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# **Reforms on Setting Inspection Fees for Cities and Municipalities**

## **Investment Enabling Environment (INVEST) Project**

Submitted to

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# TABLE OF CONTENTS

<b>Background</b> .....	3
-------------------------	---

## **List of Annexes**

Annex 1. Guide for Setting Reasonable Fees for Inspection Services by Local Governments .....	4
Annex 2. Draft Circular Transmitting the Guidelines for Setting Reasonable Fees and Charges for Inspection Services .....	26
Annex 3. Draft DTI-DILG-DOF Joint Memorandum Circular on Implementing a Business-friendly Inspection System in All Cities and Municipalities	27
Annex 4. Draft DOF Circular Prescribing the Setting of Reasonable Regulatory Fees .....	35

## BACKGROUND

The Department of the Interior and Local Government (DILG) and Bureau of Local Government Finance (BLGF), with support from USAID's Investment Enabling Environment Project (INVEST), jointly conducted a study to examine business fees and charges levied by LGUs. The first component of the study involved the conduct of a survey on fees and business tax imposed by LGUs while the second component examined the cost of delivering services by LGUs.

As an offshoot of the study, the BLGF requested the Project to further refine the guidelines for setting inspection fees, which the original study prepared. On January 23-24, 2014, the INVEST Project, in cooperation with BLGF, conducted a training on the setting of reasonable fees and charges for inspection services rendered by local governments at the PHALTRA Bldg, Quezon City. In attendance were 42 participants, composed mainly of BLGF Central and Regional Office's Technical Staff who will be tasked in cascading the training outputs to the LGUs within their jurisdictions. The outputs of the workshop consisted of a training design, training manual/guide, and action plans of the Central and Regional Offices of BLGF in cascading the training manual and guidelines in setting reasonable inspection fees.

This short report submits the following:

- (1) finalized guide which was refined through the workshop with BLGF staff (Annex 1);  
and
- (2) three draft circulars on the following:
  - (i) a BLGF Circular transmitting the guidelines (Annex 2);
  - (ii) a DTI-DILG-DOF Joint Memorandum Circular on Implementing a Business-Friendly Inspection System in All Cities and Municipalities which includes a provision on setting reasonable inspection fees (Annex 3); and
  - (iii) a DOF Circular enjoining the review of fees and charges of LGUs (Annex 4); and

## ANNEX 1.



# Guide for Setting Reasonable Fees for Inspection Services by Local Governments

## Investment Enabling Environment (INVEST) Project

January 15, 2015

### DISCLAIMER

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# TABLE OF CONTENTS

	<b>List of Acronyms</b> .....	iii
I.	<b>Background</b> .....	1
II.	<b>Framework for Costing Inspection Services</b> .....	7
III.	<b>Steps for Determining Fees for Inspection Services</b> .....	8

**List of Tables**

	Table 1. Template Table for Estimating Manpower Associated with Administration of Inspection .....	6
	Table 2. Template Table for Estimating Manpower Associated with Inspection of Business Establishments .....	7
	Table 3. Template Table for Estimating Vehicle Cost Associated with Inspection of Business Establishments .....	8
	Table 4. Template Table for Estimating Fuel Cost Associated with Inspection of Business Establishments .....	8
	Table 5. Template Table for Computing Other Variable Costs.....	9
	Table 6. Summary of Variable Costs Associated with Inspection Services.....	9
	Table 7. Template Table for Estimating the Cost of Office Space .....	10
	Table 8. Illustrative Example for Computing the Cost of Office Space.....	11
	Table 9. Template Table for Estimating the Cost of Electricity .....	12
	Table 10. Illustrative Example for Computing the Cost of Electricity .....	12
	Table 11. Template Table for Estimating the Cost of Water Consumption.....	13
	Table 12. Illustrative Example for Computing Water Cost.....	13
	Table 13. Template Table for Estimating the Cost of Telephone Consumption.....	14
	Table 14. Illustrative Example for Computing Cost of Telephone Services.....	14
	Table 15. Template Table for Estimating the Fixed Cost of Equipment and Furniture .....	15
	Table 16. Template Table for Estimating the Other Fixed Costs Associated with Inspection Services .....	15
	Table 17. Template Table Showing Total Fixed Cost.....	16
	Table 18. Illustrative Computation of the Actual Fee per Applicant.....	17
	Table 19. Illustrative Computation of the Cost of Providing Services per Applicant.....	18
	Table 20. Illustrative Computation of Adjustment in Current Fees After Considering the Cost of Service Delivery .....	18

**List of Figures**

	Figure 1. Framework for Costing Inspection Services .....	3
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**List of Boxes**

	Box 1. Guideposts for Estimating Cost Components .....	16
--	--	----

\*Table of Contents based on actual report

## LIST OF ACRONYMS

BLGF	Bureau of Local Government Finance
BPLO	Business Permits and Licensing Office
BPLS	Business Permit and Licensing System
CTO	City Treasurer's Office
DILG	Department of the Interior and Local Government
DOLE	Department of Labor and Employment
DTI	Department of Trade and Industry
INVEST	Investment Enabling Environment Project
LGU	Local Government Unit
USAID	United States Agency for International Development

## I. BACKGROUND

Fees and charges are important factors in determining the direct costs of doing business for investors. Both determine the competitiveness of local government units (LGU) for investments. Specifically, LGUs that charge high fees and charges are less attractive to investors while those that impose extremely low fees face the challenge of having to subsidize the cost of regulation and licensing. Clearly, setting reasonable fees and charges need to balance investor's expectations and LGU's need to cover for the cost of providing services to investors.

Due to differing opinions among local officials and stakeholders, the Department of Finance's Bureau of Local Government Finance (BLGF) has issued opinions clarifying the distinction between taxes and fees. It defines tax revenue as "compulsory contributions to finance government operations. Taxes are computed at the rate established by law to a defined base such as gross receipts, without any direct relation to the services rendered to the individual assessed." On the other hand, regulatory fees are defined as "fees derived from the exercise of the regulatory powers of local governments (police power) such as Mayor's Permit...."

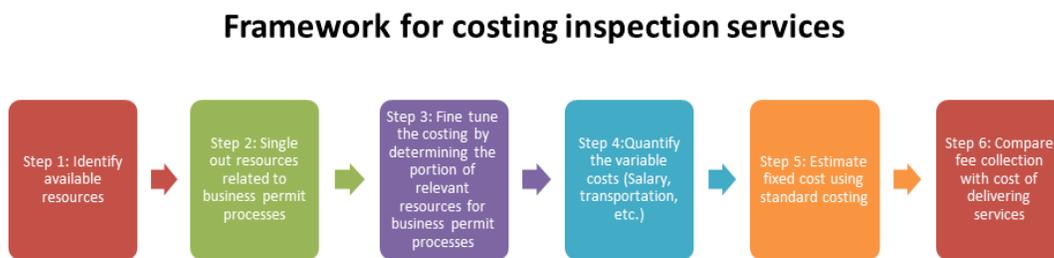
In 2012, the Department of the Interior and Local Government and the Bureau of Local Government Finance (BLGF), with assistance from USAID through the Investment Enabling Environment Project, commissioned a study on inspection fees imposed by cities in the Philippines. The result of the study validated the general perception on the very wide variation in the amount of inspection fees imposed by local governments, to the detriment of the business sector, particularly the micro, small and medium-scale firms which comprise the majority of firms in the country. One reason for this variation is the lack of standards in setting fees and charges by local government units (LGUs).

This guide is therefore intended for local treasurers who are tasked to collect fees and charges for the LGUs. It was developed as part of the study conducted by Mr. Sia, which covered information coming from about 66 cities and validated with the regional officials and staff of the cities of the BLGF in a workshop held in January 2014. It presents a step-by-step procedure for setting fees and charges based on a cost accounting framework.

## II. FRAMEWORK FOR COSTING INSPECTION SERVICES

This guideline for costing of inspection services uses a cost accounting framework and methods to determine the cost of delivering business permit and licensing services for each relevant department in LGU. The framework follows six broad steps to arrive at the reasonable fee for a service and determine appropriateness of the current fee structure (see below).

Figure 1



The first step in the framework is to identify the resources related to business permit and licensing activities. For services, people are the main resources. Therefore, the first task is to identify the number of people in each department who have some involvement in the processing of application or inspection for business permit and licensing. Other resources must also be identified in this first step.

