



REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
MALACANANG, MANILA

NATIONAL BUDGET MEMORANDUM

No. 105

F O R : All Heads of Departments, Agencies, Bureaus, Offices, Commissions, State Universities and Colleges, other Instrumentalities of the National Government and all Others Concerned

SUBJECT : **POLICY GUIDELINES AND PROCEDURES IN THE PREPARATION OF THE FY 2011 BUDGET PROPOSALS**

1.0 PURPOSE

- 1.1 To provide the overall macroeconomic and fiscal policy framework and thrusts for FY 2011;
- 1.2 To prescribe the guidelines and procedures in the preparation of the FY 2011 agency budget consistent with public expenditure reforms including the Medium-Term Expenditure Framework (MTEF) and the Organizational Performance Indicator Framework (OPIF), and;
- 1.3 To set the schedule of budget preparation activities.

2.0 BUDGET FRAMEWORK

- 2.1 The FY 2011 National Budget shall address two major concerns: (a) to provide the initial fiscal and budget scenario for the transition to a new administration and (b) to sustain expenditure management reform to support a stronger, more inclusive growth. With the coming of a new administration in July 2010 and the possible redirections in the fiscal stance for the coming years, the economic and fiscal framework for FY 2011 remains conservative.
- 2.2 Nonetheless, the FY 2011 Budget will reflect the government's continuing commitment to fiscal consolidation and shall be formulated strategically within a medium-term planning and results-based budget framework. In particular, the budget shall

give priority to the completion of major ongoing programs and newly-approved commitments while considering expenditure proposals in identified priority sectors of the national government.

2.3 As approved by the Development Budget Coordination Committee (DBCC), the focus for funding for FY 2011, shall be the following priority sectors/expenditures:

- ❖ Recovery and reconstruction projects with the objective of “building back better” to implement quality improvements, disaster resilience and climate change adaptation given the damage and losses inflicted by typhoons “Ondoy” and “Pepeng”;
- ❖ Infrastructure development, particularly asset preservation to improve the quality of infrastructure facilities;
- ❖ Basic education services to increase efficiency in delivery through alternative ways such as outsourcing, more viable and credible alternatives to schooling, harmonization and unification of the scholarship system and student financial assistance;
- ❖ Health services to pave the way for meeting the Millennium Development Goals (MDGs) especially reducing the maternal mortality ratio from a baseline of 209:100,000 live births in 1993 to 52:100,000 live births by 2015;
- ❖ Social welfare services to ensure the full coverage of one million poor household beneficiaries under the Pantawid Pamilyang Pilipino Program (4Ps) or conditional cash transfer program;
- ❖ Agricultural development to help achieve food security and raise farmers’ income; and,
- ❖ Environmental development to help establish an effective response to climate change.

2.4 These priority sectors/expenditures were determined in the context of the MTEF and the OPIF, which shall be institutionalized in the planning/budgeting process:

2.4.1 MTEF

- 2.4.1.1 To ensure the strategic allocation of resources, the Paper on Budget Strategy (PBS) shall continue to be the principal tool in integrating

policy and resource allocation in meeting development objectives.

The allocation of the fiscal space among the priority sectors/expenditures concerned, as recommended by the DBCC and as approved by the President, shall be duly communicated.

- 2.4.1.2 To promote predictable funding for approve core programs and projects of the departments/agencies, the Forward Estimates (FEs) shall serve as the indicative budget ceilings of departments/agencies as well as a validation instrument for assessing agency proposals.

For the FY 2011 budget preparation cycle, the FEs for FYs 2011–2013 were formulated by the DBM based on the actual OPIF-based physical and financial performance data from FYs 2007 to 2009 and the FY 2010 National Expenditure Program (NEP). Most were done in consultation with concerned departments/agencies.

2.4.2 OPIF

- 2.4.2.1 The OPIF or the Performance Based Budgeting approach involves a review of the agencies' existing budgetary programs and projects to ensure that these support their core mandated functions and produce the targeted outcomes and outputs. The OPIF performance targets and indicators shall be an important input in the evaluation of budgetary proposals for FY 2011.

- 2.4.2.2 Departments/agencies/Other Executive Offices (OEOs) shall ensure the alignment of their programs, projects and activities with their Major Final Outputs (MFOs). Funding proposals shall likewise ensure consistency with stated output targets.

- 2.4.2.3 Agencies shall continuously strive to achieve greater efficiency and value for money in spending government resources.

