

*Republic of the Philippines*  
**HOUSE OF REPRESENTATIVES**  
Quezon City

**TWENTIETH CONGRESS**  
*First Regular Session*

**HOUSE BILL NO. 8221**



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Introduced by: Hon. Keith Micah "Atty. Mike" D.L. Tan

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**AN ACT**  
**ABOLISHING THE PERSONNEL SERVICES EXPENDITURE CAP FOR LOCAL GOVERNMENT UNITS, AMENDING FOR THE PURPOSE REPUBLIC ACT NO. 7160, OTHERWISE KNOWN AS THE "LOCAL GOVERNMENT CODE OF 1991"**

**EXPLANATORY NOTE**

The "Personnel Services (PS) Cap," as defined under Sections 325 and 331 of Republic Act No. 7160, or the Local Government Code of 1991, was a fiscal mechanism designed for a pre-digital, highly centralized era of governance. By arbitrarily limiting personnel spending to 45% or 55% of a Local Government Unit's (LGU) income, the law sought to prevent administrative bloat. However, in the current landscape of 2026, this "fiscal straightjacket" has become the primary obstacle to local professionalization.

With the full implementation of the Supreme Court ruling in *Mandanas v. Garcia, et al.*<sup>1</sup>, LGUs have seen a significant increase in their National Tax Allotment (NTA). Yet, the PS Cap remains a static percentage that fails to account for the massive devolution of functions. Today, LGUs are tasked with managing complex healthcare systems, climate resilience initiatives, and digital infrastructure, yet they are legally prohibited from hiring the necessary specialized personnel—such as data scientists, specialized surgeons, and urban planners—because their salaries would breach the 1991 ceilings.

Furthermore, the PS Cap has inadvertently institutionalized "Contractualization" in the public sector. To circumvent these limits, LGUs have resorted to hiring thousands of Job Order (JO) and Contract of Service (COS) workers<sup>2</sup>. These employees perform core government functions but lack security of tenure, GSIS coverage, and standardized benefits, creating a precarious class of civil servants.

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<sup>1</sup> Supreme Court of the Philippines. (2018). *Mandanas, et al. vs. Executive Secretary, et al.*, G.R. Nos. 199802 & 208488

<sup>2</sup> Department of Budget and Management & Civil Service Commission. (2024). Joint Circular No. 1, s. 2024: Rules and regulations governing Contract of Service and Job Order workers in the government.

This bill seeks to abolish the arbitrary percentage cap and replace it with a Fiscal Sustainability and Performance-Based Framework. By shifting the focus from "how much is spent" to "how effectively the budget is managed," we empower LGUs to invest in their human capital, implement the full tranches of the Salary Standardization Law, and ultimately deliver the high-quality public service that every Filipino deserves

In view thereof, immediate consideration of this bill is earnestly sought.

A handwritten signature in black ink, appearing to read 'Keith Tan', with a stylized flourish at the end.

**Keith Micah "Atty. Mike" D.L. Tan**  
4th District, Quezon

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*Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:*

SECTION 1. *Short Title.* - This Act shall be known as the “Local Government Fiscal Autonomy and Professionalization Act.”

SEC. 2. *Declaration of Policy.* - It is hereby declared the policy of the State to ensure that local government units (LGUs) possess genuine fiscal and administrative autonomy to attain their fullest development as self-reliant communities. The State recognizes that the quality of public service is directly contingent upon a highly competent, well-compensated, and stable civil service.

SEC. 3. *Definition of Terms.* - For the purposes of this Act:

(a) *Personnel Services (PS)* refers to the budgetary category for all compensation of local government personnel, including but not limited to basic salaries, wages, step increments, longevity pay, honoraria, and allowances; as well as the LGU’s share in retirement and insurance premiums, PhilHealth, Pag-IBIG, and other statutory benefits;

(b) *Fiscal Sustainability Framework (FSF)* refers to a set of dynamic financial parameters established by the Department of Budget and Management (DBM) to evaluate an LGU’s capacity to fund its personal services without compromising its debt-servicing capacity or its mandatory developmental and disaster-risk expenditures; and

(c) *Service Requirement Analysis (SRA)* refers to a comprehensive technical assessment submitted by an LGU justifying the creation of new positions or salary adjustments based on demographic shifts, complexity of devolved functions, and

the LGU's Comprehensive Development Plan (CDP).

SEC. 4. *Repeal of the Personnel Services Cap.* – Section 325 (a), and Section 331 (b) of Republic Act No. 7160, otherwise known as the “Local Government Code of 1991,” are hereby repealed.

SEC. 5. *Adoption of the Fiscal Sustainability and Performance Framework.* – In lieu of the percentage-based cap, the DBM, in consultation with the Department of the Interior and Local Government (DILG), shall implement a Fiscal Sustainability Framework (FSF). LGUs shall be granted full discretion in appropriating for Personnel Services.

Any salary adjustment is in accordance with the Salary Standardization Law (SSL) or its subsequent tranches as mandated by the National Government. The hiring of new personnel is supported by a documented Service Requirement Analysis (SRA) approved by the local Sanggunian.

SEC. 6. *Non-Diminution of Benefits.* - Nothing in this Act shall be construed to reduce or diminish the existing salaries, allowances, and benefits currently enjoyed by government officials and employees.

SEC. 7. *Implementing Rules and Regulations.* – Within ninety (90) days from the effectivity of this Act, the DBM, DILG, and CSC shall jointly promulgate the necessary rules and regulations for its effective implementation.

SEC. 8. *Repealing Clause.* - All laws, presidential decrees, executive orders, rules and regulations or part thereof, contrary to or inconsistent with the provisions of this Act, are hereby repealed or modified accordingly.

SEC. 9. *Separability Clause.* - If any section or provision of this Act is held unconstitutional or invalid, all other sections or provisions shall remain in full force and effect.

SEC. 10. *Effectivity.* -This Act shall take effect fifteen (15) days after its publication in the Official Gazette and/or in at least two (2) newspapers of general publication in the Philippines.

*Approved,*