The second step is to estimate the portion of the identified resources that are used for business permit and licensing. Many of the people involved in business permit and licensing perform tasks for other functions. The portion of people's time or the proportion of transactions they perform for business permit and licensing processing can serve as a basis for allocating resources for business permits and licensing. Interview with people will be useful to estimate the percentage of their division's time allocated for business permit and licensing when records of transactions are unavailable or incomplete.

The third step is to classify the costs into variable and fixed in order to better understand the drivers of costs. Variable costs are those that adjust with the number of transactions. In business permit and licensing services, variable cost consists of four items: (1) Inspection people, (2) document processing and support people, (3) transportation cost for inspections, and (4) cost of business permit plate and stickers. On the other hand, fixed costs consist of costs that do not adjust with the number of transactions. They exist even without any clients served. For business permit and licensing services, fixed costs include office space, equipment and furniture, utilities, office supplies.

The fourth and fifth steps are to quantify or estimate the variable and fixed costs. The variable costs are based on the current salaries of people, cost of fuel consumption or transportation allowance, and cost of purchasing business plates and stickers. For people, salaries can be estimated using the salary grade of all the identified people and using the latest government salary schedule published by the Department of Budget and Management to determine their salaries.

For fixed cost, the LGU can assign a standard value to each department based on the number of people instead of using the book value. One reason for this method is that government books do not reflect the current value of properties and equipment given that government for decades has owned many of these assets. Another reason is that the size of property space may not reflect the appropriate size of operations given that such spaces are available without paying for rental fees.

The total cost of delivering the service will be the sum of the variable and fixed costs. Meanwhile, the appropriate fee for the service will be the average cost obtained by dividing the total cost by the number of business applications.

The last step is to determine the appropriateness of fees charged to businesses. This can be accomplished by comparing the cost of delivering services with the current fee. Fees that turn out to be higher or lower than the cost of delivering service by more than 10% are candidates for adjustments.

### III.

## STEPS FOR DETERMINING FEES FOR INSPECTION SERVICES

The following example illustrates the application of the framework to determine the appropriate Mayor's Permit Fee for a business applying for a business permit. Many LGUs charge investors a fee for obtaining a Mayor's Permit before they can engage in any business, trade, occupation, or practice of profession. In return, the LGU provides regulations and inspections to create and maintain stable regulatory environment conducive for business growth. To be consistent with the Local Government Code, the appropriate Mayor's Permit Fee should be based on the cost of providing regulations and inspections.

It is important to note that this example is intended to be an illustration of a method rather than an inflexible rule in determining the cost of regulation and inspections. The structure and operations of an LGU determine the appropriate financial model for costing of services. In addition, this illustration can be applied to other types of fees charged by LGUs with some minor adjustments to the template. Thus, LGUs need to customize the costing procedures and template to suit the fee in question and the LGU's specific structure and operations.

Two departments in an LGU are involved in providing the services to the business from which an LGU charges a Mayor's Permit Fee: Business Permit and Licensing Office (BPLO) and City Treasurer's Office (CTO). Most of BPLO's work focuses on the issuance of business permit for which businesses pay for Mayor's Permit Fee. Meanwhile, the Treasury Department typically has a dedicated small group of people to handle business permit and licensing fees. We will use BPLO as an example to show how to determine the cost of services. A similar exercise should be conducted for the Treasury Department or the City Planning and Development Office, which issue a locational clearance. The total cost of providing the service that corresponds to Mayor's Permit Fee is the sum of the costs associated with BPLO, the CTO and with all other city government offices.

Tables 1 and 2 of the attachment show the template and sample calculation of BPLO's variable and fixed costs of providing the service in connection with the Mayor's Permit Fee. Meanwhile, Table 3 of the attachment shows a comparison of the current Mayor's Permit Fee and the reasonable fee based on cost of providing the services by BPLO and Treasury Department.

The following are proposed steps in determining fees for inspection services.

#### STEP 1. Identify the Local Government Offices Directly Involved in Inspection Services

As a preliminary activity, it is important to initially identify all the LGU offices directly linked to a specific inspection service, e.g. inspection associated with the issuance of sanitary permit or locational clearance.

#### STEP 2: Determine Variable Costs

Variable costs include manpower, transportation expenses, printed forms and other inputs necessary to deliver the service. These are expenses that vary with output.

## 2.1 Manpower costs

Manpower is the most important component of service delivery in the LGU. The cost associated with manpower include the compensation of supervisors and staff performing functions such as receiving and recording of applications, checking the authenticity and completeness of documents, processing and approval of papers, collection of fees, and other tasks done until the service is fully delivered. There are two types of manpower cost – those associated with administration (office work) and inspection, which is usually part of fieldwork and done outside the office. The estimation of manpower cost may be done separately by Office.

Two separate templates are provided for variable cost i.e., one for estimating manpower cost of administration and another template for manpower costs associated with inspection activities.

### *Manpower Cost for Administration*

Table 1 contains a template table that can be used for estimating the cost of manpower that is used for administration of office functions. The illustrative example uses the BPLO and the CTO. The BPLO usually conducts inspections to check the veracity of the information provided by applicants. The CTO is involved in the inspection process since it is tasked with assessing and receiving inspection-related fees.

The process of determining the cost of manpower involves the following steps:

- (a) Identify all staff directly involved in the delivery of service (e.g. inspection). Use a separate template for each Office involved in the service (one each for BPLO and CTO).
- (b) Determine the total manpower costs of all staff, which includes the basic salary plus other remunerations. The estimate of the other remunerations/compensation of each directly involved staff should include representation and transportation allowance (RATA) (if any), Personnel Economic Relief Allowance (PERA), clothing/uniform allowance, year-end benefits and cash gifts to determine the annual expenses for staff compensation. There are small variations in other compensation depending on the nature of position such as regular “plantilla” items, contractual, casual or job orders. The actual amount of compensation can be obtained from the Personnel Office, the Accounting Office or the City Budget Officer, or the Administrative Staff of the units delivering the service. In the absence of actual data for additional compensation, we can utilize 20% of the basic salary as proxy.
- (c) Multiply the annual compensation of each staff with the percentage of time in one year spent in delivering the specific service associated with inspection (e.g. arranging appointments for inspection visits. To do this, there is a need to determine the number of days/weeks/months that the staff is assigned to the function relevant to the service and divide this number by the number of days/weeks/month in one year. For full time staff working on the service, a maximum percentage of 80 percent cost attribution may be used, i.e. the twenty percent (20%) reduction is an allowance for activities such as attendance to meetings, trainings and conferences, other administrative responsibilities and

leaves of absences which are not directly relevant to the delivery of the specific service and therefore should not be considered as cost to be passed-on to the applicants.

**Table 1.  
Template Table for Estimating Manpower Associated with Administration of Inspection**

<b>Variable Cost - Manpower (BPLO)</b>							
<b>Office and Responsibilities:BPLO- Processing of mayor's permit</b>							
<b>Name and Position</b> (col 1)	<b>Compensation</b>					<b>% Time assigned in the delivery of the Mayor's Permit</b> (col 7)	<b>Annual Cost of the Service (BPLO Admin)</b> (col 8)
	<b>Salary Grade</b> (col 2)	<b>Monthly Salary</b> (col 3)	<b>Annual Salary</b> (col 4)	<b>Other benefits</b> (col 5)	<b>Annual Compensation</b> (col 6)		
<b>A.1. Administrative and Support</b>							
Supervisor			-	-	-		-
Document Processor 1			-	-	-		-
Document Processor 2			-	-	-		-
Document Processor 3			-	-	-		-
Document Processor 4			-	-	-		-
Document Processor 5			-	-	-		-
Document Processor 6			-	-	-		-
Administrative Assistant 1			-	-	-		-
Administrative Assistant 2			-	-	-		-
Administrative Assistant 3			-	-	-		-
Administrative Assistant 4			-	-	-		-
Records Keeper 1			-	-	-		-
Records Keeper 2			-	-	-		-
Records Keeper 3			-	-	-		-
Encoder			-	-	-		-
Driver			-	-	-		-
						<b>TOTAL</b>	-

The above steps can be employed in determining the manpower cost incurred by other local government offices involved in delivering inspection services, e.g. CTO.

