

# Fiscal sustainability of the proposed Bicol Autonomous Region in the Philippines

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## ABSTRACT

Region V, also known as the Bicol Region, is one of the seventeen regions in the Philippines. An organization in the region known as the Bicol Autonomy Movement claims that for a very long time its people have entrusted the region's destiny to the national government which had been perennially accused of poor governance, and relegated the region to social and economic oblivion. The movement asserts regional autonomy so that Region V can rise up from the bondage of poverty and neglect (Jimenez, 2006). This study examined the actual revenues of the cities, municipalities and provinces of the Bicol Region, and the actual and projected revenues from national taxes collected locally through the Bureau of Internal Revenue. Then it proceeds with projected expenditures of setting up new governance structures for the Bicol Autonomous Regional Government, separate and distinct from existing expenditures of local government units. As an ending note, the paper brings forward some points that may be considered by the Bicol Autonomy Movement in terms of fiscal sustainability.

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## Introduction

The Bicol Region, also known as Region V, is geographically situated as a bridge between the northern and southern parts of the Luzon group of islands (Jimenez, 2012). It has abundant natural resources, particularly geothermal energy. It hosts two of the country's major geothermal fields in the Tiwi and Bacon-Manito geothermal areas (National Power Corporation, 2006), which benefit the entire country particularly the metropolis, the National Capital Region (NCR). With its 215-megawatt proven reserve, the Tiwi geothermal can continue to generate power for about 25 years. Bacon-Manito has a proven reserve estimated at 165 megawatts likewise generating power for about 25 years (National Power Corporation, 2006). But out of the total 3,471 barangays in the region, there are 61 which are not energized yet.

Region V still remains among the poorest regions of the country, ranking sixth (National Statistical Coordination Board, 2013), and lined up with regions of Mindanao, making it the poorest region in Luzon. The Bicol Autonomy Movement believes that despite its abundant resources, Bicol remains very poor because of the current government set up where everything is controlled by the national government. It hopes to seek a meaningful change toward maximum benefits from the region's resources, high production, more effective services to the people, and better governance (Jimenez, 2012). This study examines the workings of tax collection and allocation to and from the national government and Bicol's local government units (LGUs). As a result of the study, the author submits specific recommendations that may be of use to the proponents of the Bicol Autonomous Region.

## Results and Discussion

The data presented herewith were taken from the Department of Budget and Management (2012) and the Bureau of Internal Revenue (2012).

### *Actual and Projected Revenues of the Bicol Region*

The following table shows the total receipts and expenditures of all local government units in the cities, municipalities and provinces of the Bicol Region in 2011. Receipts come from three sources, namely local, external, and loans. From local sources, revenues are either tax or non-tax. From external sources, there is the Internal Revenue Allotment (IRA), share from government owned and controlled corporations (GOCCs), other share from national tax collection, extraordinary receipts, inter-local transfers and capital/investment.

Table 1 shows that of the total receipts from local sources, 59% was from tax revenues, which corresponded to 41% coming from non-tax revenues. Moreover, the receipts from local sources in the amount of P1.337 billion implied that local sources contributed a very minimal 12% to the LGU coffers of Region V. On the other hand, the total receipts from external sources was P13.162 billion or a substantial 88%. Looking into the external sources, IRA comprised 99% which means that the other five types combined shared a negligible 1%. Table 1 shows that LGUs of Region V were extensively dependent on IRA as a source of revenue. IRA is the share that the LGUs of the Bicol Region receive from national tax collection. Table 1 further shows that in addition to the IRA of P13.010 billion, the Bicol LGUs received P103 million as share from GOCCs and P34.65 million other share from national tax collection, for a grand total of P13.148 billion worth of revenue download from the national government.

Under the present form of government in the Philippines, the Bureau of Internal Revenue (BIR) is mandated to collect all types of national taxes from all regional districts of the country. The BIR is an attached agency of the Department of Finance which forms part of the Executive Branch of the Government of the Republic of the Philippines.

