceeds of community tax collected by municipal treasurer entirely accrues to the municipality. Hence, it is recommended that municipalities should request other government agencies like BIR, SSS, GSIS, LTO to show proof of payment of community tax before servicing clients.

5. The fact that the income enhancement measures have effect on the total income and external income of municipalities, the local fiscal officers should set guidelines for the effective implementation of Section 171 of R.A.7160 which provides for the “examination of books of accounts and pertinent records of business establishments by provincial, city and municipal and other related aspect of tax enforcement and collection”.

6. Policy makers should use the financial information in preparing plans for the succeeding years. The present practice is that the budget is prepared on annual basis. Preparing a 3-5 years financial plan is also recommended to project resources needed to carry out tasks and meet financial goals. The quantitative data on the financial performance of LGU concerned will serve as basis whether fiscal decentralization has achieved its purpose. This may likewise reveal insight to aspects which may require
improvements, enrichments, and modification from which policy makers can formulate future plans or actions for effective implementation.

7. From the standpoint of fiscal discipline, the expenditure for administrative services should be inspected in detail, and establish well defined public finance rules and mechanism in personnel expenditure. A standard model reflecting suitable number and salary level of human resources for each LGU should be developed according to the scale of LGUs and types of services. To date, many municipalities still exceeds the ceiling imposed on personnel services.

8. The expenditure goal of each LGU should be clarified during budget hearing such that allocation for economic and social services be given importance considering that the goals of decentralization is economic and social development.

9. Capability building for fiscal officers should be promoted to improve financial management in the local government units. One of the means to develop financial capacity in LGUs is making a public finance manual that will guide in the development of data collection and management system. It is hoped that the data is gathered sufficiently and properly at the local level and managed systematically at national level.

10. The provision of appropriate positions, requirement of qualified personnel, and arrangement for training is indispensable in revenue mobilization work. Hence, LGUs should provide adequate and competent personnel.

11. It is also recommended to popularize the use of Local Government Performance Management System as an evaluation tool especially on the areas of development planning, revenue generation, resource allocation and utilization, and financial accountability.
12. While it is not mandatory and usual practice of the LGUs, it is recommended that the local finance committee of the respective municipality should institutionalize the practice of analyzing the income and expenditure to guide them in decision-making. This will further promote transparency, accountability, responsiveness and participation which are the elements of good governance.

13. The academe which include public and private universities and research institutes could play an important role on persuading to improve fiscal administration practices through scholarly research on the field of local government administration and local finance management. Hence, related further studies on this field is highly recommended.

Amidst the significant pressures to implement local autonomy and decentralization which demand sufficient budget for local development, there are arguments on the means to generate revenue among LGUs. The Local Government Code provides LGUs with powers to efficiently collect revenues mandated under the code, however IRA dependency rate is still high. Henceforth, the continued struggle for self sufficiency and fiscal sustainability of LGUs.