*Manpower Cost of Inspection*

Inspections are conducted to verify the location of the business applicant and to check other information provided by the application in the application form as well as his/her compliance with appropriate laws (e.g. Fire Code of the Philippines, Sanitation Code). Joint Memorandum Circular No. 1 (series of 2010) issued by DTI and DILG, advises that inspection should be done outside the business permitting process, i.e. either before or after the business permit has been issued, possibly between February until November for business renewals.

Table 2 is the template for computing the manpower cost for those involved in actual field inspection. The steps are the same as those outlined for administrative personnel. The manpower costs include the annual compensation for inspectors and other staff involved in inspection activities.

**Table 2.**  
**Template Table for Estimating Manpower Associated with Inspection of Business Establishments**

<b>Variable Cost Inspection</b>							
<b>Office and Responsibilities Covered: BPLO Inspection of Businesses applying for a mayors permit</b>							
Name and position	Salary Grade	Monthly Salary	Annual Salary	Other compensation	Total Annual Compensation	% Time allocated for the service	Annual cost of service for inspection
(col 1)	(col 2)	(col 3)	(col 4)	(col 5)	(col 6)	(col 7)	(col 8)
Inspector 1			-	-	-		-
Inspector 2			-	-	-		-
Inspector 3			-	-	-		-
Inspector 4			-	-	-		-
Driver			-	-	-		-
						<b>TOTAL</b>	-

**2.2. Cost of Transportation**

LGUs need to provide inspectors with transportation in order to conduct inspections properly. Inspectors are normally provided with transportation vehicle and fuel to optimize efficiency. The vehicles used are either permanently assigned to the unit delivering the service or from the motor pool of the City. Transportation expenses have two components, namely, the vehicle and fuel costs.

*Vehicle Cost*

Table 3 is the template for determining the cost that can be attributed to conducting inspections.

The steps in filling up this table is shown below:

- (1) Determine the number of vehicles used by inspectors in conducting inspections;
- (2) Get an estimate of the unit acquisition cost of each vehicle;
- (3) Apply the depreciation rate to determine the annual depreciation expense. Use straight-line depreciation method with 10 years as the vehicle economic life;
- (4) Use vehicle maintenance cost (in the absence of actual data from the City Accountant’s Office) as proxy data which is computed at 20% of the annual depreciation expense;
- (5) Sum the annual depreciation expense and maintenance cost
- (6) Estimate the percentage of time in one year when the vehicle was used for inspection. For instance, the City follows the traditional practice of not allowing inspections in January and December, and the vehicle use for inspection is only half a day to give way to other uses, the time attributable to inspection services would only be 44/52 weeks x 0.5 days or approximately 42%; and
- (7) Compute the annual vehicle cost for inspection by multiplying the figure in step 6 with the total cost of depreciation and maintenance estimated in step 5.

**Table 3.  
Template Table for Estimating Vehicle Cost Associated with  
Inspection of Business Establishments**

Variable Cost - Transport and Travel Expenses							
Number of vehicles used	Unit Cost	Total Cost	Depreciation rate/yr	Annual Depreciation Cost	Maintenance cost	Frequency of use for inspection per week	Annual cost of vehicle for inspection
(col 1)	(col 2)	(col 3)	(col 4)	(col 5)	(col 6)	(col 7)	(col 8)
		-					-

*Fuel Cost*

Table 4 may be used for estimating fuel cost. The steps for determining the cost of fuel is listed below:

- (1) Consider the number of vehicles used for inspection;
- (2) Get the average cost of the fuel used for the vehicles in the first step;
- (3) Compute for the average weekly fuel consumption in liters by the vehicle;
- (4) Compute for the annual fuel cost per vehicle;
- (5) Determine the frequency of use of the vehicle for inspection;
- (6) Compute for the annual fuel cost of the vehicle and multiplying this by the frequency of use of the vehicle for inspection to get the proportionate fuel cost that can be attributed to inspection services.

There may be instances when an LGU cannot provide vehicles for inspection but allows the reimbursement of actual transportation expenses. If such is the case, the annual cost is computed by the determining the monthly allowable reimbursements multiplied by 12 months.

**Table 4.  
Template Table for Estimating Fuel Cost Associated with Inspection  
of Business Establishments**

Variable Cost - Cost of Fuel						
Number of vehicle	Average Cost per liter	Ave. weekly consumption in liters	Number of weeks in one year	Annual Cost of fuel for the vehicle	Frequency of use for inspection per week	Annual cost for Fuel for inspection
(col 1)	(col 2)	(col 3)	(col 4)	(col 5)	(col 6)	(col 7)
				-		-

a. Other Variable Cost

Printed forms and other collaterals are costs incurred by the LGU in delivering the service. For example, application forms, inspection forms, official receipts, business plates and stickers are among the expenses incurred by the LGUs as these are mandatory for the Mayor's permit.

Table 5 can be used for estimating other variable costs. The steps involved are listed below:

1. Determine the other variable costs associated with the inspection process;
2. Get the acquisition cost of each item
3. Estimate the number of units by using the number of applications processed as basis. To illustrate, in the case of stickers, business plates and printed forms, it is easy to know that all applications processed will use all the forms and stickers while only the new businesses will be given the business plates.
4. Compute for the annual cost per variable item identified.

**Table 5.  
Template Table for Computing Other Variable Costs**

<b>Variable Cost - Other variable cost</b>			
Particulars	Annual Number of Applications	Cost/unit (Php)	Annual cost (Php)
(col 1)	(col 2)	(col 3)	(col 4)
<b>A. BPLO</b>			
1. Business Plate			-
2. Stickers			-
3. Application Forms			-
4. Inspection Forms			
		<b>Sub-Total</b>	-
<b>B. CTO</b>			
Official Receipt			-
		<b>Sub-Total</b>	-
		<b>Total</b>	-

Depending on the structure of the unit operations of the concerned offices, there may be other variable costs not included in this illustration. LGUs must include these additional cost items in the template and compute for the annual cost.

b. Cost Summary of Variable Cost

Table 6 provides a summary of all variable costs considered in the computation. The table clearly shows the cost components and their contribution to the total variable costs associated with conducting the inspection service. The variable costs are items, which can substantially be reduced if inspection services are delivered efficiently.

**Table 6.  
Summary of Variable Costs Associated with Inspection Services**

<b>Summary Table- Variable Costs</b>		
	<b>BPLO</b>	<b>CTO</b>
<b>Variable Costs</b>		
<b>Manpower</b>	-	-
<b>Administration</b>	-	-
<b>Inspection</b>	-	-
<b>Transport and Travel</b>	-	-
<b>Vehicle</b>	-	-
<b>Fuel</b>	-	-
<b>Other Variable Cost</b>	-	-
<b>TOTAL</b>	-	-

STEP 3. Determine Fixed Cost

Fixed costs or overhead are costs that do not vary with outputs. This includes the costs of office space, utilities, equipment and furniture, supplies and other fixed costs. In delivering a service, the cost of delivering the service should also consider a proportionate share of the overhead costs for delivering the service.

6.1 Cost of Office Space

Local government offices/departments are typically housed in the city/municipal halls where the building is shared with other departments. The objective is to determine the presumptive share of delivering the service (e.g. conduct of inspections) to the cost of space in the city hall occupied by the office delivering the service. Table 7 is a template table that can be used.

**Table 7.  
Template Table for Estimating the Cost of Office Space**

<b>Fixed Cost - Office Space</b>		
<b>Particulars</b>	<b>Offices Involved in the delivery of Mayor's Permit Fee</b>	
	<b>BPLO</b>	<b>CTO</b>
(col 1)	(col 2)	(col 3)
Construction Cost (per sq m)		
Floor area of City Hall (sq m)		
Building Construction Cost (Php)	-	-
Office Area Occupied (sq. m)		
Cost of Office Area Occupied (Php)	-	-
Depreciation Rate (%)		
Annual Depreciation Expense (Php)	-	-
Annual Maintenance Cost (Php)	-	-
Percent of Work for Mayor's Permit (%)		
Share of Cost for Mayors Permit (Php)	-	-

The steps involved in filling up Table 7 are listed below:

- (1) Determine the floor area occupied by the office/department delivering the inspection service;
- (2) Estimate the construction cost of the city hall by multiplying the cost of construction (approximately P20,000/sq.) with its total floor area.
- (3) Compute for the proportionate share of the office delivering the service by first dividing the floor area occupied by the office by the total floor area of the City Hall and then multiplying this share by the construction cost of the City Hall;
- (4) Compute the annual depreciation cost by applying the annual depreciation rate of 4% (considering 25 year economic life for reinforced concrete) to construction cost.
- (5) Get the building maintenance cost for the office delivering the service from the Building Maintenance Unit usually attached to the General Services Office or the Administration Department. However, in the absence of actual data, the usual 20% of the annual depreciation rate can be utilized as the imputed value of maintenance cost
- (6) Estimate the annual cost for office space to be allocated to the delivery of the service by adding the amount of annual depreciation expense and the maintenance cost and multiplying this by the proportion of the inspection function attributed to the entire responsibilities of the Office involved.