**Table 1. Statement of receipts and expenditures, Bicol, 2011, in million pesos**

I. Receipts			Total
A. Receipts from Local Sources		1337	
1. Tax Revenues	783		
a. Real Property Tax	285		
b. Special Education Fund Tax	89		
c. Other Local Taxes	408		
2. Non-Tax Revenues	555		
a. Regulatory Fees	200		
b. Business and Service Income	191		
c. Other Income/Receipts	164		
B. Receipts from External Sources		13162	
1. IRA	13010		
2. Share from GOCCs	103		
3. Other Share from National Tax Collection	34.65		
a. Share from EVAT	0.15		
b. Share from National Wealth	34.50		
4. Extraordinary Receipts	1.71		
a. Grants and Donations	1.02		
b. Other Subsidy Income	0.69		
5. Inter-Local Transfers	12.03		
a. Subsidy from LGUs	0.43		
b. Subsidy from Other Funds	11.60		
6. Capital/Investment Receipts	0.36		
a. Gain on Sale of Assets	0.05		
b. Gain on Investments	0.31		
C. Receipts from Loans and Borrowings		1	
<b>Total Receipts</b>			<b>14500</b>
II. EXPENDITURES			
A. General Services	6814		
B. Economic Services	2757		
C. Social Services	2423		
D. Debt Services	470		
Total Expenditures		12464	
Cash Balance, 2011		2036	
Cash Balance, 2010		4875	
Total Cash Balance		6911	

In the Bicol Region, BIR collects national taxes through the Regional District Offices (RDO). All taxes then are remitted to the national government. These taxes include income, value added tax (VAT), percentage, excise and other taxes.

**Table 2. National taxes collected by the Bureau of Internal Revenue, Bicol, 2011, in million pesos**

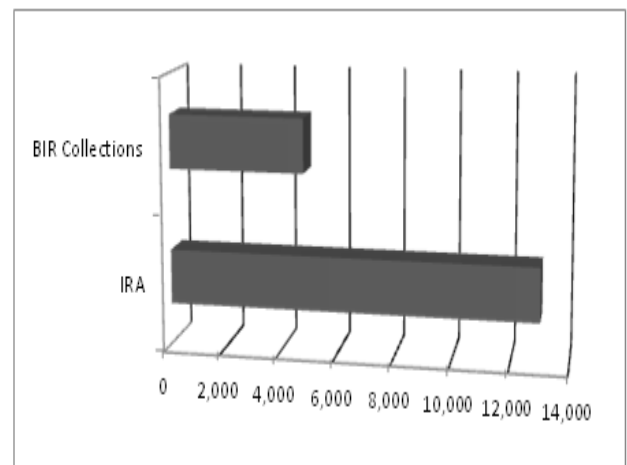
RDO	Income tax	VAT	Percentage tax	Excise tax	Others	Total
64	284	123	27	0.4	25	458
65	865	306	54	4.6	59	1288
66	184	109	29	0.3	14	336
67	1105	361	85	1.1	57	1610

68	270	91	22	2.1	17	402
69	164	66	9	0.8	12	252
70	320	112	10	0.7	11	454
Total	3193	1168	235	10	194	4,800

Source: Bureau of Internal Revenue (2012)

There are seven RDOs in Bicol, as follows: No. 64 located at Daet covering the province of Camarines Norte, No. 65 located at Naga City covering Districts 1,2 and 3 of Camarines Sur, No. 66 located at Iriga City covering Districts 4 and 5 of the same province, No. 67 at Legazpi City for Albay, No. 68 at Sorsogon City for Sorsogon, No. 69 located at Virac, Virac for Catanduanes, and No. 70 at Masbate City for Masbate Province (Bureau of Internal Revenue, 2012).

If Region V were autonomous, collections of the Bicol RDOs will not be remitted to the national government. Consequently, Region V will not receive IRA, share from GOCCs, and other share from national tax collection. Based on Table 2, the total national tax collections was about P4.8 billion. Based on Table 1, receipts from local sources was P1.337 billion, extraordinary receipts P1.71 million, inter-local transfers P12.03 million, capital receipts P0.36 million, and loans P1 million. The total of these amounts is P6.152 billion. Such amount is only 49% of the total public expenditures of Bicol LGUs amounting to P12.464 billion, as indicated in Table 1.



**Fig 1. BIR total collections and internal revenue allotment, Bicol, 2011, in million pesos**

Source: Bureau of Internal Revenue (2012)

Based on Figure 1, Region V received a total amount of about P13.148 billion from IRA, share from GOCCs and other share from national tax collection. Since the BIR RDOs in Bicol remitted P4.8 billion of national taxes, it can be initially concluded that the national government is subsidizing the LGUs of Bicol by about P8.35 billion.