An actual illustration of the computations is shown on Table 8 below which assumes a 100 square meter office at the city hall.

**Table 8.**  
**Illustrative Example for Computing the Cost of Office Space**

Major Components of Fixed Cost	PHP	Procedure to estimate fixed cost components
<b>1 Office space</b>		
Office floor area (sq.m.)	100	Indicate the floor area occupied by the LGU department
Construction cost per sq.m.	20,000	Indicate the typical construction price for one square meter area
Construction cost	2,000,000	Construction Cost = [Floor area] X [Cost per sq.m.]
Depreciation years	25	Indicate the depreciation years for building
Depreciation expense per year	80,000	Depreciation = [Construction cost] / [Depreciation years]
Maintenance	16,000	Allocate 20% of depreciation expense
Office cost (in depreciation per year)	96,000	Office space cost=[Depreciation expense] + [Maintenance]
Percent of work for business permit	80%	Indicate the % of estimated people's time allocated to service
Net cost attributed to bus. permit service	76,800	Net cost = [Office cost] X [Percent of people's time for service]

Some City Halls are small and too crowded that the LGU rents offices. If this is the case for some local government Offices involved in the delivery of the service, the cost of office space is the rental rate per square meter per month multiplied by the area occupied by the office for twelve months. LGUs may opt to use the market rate by

determining the equivalent rental rate for the office space based on the prevailing commercial rental rate in the area. No maintenance cost is provided because it is normally borne by the lessor.

The annual cost attributed to the unit for delivering the specific service is equal to the annual cost for rental multiplied by the proportion of the inspection service to the total responsibilities of the Office/s delivering the service.

## 6.2 Cost of Utilities (Electricity, Water and Telephone)

These cost components include costs of electricity, water and telephone services paid by the LGU. Each will have different procedure to determine annual costs as follows:

### *Electricity*

Electricity cost is typically lumped together with the total electricity cost of the entire City Hall. In order to get an accurate cost for the office involved in the inspection service, the LGU can use the following procedure:

Initially, the LGU should know the cost of electricity per kilowatt-hour and the electricity consumption per kilowatt-hour for the department delivering the service. The data can be secured from the Accounting Department. Given that it is usual for government offices to be open from 7:30am-5:30pm or 10hrs/day, the annual cost of electricity is the product of rate per kilowatt consumption per hour multiplied by 10 hours of operations for 260 working days per year. The next step is to estimate the proportion of the inspection function to the overall responsibilities of unit delivering the service.

**Table 9.  
Template Table for Estimating the Cost of Electricity**

<b>Cost of Electricity</b>		
<b>Particulars</b>	<b>Offices Involved in the delivery of Mayor's Permit Fee</b>	
	<b>BPLO</b>	<b>CTO</b>
<b>(col 1)</b>	<b>(col 2)</b>	<b>(col 3)</b>
<b>Electricity rate per kilowatt hour (Php)</b>		
<b>Kilowatt consumption/hour for the unit delivering the service</b>		
<b>Number of operating hours per day</b>		
<b>Number of days per year</b>		
<b>Electricity cost per year</b>	-	-
<b>Percent of work for business permit</b>		
<b>Net electricity cost attributed to mayor's permit service</b>	-	-

When the electric bill is lumped monthly for the entire City/Municipal Hall, the annual cost for the Office delivering the service is the proportionate share of the area occupied to the entire floor area of the city hall for twelve months. The share of cost attributed to delivering the service is the amount for one year multiplied by the percentage share of time exerted by the Office in delivering the specific service.

Table 10 is an illustration of how electricity cost can be estimated.

**Table 10.  
Illustrative Example for Computing the Cost of Electricity**

Major Components of Fixed Cost	PHP	Procedure to estimate fixed cost components
<b>2 Electricity</b>		
Electricity rate per kwh	12	Indicate the electric rate per kwh
Kw consumption for the department	14	Indicate the electric consumption per hour for the department
Number of hours operations per day	10	Indicate the daily consumption hours
Number of days per year	260	Indicate the number of working days per year
Electricity cost per year	436,800	Electricity cost=[Rate/kwh] X [kwh/hr] X [Hrs/day] X [days/year]
Percent of work for business permit	80%	Indicate the % of estimated people's time allocated to service
Net cost attributed to bus. permit service	349,440	Net cost = [Electricity cost/year] X [% of people's time for service]

*Water*

Similarly, the amount of water consumed by the office providing the service must be accounted for in order to get an accurate cost of providing services in connection with the service of conducting inspection. Mayor. The cost annually can be derived by knowing the number of staff and using the normal consumption rate of P100 per person per month for 12 months. The cost attributed to delivering the service per year shall be the product of the annual consumption rate by the percentage of work done by the Office for delivering the service (mayor's permit).

**Table 11.  
Template Table for Estimating the Cost of Water Consumption**

<b>Cost of Water</b>		
<b>Particulars</b>	<b>Offices Involved in the delivery of Mayor's Permit Fee</b>	
	<b>BPLO</b>	<b>CTO</b>
<b>(col 1)</b>	<b>(col 2)</b>	<b>(col 3)</b>
<b>Number of People</b>		
<b>Water bill per person per month</b>		
<b>Estimated water bill of the office per year</b>	-	-
<b>Percent of work for business permit</b>		
<b>Net cost of water attributed to delivery of mayor's permit.</b>	-	-

The following table shows the procedure to estimate the cost of water per year.

**Table 12.  
Illustrative Example for Computing Water Cost**

Major Components of Fixed Cost	PHP	Procedure to estimate fixed cost components
<b>3 Water</b>		
No. of people	24	Indicate number of people in the department
Water bill per person per month	100	Indicate the cost of water per person per month
Est. water bill per year	28,800	Water cost= [No. of people] X [Water cost/person] X [12 months]
Percent of work for business permit	80%	Indicate the % of estimated people's time allocated to service
Net cost attributed to bus. permit service	23,040	Net cost = [Water cost/year] X [% of people's time for service]

*Telephone*

The cost of telephone consumption is easy to obtain because the billings are linked to the monthly subscription account. The annual cost for telephone bills attributed to cost of delivering the service is the number of lines multiplied by monthly bill/line for twelve months. This is further multiplied by the percentage of work done by the office for delivering the service. Consider the mobile phone used exclusively by the Office delivering the service as an additional line but ignore the same when these are using prepaid load because the loads are normally included as office supplies. The following shows the template table to determine the cost of telephone services.

**Table 13.  
Template Table for Estimating the Cost of Telephone Consumption**

<b>Cost of Telephone</b>		
<b>Particulars</b> (col 1)	<b>Offices Involved in the delivery of Mayor's Permit Fee</b>	
	<b>BPLO</b> (col 2)	<b>CTO</b> (col 3)
<b>Number of telephone lines in the Office delivering the service</b>		
<b>Rate of subscription per month</b>		
<b>Annual cost of telephone services</b>	-	-
<b>Percent of work for business permit</b>		
<b>Net cost of telephone services attributed to processing and issuance of mayor's permit</b>	-	-

When there are several units involved in delivering the service such as the Mayor's permit which is actually delivered by the BPLO (acceptance and processing of documents) and Office of the Treasurer (collection of fee rates), the cost of utilities is the summation of the costs attributed to the delivery of services by the two involved offices.

**Table 14.  
Illustrative Example for Computing Cost of Telephone Services**

Major Components of Fixed Cost	PHP	Procedure to estimate fixed cost components
<b>4 Telephone</b>		
Number of land lines	2	Indicate number of land lines in the department
Telephone bill per line per month	2,500	Indicate the telephone bill per line per month
Telephone bill per year	60,000	Bill per year = [No. of lines] X [Bill per line/month] X [12 months]
Percent of work for business permit	80%	Indicate the % of estimated people's time allocated to service
Net cost attributed to bus. permit service	48,000	Net cost = [Tel. cost/year] X [% of people's time for service]

a. Equipment, Furniture and Other Facilities.

The LGU must initially identify and count the number of equipment and furniture regularly used for delivering the service. Table 15 shows the template table that can be used for estimating the cost other facilities. The steps that can be used include:

- (a) Determine the number of units of the equipment, furniture and other facilities used by the office delivering the service;
- (b) Estimate the acquisition cost of the equipment, furniture and other facilities identified in step 1;
- (c) Get the total cost of each equipment and apply the depreciation rate (10% for equipment and 5% for furniture and fixtures) to determine the annual depreciation cost.
- (d) Estimate the annual cost of maintenance and add to the annual depreciation cost to get the total annual cost. Use 20% of depreciation expense if the maintenance cost is not available.
- (e) To get the annual cost share attributable to the use of equipment and furniture, multiply the total annual cost by the percentage share of delivering the service to the total responsibilities of the Office.

**Table 15.  
Template Table for Estimating the Fixed Cost of Equipment and Furniture**

Fixed Cost - Equipment and Furniture (BPLO)									
Particulars	Number of Units	Acquisition Cost	Total Cost	Depreciation Rate	Annual Depreciation Cost	Maintenance Cost	Total Annual Cost	% Used for delivering the Service	Annual Cost Share for Equipment and Furniture
(col 1)	(col 2)	(col 3)	(col 4)	(col 5)	(col 6)	(col 7)	(col 8)	(col 9)	(col 10)
<b>A. Equipment</b>									
Air Condition			-		-	-	-		-
Computers			-		-	-	-		-
Photocopier			-		-	-	-		-
								Sub-Total	-
<b>B. Furniture</b>									
Filing Cabinets			-		-	-	-		-
Tables and Chairs			-		-	-	-		-

b. Office Supplies and other fixed costs.

The cost of offices supplies used by the Office can be obtained directly from the Accounting Department since they are based on actual purchases. If the actual data cannot be provided, the budget for regular office supplies can be given by the Budget Office and presume that all of it will be consume. The annual cost for supplies attributable for the delivery of the service is the cost of supplies utilized/budgeted for the year multiplied by the percentage of delivering the service against the overall function of the Office.

The LGU may have other major fixed costs not mentioned in this illustration. When costs are significant, those fixed cost must be identified and added in the template. Conversely, costs that are negligible may be dropped from the calculations.

**Table 16.  
Template Table for Estimating the Other Fixed Costs Associated  
with Inspection Services**

<b>Other Fixed Cost</b>			
<b>Particulars</b>	<b>Annual Rate</b>	<b>Percent of Use for Mayor's Permit Fees</b>	<b>Annual cost for business fees</b>
<b>(col 1)</b>	<b>(col 2)</b>	<b>(col 3)</b>	<b>(col 4)</b>
<b>BPLO</b>			
<b>A. Internet</b>			-
<b>B. Regular Office Supplies</b>			-
<b>CTO</b>			
<b>A. Internet</b>			-
<b>B Regular Office Supplies</b>			-
		<b>Total (BPLO)</b>	-
		<b>Total (CTO)</b>	-

c. Summary of Fixed Cost.

After computing for the different fixed cost components, total cost can shown in a table similar to Table 17 below:

**Table 17.  
Template Table Showing Total Fixed Cost**

<b>Summary Table - Fixed Costs</b>		
<b>Fixed Cost</b>	<b>BPLO</b>	<b>CTO</b>
<b>(col 1)</b>	<b>(col 2)</b>	<b>(col 3)</b>
<b>Office Space</b>	0	0
<b>Utilities</b>	-	-
<b>Electricity</b>	-	-
<b>Water</b>	-	-
<b>Telephone</b>	-	-
<b>Equipment and Furniture</b>	-	-
<b>Other Fixed Cost</b>	-	-
<b>TOTAL</b>	-	-

The summary can be closely reviewed to realistically identify areas for cost cutting.

The LGU should utilize actual cost data as it is available from the Accounting, Budget, or the Office actually performing the delivery of the service. However, in the absence of actual data, the following guidepost may be utilized to estimate the cost of services. These guideposts are rules of thumb or reasonable assumptions that will simplify the process of estimating the costs in the absence of concrete information.

**Box 1.**  
**Guideposts for Estimating Cost Components**

COST	GUIDE
<b>Manpower</b>	
Monthly basic salary of regular employees	Dept. of Budget salary schedule
Benefits (13 <sup>th</sup> month pay, VLs, etc.)	20% of employees basic salary
Salary of contractual workers	P350/ day
Number of working days per year	260 days
Percentage of time allocated for service	Based on own assessment
Transportation Cost	
Price per liter of gasoline	P54
Number of weeks per year	52
<b>Construction</b>	
Typical construction cost per sq. meter floor area	P20,000
Number of years depreciation for building	25 years
Maintenance expense of building	20% annual depreciation of rental cost
% Department's time allocated for service	Based on supervisor's own assessment
<b>Electricity</b>	
Power cost per KWH	P12 per KWH
Number of hours power usage per day	10 hours
Water	
Water cost per person per month	P100 per person
<b>Telephone Bill</b>	
Typical telephone bill per line per month	P2,500 per line
<b>Other Fixed Cost</b>	
Other Fixed Cost	20% of accounted fixed costs

STEP 4. Comparison of the Current Mayor's Permit Fee and the Cost of Delivering the Inspection Service

#### 4.1 Average Collection for Mayor's Permit Fee

To obtain the average Mayor's Permit Fee, LGUs can obtain the previous year's collection and divide it by the number of business permit applicants. The following illustrates the calculation for the average Mayor's Permit Fee.

**Table 18.**  
**Illustrative Computation of the Actual Fee per Applicant**

Procedure	
<b>1. Fee collection</b>	
Mayor's Permit Fee per year	11,000,000 Indicate the collection for Mayor's Permit Fee for the previous year
Total number of applicants	6,000 Indicate the total number of applicants for the previous year
<b>Actual fee per applicant (average)</b>	<b>1,833</b> Average actual fee = [Mayor's Permit Fee Collection] / [No. of Applicants]

#### 4.2. Average Cost of inspection and document processing

From the costing exercise, LGUs can summarize the variable and fixed costs of providing the inspection service, and obtain the average by dividing the total cost by the number of applicants. The following illustrates the calculation of the average inspection and processing cost per business permit applicant.

**Table 19.**  
**Illustrative Computation of the Cost of Providing Services per Applicant**

Procedure	
<b>2. Cost of Providing Service</b>	
<b>a. Business Permit and Licensing Department (BPLD)</b>	
Variable Cost	3,497,625 Add all variable cost items
Fixed Cost	827,136 Add all fixed cost items
Total Cost	4,324,761 Total cost = [Variable Cost] + [Fixed Cost]
<b>b. City Treasury</b>	
Variable Cost	3,500,000
Fixed Cost	700,000 Similar costing exercise should be conducted to arrive at the cost of treasury operations for the services
Total Cost	4,200,000
<b>Total Cost of providing business registration service provided by BPLD and City Treasury</b>	Total cost for Mayor's Permit processing = [Total Cost for BPLD] + [Total Cost for City Treasury] 8,524,761
Total number of applicants	6,000 Indicate the total number of business applicants
<b>Correct fee per applicant (average)</b>	<b>1,421</b> Correct fee per applicant = [Total Cost] / [Number of applicants]

STEP 5. Adjustment in Fee

LGUs will benefit by comparing the average fee charged to businesses with the average cost of providing the services. Fees that exceed the cost of providing the services by a large percentage (e.g. 10%) can be adjusted downwards in order to maintain reasonableness of fees. Similarly, fees that turn out to be much lower than the cost of providing services can be adjusted upwards in order to cover the cost of providing the service. The following illustrates the comparison of average Mayor's Permit fee and the cost of providing the services corresponding to the fee.