#### **Governance Structures and Projected Expenditures of the Bicol Regional Government**

The budgetary requirements of the new Bicol Regional Government are of three categories: (1) initial governance structures; (2) annual regular expenditures; and (3) special programs and projects. This paper starts with the first category based on the study of the Center for Local and Regional Governance (CLRG, 2011) and proceeds to the two other categories using the budget allocation for the Autonomous Region of Muslim Mindanao (ARMM) under the 2011 General Appropriations Act of the Republic of the Philippines.

As provided in the Charter of the Bicol Autonomous Region (2006), the new governance structure to be established will be the Bicol Regional Government. The permanent seat of this government shall be in Legazpi City, Albay. The powers of which shall be distributed to the following branches: (1) Executive: The Office of the Regional Governor; (2) Legislature: The Regional Legislative Assembly; and (3) Judiciary: The Regional Appellate Court.

#### ***Initial Governance Structures***

For the expenditures in setting up the structures of the Bicol Regional Government, the first assumption is that the Executive Department will require a new building with its own set of personnel, maintenance and other operating expenses, and capital outlay.

The estimation of expenditures is done under the assumption that the Bicol Regional Government will primarily supervise and coordinate the six provinces which maintain current level of independence and governance functions. This paper used the recent estimates made by the University of the Philippine Center for Local and Regional Governance in the projected expenses of setting up a new province in Camarines Sur. The UP study revealed that the bare minimum requirements to set up a new Camarines province would be around P280 million. Another P465 million will be needed to cover administrative expenses in 2012 alone – P297.4 million for Personal Services, P161.05 million for Maintenance and Other Operating Expenses, and P6.3 million for Capital Outlay. These figures may be sufficient under the assumption that the Executive Department shall focus more on supervising the six provinces rather than each of the cities and municipalities of Region V.

This paper anticipates that the Regional Development Council under the Regional Development Authority (currently the National Economic Development Authority) shall form part of the major structures of the Executive Department that will take charge of its development agenda. RDC – V coordinates 24 regional agencies and 8 state colleges and universities in the region. This paper likewise hopes that the RDC – V maintains its current composition, with its budget allocation and expenditures, with possible minor changes depending on the decisions of the Bicol Regional Government. The personnel and facilities currently assigned to RDC shall be under the control and management of the regional government and may be adjusted to meet initial requirements on Personal Services, Maintenance and Other Operating Expenses and Capital Outlay.

The Executive Department shall include the existing structures that are to be devolved from the control of the national government into the auspices of the Bicol Regional Government such as the Departments of Agrarian Reform, Agriculture, Education, Environment and Natural Resources, Health, Interior and Local Government, Labor and Employment, Public Works and Highways, Science and Technology, Social Welfare and Development, Tourism, Trade and Industry, Transportation and Communication, among others. All these agencies currently under the national government shall provide the backbone of the Executive Department of the Bicol Regional Government. Upon the establishment of the Bicol Regional Government, the national government shall transmit resources to these agencies through the Executive Department of the regional government.

Based on data from the Department of Budget and Management for 2011, RDC – V had a budget allocation of P9.529 billion. But for its projects, RDC – V had a total of 19.47 billion. DILG – V had a budget of P123.298 million, DOH – V had P542.580 million, DSWD – V had 26.273 million, DENR – V had P46.666 million. These figures were only for specific expenditures of the regional offices. They did not include the special programs implemented in the regions. More time was needed to collect such data as well as the budgetary allocations to other government agencies not mentioned here. This information was important to estimate the total amount of financial resources that would be transferred from the national government to the regional government. These would all be under the control of the Regional Governor and may therefore be used to implement priority development programs of the Bicol Regional Government.

For the Regional Legislative Assembly, its composition would be the selected members of the existing Sangguniang Pambayan of the six provinces and selected local legislatures, as provided in the Charter for Bicol Autonomous Region. The legislators already had their existing offices in their respective local government units. So the major infrastructure requirement would be a session hall for the Bicol Regional Assembly, office for the Regional Assembly Secretary, and other pertinent offices. Based on the study of the CLRG (2011) of the University of the Philippines, this separate branch may require P280 million for the physical facilities and another P465 million for administrative expenses in 2012 or a total of P745 million.

The Regional Appellate Court would take the functions of the Court of Appeals and shall take on cases from the city, municipal and provincial trial courts and other courts under its jurisdiction i.e., located and operating within the region. The financial resources needed to set up the Regional Appellate Court may be provided by the Supreme Court from its budgetary allocation for the Bicol Region. This branch of the regional government shall likewise need a separate building, a separate allocation for Personal Services, Maintenance and Other Operating Expenses and Capital Outlay, or another P745 million.