**Table 20.  
Illustrative Computation of Adjustment in Current Fees After Considering  
the Cost of Service Delivery**

		Procedure
<b>3. Adjustment in fee</b>		
Average fee collected per applicant	1,833	Indicate average actual Mayor's Permit Fee
Correct fee per applicant	1,421	Indicate the correct fee per applicant
Excess fee charged to applicant (average)	413	Excess Fee= [Actual Fee] - [Correct Fee]
<b>% in excess of current average fees</b>	<b>23%</b>	% Excess Fee= [Excess Fee] / [Correct Fee]

## ANNEX 2. DRAFT CIRCULAR TRANSMITTING THE GUIDELINES FOR SETTING REASONABLE FEES AND CHARGES FOR INSPECTION SERVICES



Republic of the Philippines  
BUREAU OF LOCAL GOVERNMENT FINANCE  
DEPARTMENT OF FINANCE

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Roxas Boulevard, Manila 1004 \* Telefax Nos. 527-2780 / 527-2790  
Email: blgf@blgf.gov.ph

LOCAL FINANCE CIRCULAR NO. \_\_\_\_

TO: ALL REGIONAL DIRECTORS, BUREAU OF LOCAL GOVERNMENT FINANCE; PROVINCIAL, CITY AND MUNICIPAL TREASURERS; AND OTHERS CONCERNED

SUBJECT: GUIDELINES IN SETTING REASONABLE FEES AND CHARGES FOR INSPECTION SERVICES RENDERED BY LOCAL GOVERNMENT

DATE:

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The 1991 Local Government Code defines a *Fee* as a charge fixed by law or ordinance for the regulation or inspection of business or activities. The Local Government Code also provides the basis for the amount of fee or charges to be imposed and collected on business and occupation as being “commensurate with the cost of regulation, inspection and licensing before any person may engage in such business or occupation....” (Section 147).

In order to set appropriate fees and charges, local governments must be able to determine the cost of providing services in connection with regulation, inspections, and licensing. The purpose of this circular is to provide a guideline to assist local government units (LGUs) in setting reasonable fees and charges for inspection services rendered by cities and municipalities as part of the business registration processes. All City and Municipal Treasurers are enjoined to use this guideline to set or review fees and charges for inspection services.

This Circular shall take effect immediately.

**Salvador M. Del Castillo**  
OIC-Executive Director

# **ANNEX 3. DRAFT DTI-DILG-DOF JOINT MEMORANDUM CIRCULAR ON IMPLEMENTING A BUSINESS FRIENDLY INSPECTION SYSTEM IN ALL CITIES AND MUNICIPALITIES**

**DRAFT (v2;06.18.13)**

**REPUBLIC OF THE PHILIPPINES**

**Joint Memorandum Circular No. \_\_, Series of 2013  
\_ June 2013**

**TO: THE REGIONAL AND PROVINCIAL DIRECTORS OF THE DEPARTMENT OF THE INTERIOR AND LOCAL GOVERNMENT AND THE DEPARTMENT OF TRADE AND INDUSTRY, THE BUREAU OF FIRE PROTECTION, THE BUREAU OF LOCAL GOVERNMENT FINANCE, AND MEMBERS OF THE SANGGUNIANG PANLUNGSOD AND SANGGUNIANG BAYAN**

**SUBJECT: GUIDELINES FOR IMPLEMENTING A BUSINESS-FRIENDLY INSPECTION SYSTEM IN ALL CITIES AND MUNICIPALITIES**

## **1.0 Purpose**

- 1.1 To provide the guidelines for conducting business-friendly local inspections in the Philippines that will complement the service standards for processing business permits in cities and municipalities set in the DTI-DILG Joint Memorandum Circular No. 01, series of 2010 issued on August 6, 2010;
- 1.2 To clarify the roles and responsibilities of the Department of the Interior and Local Government (DILG), the Department of Trade and Industry (DTI), the Bureau of Local Government Finance (BLGF), the Bureau of Fire Protection (BFP) and the various cities and municipalities in the country in ensuring the implementation of business inspection reforms.

## **2.0 Statement of Policies**

- 2.1 The conduct of inspections is mandated under Section 16 of the Local Government Code of 1991 to ensure compliance with rules and regulations that were formulated to promote and protect public welfare. It is an integral part of the business permitting process, which is currently being streamlined by the government in order to reduce cost of doing business in the country.

- 2.2 Pursuant to Republic Act No. 9485 otherwise known as the Anti-Red Tape Act (ARTA) of 2007 (ARTA), all government instrumentalities and local government units are mandated to provide efficient delivery of services to the public by reducing bureaucratic red tape and preventing graft and corruption, and providing penalties thereof. The ARTA, which provides the legal basis for re-engineering the current business processing systems at the local level, sets benchmarks for processing simple and complex transactions which are applicable to the conduct of business inspections.
- 2.3 While inspections are necessary for the protection of public welfare, their conduct should be as business-friendly as possible, i.e. the concerned LGUs should ensure that the inspection processes that are adopted are effective, efficient, fair and transparent, with the minimum disruption of business operations. The DILG, in partnership with the DTI, has prepared the ***BPLS Inspections Guide: Conducting Business-Friendly Local Inspections in the Philippines***, which can be used by cities, municipalities and the BFP in streamlining and designing a business-friendly inspection system.
- 2.4 The regulatory burden of conducting business inspections should be minimized to the extent possible. Inspection fees are imposed to recover the cost of conducting inspections and should not be used as instruments to raise revenues.

### **3.0 Best Practices for Effective Inspections**

As part of the government initiative to make cities and municipalities more competitive, local governments and the BFP are enjoined to review their inspection processes and ensure that these conform to the following principles:

- 3.1 Clarity of Statutory/Regulatory Basis.** The conduct of the inspection must be prescribed and authorized by a national or local law, or both. Moreover, the inspection process must have clear policy objectives and a way to safeguard these objectives. Inspections that do not have legal basis tend to be arbitrary, thus, among other effects, create richer opportunities for corruption.
- 3.2 Prior Inspection Notice.** The applicant must be notified that a particular inspection is to be conducted on its premises and when such inspection is to be conducted. This notification will give the applicant the opportunity to get the assistance of the appropriate professional during the inspection so that technical clarifications can be understood and made and positive findings can be more readily corrected. It will also give the business owner the chance to arrange his/her schedule so s/he could be present during the inspection.
- 3.3 Qualified Inspectors.** Inspections should be conducted by qualified inspectors, in terms of education, training and background.

**3.4 Formulation and Use of Professional Inspection Checklists.** The inspecting authority must create an inspection checklist that will be used during inspection. Checklists ensure that the parameters used during inspections are standardized, consistent and transparent, thus reducing discretion, which increases the opportunities for corruption. The minimum information that should be contained in the checklist are: (1) the name of the inspector and his/her position together with his/her signature; (2) the time and date of the inspection; and (3) an affirmative statement where the business owner or his authorized representative acknowledges the conduct of the inspection and the receipt of a copy of the inspection report and verifies that s/he has a clear understanding of any positive findings and the measures needed to comply.

**3.5 Proper Procedures during Inspections.** Inspections should be conducted as efficiently as possible. The following should be observed during inspections:

- (7) The conduct of inspection should be completed within a reasonable period of time without undue delay;
- (8) Except when justified, no more than two inspectors from the same inspectorate group should conduct the actual inspection;
- (9) Inspections should be conducted in the presence of business owner or the authorized representative of the business establishment, preferably a person knowledgeable about the subject of the inspection;
- (10) Inspectors should refrain from asking food, money or any favors from the representative of the business establishment;
- (11) A unified inspection checklist should be used and completed in the course of the inspection, including all positive findings, comments and recommended courses of action for their own reference and that of the business owner;
- (12) The checklist should record the reasons why a business establishment is or is not compliant with each criteria through an indicator system detailing the level of compliance;
- (13) Findings should be explained to the representative of the business establishment;
- (14) A copy of the completed checklist signed and dated by the inspector should be left with the business owner or authorized representative of the business establishment; and
- (15) The checklist should indicate the proposed timeframe for remedying a positive finding and when the business establishment can expect another inspection.

**3.6 Prompt Notification of Results.** The results of an inspection should be released at the soonest possible time. If there are no positive findings, the certificate, clearance or permit being applied for should be released the day after the inspection. If there is a violation, the applicant must be informed whether (a) the violation can be remedied, what needs to be done to remedy it, and within what period of time; (b) the violation cannot be remedied and that, consequently, the certificate, clearance or permit is not going to be issued; or (c) the violation will result in a fine or other penalties if not remedied.

If a dispute resolution mechanism to resolve disagreements on the outcome of the inspection exists in an LGU, this must be explained clearly and in detail in the notification of the inspection results. This mechanism should enable the applicant to appeal an adverse finding during the inspection.

**3.7 Providing Mechanisms for Dispute Resolution.** The LGU should be responsible for providing a simple and transparent procedure for disputing findings so that business owners do not view imposed penalties as arbitrary, unjust or unreasonable. There should be a venue for the appeals process, and ensure that disputes are resolved within a reasonable timeframe. The dispute resolution, ideally, should be codified in an inspection ordinance.

**3.8 Elimination of Duplicative Inspections.** LGUs should consider eliminating conducting inspections for certain types of inspections, such as the following:

**(1) Commercial Building Inspections.** Building inspections may not longer be needed for individual establishments located in shared premises such as commercial buildings and malls. The inspection requirements are already covered by the annual building inspection prescribed under the Building Code's Implementing Rules and Regulations.

**(2) Sanitation Inspection for Renewal.** The annual sanitation inspection of business premises may be dismissed as a prerequisite for business permit renewal in the case of businesses that are not subject to such inspection under the Sanitation Code. An initial sanitation permit, however, is still required for new businesses.

**(3) Inspections for Collection of Readily Available Data.** Inspections may no longer be necessary if the data that can be provided by the inspection process is accessible. The ocular inspection for the issuance of locational clearance is one such activity. There are maps, such as google or the geographic information system, that can ascertain the location of a stated address. Relatedly, inspections usually undertaken by the Treasurer's offices and the Business Permits and Licensing Offices to ascertain the location and lines of activity of the applicant should be coordinated and integrated with those conducted by other departments of the city and/or municipality.

**(4) Zoning and Radial Distance.** Inspections for purposes of zoning and radial distance clearance may be eliminated completely, particularly in the following instances:

- (d) When the business is clearly within the area authorized for such purpose based on the provision of the LGU's zoning ordinance and various zoning maps;
- (e) Business permit renewal when there is no change in the address of the business establishment;

- (f) The business permit sought is clearly within the declared purpose of the building, as may be apparent from the building permit and occupancy permits that were issued for the building; and
- (g) The business permit applicant owns the building has just secured an occupancy permit not more than a year prior to the date of application for a business permit; and the business is consistent with the declared purpose or use of the building as indicated in the occupancy permit.

#### **4.0 Rationalization of Inspection Fees**

**4.1 Set Reasonable Fees and Charges for Inspection Services.** A fee is defined under Section 131 of the Local Government Code as a “charge fixed by law or ordinance for the regulation or inspection or a business or activity.” Section 147 of the Local Government Code provides the measure of reasonable fees which can be charged on businesses and occupations, i.e. “it is commensurate with the cost of regulation, inspection and licensing....” LGUs are therefore enjoined to set inspection fees based on the cost of rendering inspection services using a cost accounting framework. Annex 1 contains the guide for applying this framework in computing for inspection fees. The Bureau of Local Government Finance under the Department of Finance shall provide training programs for LGUs which would require assistance in reviewing their inspection fee schedules.

**4.2. Repeal of Duplicative Fire Inspection Fees.** Some LGUs have ordinances that require the payment of fire inspection fees above and beyond those collected by the BFP. These ordinances should be repealed and that these personnel enforce other legal requirement based on a legal basis or authority other than the Fire Code.

**4.3 Disambiguation of Similar Fees.** The simultaneous imposition of closely related fees, particularly those that are not readily distinguishable on the basis of their names, such as “Environmental Protection/Supervision Fee” and “Environmental Protection Office Accreditation Fee” as well as “Sanitation Inspection Fee” and “Sanitation Permit Fee,” should be avoided.

**4.4. Proper Application of Fees.** LGUs and the BFP should not charge inspection fees for inspections that are not conducted. LGUs should review ordinances that categorically prescribe inspection fees and ensure that inspections are conducted.

#### **5.0 Timing of Inspections**

**5.1 Synchronizing inspections conducted during building and occupancy permit phases, the business registration phase and annual inspections.** LGUs are

enjoined to review the objectives and scope of inspection to be conducted in the three phases stated above by differentiating between asset-specific and operations-specific assessments. The former focuses on determining whether an asset, such as a building, is compliant with technical standards and specifications prescribed in the Building Code, among others. Operations-specific assessments ensure that the applicant follows the applicable safety, health or environmental standards as it operates its business. Hence, applicants should not be made to undergo inspection for zoning, environment, health and sanitation during the business registration phase if the applicant has already been subjected to and passed the inspection conducted during the phase for securing occupancy permits.

## 5.2 Streamlined Procedure for the Fire Safety Inspection Certificate (FSIC).

FSIC issued on newly constructed, reconstructed and/or renovated building or structure to support the grant of an Occupancy Permit can be used as basis for the issuance of new FSIC for Business Permit upon payment of applicable fire code fees, provided all the following requirements are met, to wit:

- (1) The applicant shall submit the documentary requirements specified in section 9.0.4.2 of the IRR of the amended Fire Code, as follows: (a) application for New Business Permit/Endorsement from the Business Permit Licensing Office (BPLO); (b) assessment of Business Permit/Tax Bill for Business Permit; (c) copy of Fire Insurance Policy, if any; (d) copy of the Fire Inspection Certificate for Occupancy Permit issued within six (6) months of application for new business permits;
- (2) FSIC for occupancy permit can only be used by the person who was issued the same, provided that the application for FSIC for Business Permit shall be made within six (6) months from the issuance of the FCIS for Occupancy Permit.

However, the issuance of the said new FSIC will not in any way prevent or diminish the authority of the City or Municipal Fire Marshalls concerned to conduct fire safety inspection to the building or structure where the business is being conducted, simultaneously or anytime thereafter as may be deemed necessary. Any violation found in the conduct of said inspection shall cause the issuance of Notice to Comply (NTC) and/or Notice to Correct Violation (NTVC) and non-compliance thereof may cause the subsequent cancellation of the FSIC issued.

## 5.3 Automating the Inspection System

Consistent with government initiative to automate the business permitting system in the Philippines, LGUs are encouraged to integrate the automation of the inspection

system with the business permit and licensing system (BPLS), specifically the following aspects: (1) development of a building and occupancy database; (2) computerization of past inspections results; and (3) use of a GIS and other digital maps and searchable text files for zoning clearance purposes.

## **7.0 Roles and Responsibilities**

### **7.1 Local Government Units (Cities and Municipalities)**

- (2) The LGUs, represented by the Local Chief Executive/Mayor, together with the *Sanggunian*, are enjoined to undertake the following:
  - (f) organize Technical Working Groups (TWGs) to oversee the setting up of business-friendly inspection systems in their locality following the ***BPLS Inspection Guide***;
  - (g) review local inspection fees and ensure that these reflect the cost of rendering the service by using the cost accounting framework being promoted by the BLGF;
  - (h) ensure that the automation of business permits and licensing system include the inspection processes and the departments involved in the process;
  - (i) ensure the preparation and implementation of the requisite orders, ordinances and directives relative to conducting business-friendly inspection systems; and
  - (j) allow the participation of LGU representatives in capacity building activities related to these guidelines that will be initiated by the DILG and DTI;
- (3) Provide the enabling environment for inspection reforms, namely, the formulation of an inspection ordinance that will implement these guidelines and other legal instrumentalities, provide the budget and logistical support necessary in instituting inspection standards to include, but not limited to, manpower, organization and activities of joint inspection teams (JIT) and conduct of information, education and communication campaigns (IEC).

### **7.2 Department of the Interior and Local Government**

- (8) The DILG shall act as the overall coordinator for setting business-friendly local inspection systems nationwide following the **BPLS Inspections Guide** and the provisions of this circular in coordination with other agencies and among its regional, local government operations officers, bureaus and attached agencies.
- (9) DILG shall conceptualize and organize capacity building programs for concerned LGUs using the ***BPLS Guide for Inspection***.

(10) The DILG, as Co-Convener of the Working Group on Decentralization and Local Government under the Philippine Development Forum, shall promote the inspection project and take responsibility in enjoining the development community to support the project.

### **7.3 Department of Trade and Industry**

(2) The DTI shall assist the DILG in promoting the setting up of business-friendly inspection system thru its regional and provincial offices, which have been providing technical support to LGUs in streamlining their business permitting procedures.