For the three branches of the Bicol Regional Government, the total estimated expenditures in the start-up period is about P2.2 billion.

#### ***Annual Expenditures and Projects***

The project expenditures for annual regular expenditures and special programs and projects were patterned from the budget estimates for ARMM as provided by the 2011 General Appropriations Act. Table 3 shows that the total projected expenditures for the first year of operation, based on 2011 prices, is about P9.3 billion.

The expenditures for the initial establishment of the structures are estimated at P2.2 billion, plus the annual and special projects at about P9.3 billion, for a total of P 11.5 billion.

**Table 3. Projected expenditures for governance structures, Bicol, 2011, in million pesos**

	Personal Services	Maintenance, Operations	Capital Outlays	Total
A. General Administration, Support	168.9	672.57		841.46
1. Regional Legislative Assembly	24.93	20.04		44.97
2. Office of the Regional Governor (includes a Special Purpose Fund of P100)	118.81	642.49		761.30
3. Regional Appellate Court	25.16	10.04		35.19
B. Planning for Regional Development, Monitoring of Projects	13.01	8.52		21.53
C. Operations	7321.30	1101.10	.75	8430.9
1. Regional Legislative Assembly	109.12	16.49		125.61
2. Implementation of Projects	7202.05	1084.61	.75	8287.4
3. Regional Appellate Court	10.13	7.75		17.89
Total	7503.21	1782.19	.75	9286.2

Source: Department of Budget and Management, 2012.

## Conclusion

The data at hand reveal that there is a large discrepancy between locally-generated government revenues and share from the national government. Without the provision of IRA, the current expenditure requirements of the LGUs of Region V cannot be met, let alone support the establishment of a separate Bicol Regional Government. There is a need for a transition period of autonomization, or a longer process of achieving autonomy should be done. The national government should continue providing IRA for the local governments until such time that the Bicol Regional Government has achieved a certain level of fiscal independence and sustainability, and therefore be able to establish its own mechanism of providing IRA for indigent municipalities and/or provinces.

Based on the preceding discussions, it generally appears that the Bicol Autonomous Region cannot be established solely from the fiscal resources of the LGUS of Region V and that it definitely needs major assistance from the national government. Or else, the regional government should have to resort to loans and borrowings as another source of temporary revenue. But such source is definitely not the most feasible and sustainable one.

Nonetheless, Table 1 reveals that the combined cash balance of the cities, municipalities and provinces of the region amounted to a high P4.875 billion at the end of 2010 and another P2.036 billion remained unspent at the end of 2011. The total amount of P6.911 billion is not enough to set up the initial structures for the Bicol Regional Government and run its governance functions.

But if this positive balance continues every year, advocates of Bicol autonomy may have something concrete to work on toward achieving their goals.

Advocates of the Bicol Autonomous Region should recognize the initial pains of devolution which is a normal process. Such situation can be seen in a typical Filipino household, when an adult child decides to marry, raise one's own family and establish one's own household separate from the previous one. The newly married child has to go through the pains of separation, albeit psychologically and economically. There is a need to set up one's own assets and properties material and strengthen one's financial stability, find a source of income so as to break the economic dependence on one's parents.

Furthermore, the Bicol Autonomy Movement should clarify the relationship between the Bicol Regional Government and the national government. Will the regional government solely depend on its internal resources for its sustenance and effective functioning like a separate state? Will it eventually give up receiving IRA and general appropriations from the national government? Or will it demand for sustained support from the national government as being part and parcel of the Republic of the Philippines? Will it adopt the fiscal management provisions of the Charter of the Bicol Autonomous Region even if it initially appears that such arrangement may not work? Such questions should be discussed and clarified.

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**Acronyms**

ARMM – Autonomous Region of Muslim Mindanao  
BIR – Bureau of Internal Revenue  
CLRG – Center for Local and Regional Governance  
DBM – Department of Budget and Management  
DENR – Department of Environment and Natural Resources  
DILG – Department of Interior and Local Government  
DOH – Department of Health  
DSWD – Department of Social Welfare and Development  
GOCC – Government Owned and Controlled Corporations

IRA – Internal Revenue Allotment  
LGU – Local Government Unit  
NCR – National Capital Region  
NPC – National Power Corporation  
NSCB – National Statistical Coordination Board  
RDC – Regional Development Council  
RDO – Revenue District Office  
VAT – Value Added Tax.