(3) The DTI, as Co-Convener Of the Working Group on Growth and Investment Climate, under the Philippine Development Forum shall assist the DIILG in securing the support of the private sector and the development partners in promoting streamlined inspection systems at the local level.

### **7.4 Department of Finance (Bureau of Local Government Finance)**

(7) The BLGF shall provide LGUs with the guidelines for setting reasonable fees and charges for inspection services rendered by LGUs, in coordination with the city and municipal Treasurers' Offices.

### **8.0 Enforcement Clause**

This Joint Memorandum Circular shall enforce all the provisions of Republic Act No. 9485 or Anti-Red Tape Act of 2007 and its Implementing Rules and Regulations.

### **9.0 Separability Clause**

If any clause, sentence or provision of this Joint Memorandum Circular shall be invalid or unconstitutional, its remaining parts shall not be affected thereby.

### **10.0 Repealing Clause**

All orders, rules and regulations inconsistent or contrary to the provisions of this Joint Memorandum Circular are hereby repealed or modified accordingly.

### **10.0 Effectivity**

This Joint Memorandum Circular shall take effect immediately.

**Department of the Interior and Local Government**

**Department of Trade and Industry**

**Department of Finance**

## ANNEX 4. DRAFT DOF CIRCULAR PRESCRIBING THE SETTING OF REASONABLE REGULATORY FEES



**REPUBLIC OF THE PHILIPPINES**  
**DEPARTMENT OF FINANCE**

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LOCAL FINANCE CIRCULAR NO. \_\_\_\_

\_\_\_\_\_ [date]

FOR : LOCAL CHIEF EXECUTIVES, VICE-MAYORS, VICE-GOVERNORS SANGGUNIANG MEMBERS, REGIONAL DIRECTORS OF THE BUREAU OF LOCAL GOVERNMENT FINANCE, PROVINCIAL, CITY, MUNICIPAL TREASURERS AND OTHERS CONCERNED

SUBJECT: PRESCRIBING GUIDELINES FOR THE SETTING OF REASONABLE REGULATORY FEES AND USER CHARGES FOR LOCAL GOVERNMENT UNITS

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### 5. GUIDING PRINCIPLES

5.1. Sections 147, 151, and 153 of Republic Act 7160 otherwise known as the Local Government Code, allow local government units (LGUs) to impose and collect reasonable fees and charges on business and occupation and on the practice of any profession and calling commensurate with the cost of regulation, inspection and licensing before any person may engage in such business or occupation, or practice of such profession or calling.

5.2. Administrative Order No. 31 dated October 12, 2012 directed all heads of Departments, Bureaus, Commissions, Agencies, Offices and Instrumentalities of the National Government, including Government-Owned and Controlled Corporations (GOCCs), to rationalize the rates of their fees and charges, and if found necessary, increase their existing rates and impose new fees and charges.

5.3. The regulation of business and activities as well as the delivery of services to the people, through the local governments entails costs to the government, and equity requires that persons benefitting from the services should share the cost of providing such services.

5.4. However, the determination of the amount of the fees and charges shall be a balance between recovering the cost of services rendered and the socio-economic impact of such imposition. Any revision of fees and charges need to be coordinated with stakeholders to ensure that the rates are just and reasonable and to minimize, if not avoid, unintended impact on the local economy and the general public.

## 6. PURPOSE

This Circular is being issued for the guidance of LGUs to ensure uniform procedures in setting reasonable fees and charges as provided for in the provisions of the Local Government Code of 1991 (R.A. 7160). It also considers the importance of balancing the twin objectives of cost recovery in setting fees and realizing positive socio-economic impact of the measure, as provided in Section 2 of Administrative Order No. 31 on "Rationalizing the Fees and Charges Imposed by the National Government."

## 7. SCOPE

This Circular shall apply to all fees and charges being imposed by local government units, whether regulatory or service fees, except when the rate or the method for determining the rate has already been prescribed under the Local Government Code.

## 8. DEFINITION OF TERMS

8.1. "Cost of Service" refers to the sum of (a) direct costs such as supplies, materials, salaries/wages of personnel directly involved and proportionate share in the overhead expenses incurred by the LGU in rendering service, and (2) such expenses incurred by the LGU in rendering the service, and (b) such other readily identifiable incidental expenses incurred in rendering the service. The cost of service shall be considered equivalent to the regular budget of the operating department/division/unit rendering the pertinent service as authorized in the appropriation ordinance.

8.2. "Cost recovery" refers to the process of compensating the cost associated with the provision of services (including regulation), which involves the collection of user or regulatory fees to ensure long-term sustainability.

8.3. "Fees and charges" refers to levies imposed on direct recipients of public goods and services by LGUs in the exercise of their mandated regulatory and service delivery functions.

8.4. "Socioeconomic impact" refers to any potential positive or negative change in the socioeconomic environment of stakeholders, particularly the business sector, whether directly or indirectly, that is expected to arise with the introduction and implementation of a policy intervention.

## 9. DETERMINATIO OF REASONABLE RATES OF FEES AND CHARGES

The rates of fees and charges shall be revised at just and reasonable rates sufficient to recover the cost of services rendered taking into consideration the following:

- 9.1. The direct cost of rendering the services broken down into the fixed and variable costs. These shall include the salaries and wages of personnel directly involved in delivering the service, costs of supplies and materials, the proportionate share in the overhead expenses including depreciation rates of equipment and utilities used.
- 9.2. The inflation rate since the rate of imposition or last revision of the subject rates of fees and charges.
- 9.3. The revision shall be, to the extent possible, be uniform for similar or comparable services and functions offered by LGUs.
- 9.4. The concerned LGUs shall identify and evaluate the potential socio-economic impact of any proposal .
- 9.5. The revised rates shall be imposed through the issuance of an appropriate ordinance and compliance to all legal requirements including the conduct of a public hearing and publications.

#### 10. CREATION OF A COMMITTEE ON THE REVISION OF FEES AND CHARGES

- 10.1. Within three (3) months after the effectivity of this Circular, Local Chief Executives shall issue an executive order creating the Committee on the Revision of Fees and Charges composed of the following:

Chairperson:	Chairman, Sanggunian Committee on Ways and Means
Co-Chairperson:	LGU Treasurer
Members:	LGU Budget Officer
	LGU Planning and Development Coordinator
	LGU Accountant

Sanggunian Secretary

- 10.2. The Committee on Revision of Fees and Charges shall have the following functions and responsibilities:
  - a. Ensure that the guiding principles as prescribed under the Local Government Code and this Circular are observed;
  - b. Review the rationale for fees and charges imposed by the LGU and methodology for determination of the fee rates;
  - c. Gather data on the cost of delivering regulatory and service fees in order to compute the appropriate rates that will recover the cost;
  - d. Assess the socio-economic impact of the impositions; and

- e. Submit to the Local Chief Executive and the Sanggunian a report of findings and recommendation including a program of action to institute reforms, whenever necessary.

#### 7.0 UPDATING OF LOCAL REVENUE CODES

LGUs shall call for the immediate updating of their respective Revenue Code particularly on fees and charges where adjustments are necessary.

#### 8.0 TECHNICAL ASSISTANCE TO BE PROVIDED BY THE BUREAU OF LOCAL GOVERNMENT FINANCE

The Bureau of Local Government Finance of the Department of Finance shall prepare a tool kit for local government units (LGUs) containing the cost accounting framework in the determination of the reasonable rate of fees and charges including simple Excel-based templates for LGU convenience. The Regional Offices shall prepare a technical assistance program that will be made available to the LGUs.

#### 9.0 MONITORING OF COMPLIANCE

The Bureau of Local Government, this Department Finance through its Regional Offices shall monitor compliance by LGUs. It should keep track of the trends in revenue collection to monitor the impact of adjustments on local collection from fees.

#### 10. REPEALING CLAUSE

All rules, regulations, orders, and/or Circulars previously issued by the Department that is contrary to, or inconsistent with, the provisions of this Circular are hereby repealed or modified accordingly.

#### 11. EFFECTIVITY

This Circular shall take effect immediately.

The Regional Directors of the Bureau of Local Government Finance and District Treasurers of Metropolitan Manila are hereby instructed to disseminate the this Circular to all Local Chief Executives, Vice-Mayors, Vice-Governors Sanggunian Members, Provincial, City, Municipal Treasurers and others concerned within their respective jurisdictions for their information and guidance.

**CESAR V. PURISIMA**