- 2.5 Thus, the FY 2011 budget preparation exercise shall aim for the following:

- 2.5.1 Ensure that the national budget is aligned with the overall development and growth agenda, and consistent with the fiscal consolidation strategy, specifically through the MTEF;
- 2.5.2 Require agencies to focus on performance/results in allocating their budgets consistent with their respective organizational goals, with the status of MFOs as the basic input. Hence, it is important that the agencies continuously improve their capacities for monitoring, evaluating and reporting their financial and physical performance using agreed upon performance indicators; and,
- 2.5.3 Improve efficiency and effectiveness in government operations by continuously developing better options for implementing programs and projects and incorporating the implications of the following public sector reforms on their budget proposals:
 - 2.5.3.1 The Rationalization Program under Executive Order (EO) No. 366 relative to the strategic review and restructuring of agency operations;
 - 2.5.3.2 Cost recovery measures to raise revenue enhancement efforts and improve service delivery;
 - 2.5.3.3 Mandatory use of the Philippine Government Electronic Procurement System (PhilGEPS) for transparency and efficiency purposes as well as following the procurement rules under Republic Act (RA) No. 9184 updated as of July 2009;
 - 2.5.3.4 Implementation of the National Guidelines for Internal Control Systems, issued in October 2008, and the creation and strengthening of Management Units and Internal Audit Units under Circular Letter (CL) No. 2008-5 dated April 14, 2008;
 - 2.5.3.5 Pursuit of ISO certification and quality management improvements as mandated under EO No. 605 dated February 23, 2007; and,
 - 2.5.3.6 Gradual reduction of lump sum funds in the department budgets and Special Purpose Funds to enhance transparency, accountability and better implementation.

3.0 MACROECONOMIC AND FISCAL TARGETS

3.1 Macroeconomic Assumptions

The preparation of the FY 2011 budget proposals shall be based on the following key macroeconomic assumptions as approved by the DBCC on May 6, 2010.

PARAMETER	2009 Actual	2010	2011	2012 ^{/p}	2013 ^p
GNP Real Growth (%)	3.0	4.3 – 5.3	5.6 – 6.5	6.6 – 7.4	7.4 – 8.3
GDP Real Growth (%)	0.9	2.6 – 3.6	3.8 – 4.7	4.8 – 5.7	5.5 – 6.4
Inflation (%)	3.2	3.5 – 5.5	3.0 – 5.0	3.0 – 5.0	3.0 – 5.0
91-day T-bill rate (%)	4.2	4.0 – 6.0	4.0 – 6.0	4.0 – 6.0	4.0 – 6.0
FOREX (P/US\$)	47.6	45.0 – 47.0	45.0 – 47.0	45.0 – 47.0	45.0 – 47.0

Sources: BSP, NEDA, NSCB
^{/p} – preliminary targets

3.1.1 From a 0.9 percent growth in FY 2009, real GDP growth is expected to reach 2.6 – 3.6 percent in FY 2010 with the improving global economic prospects and strong foreign remittance inflows. Concomitantly, real GNP is projected to grow between 4.3 – 5.3 percent, up from 3.0 percent in FY 2009.

3.1.2 In FY 2011, a stronger growth is seen as the global economy fully recovers. Initial projections put real GDP growth at 3.8 – 4.7 percent while real GNP growth will range between 5.6 – 6.5 percent.

3.1.2.1 Agriculture is expected to recover in FY 2011 barring another extreme weather phenomenon. From a growth of 0.1 – 1.1 percent in FY 2010, the agriculture sector is projected to increase between 2.8 – 3.8 percent in FY 2011. Crop expansion measures together with the promotion of quality breedstock will boost the sector's productivity. The fisheries subsector, meanwhile, will benefit from the introduction of new varieties, the proliferation of mariculture parks, and the continued implementation of various conservation activities. Forestry will likely to perform well due to the swelling demand from the construction industry for products from

commercial forestry. The growth in agriculture, fishery and forestry will be strengthened further by the possible increase in foreign direct investments if the country is successful in embarking on complementary industries such as power and energy, and irrigation projects.

- 3.1.2.2 Industry is expected to expand between 3.7 – 4.6 percent in FY 2011 from 3.0 – 4.0 percent in FY 2010, spurred by the stronger growth in manufacturing and the continued growth in construction, mining and quarrying. The expected improvement in the global economy, together with the improvement in the financial outlook, and the pick-up in international trade are seen to stimulate external demand, ease financing and invigorate domestic production. Exports are projected to grow faster by 12.0 – 14.0 percent in FY 2011 compared to 11.0 – 13.0 percent the year before while import growth will remain the same as in FY 2010 at 17.0 – 19.0 percent.
- 3.1.2.3 The services sector will likely continue to lead growth in FY 2011 with a projected increase of 4.3 – 5.2 percent from 3.3 – 4.3 percent in FY 2010. The sector is seen to accelerate further with the faster growth in its subsectors, including the ownership of dwellings and real estate as businesses in the offshoring and outsourcing industry reconsider expansion plans.
- 3.1.3 For FYs 2012 and 2013, the economy at this point, is projected to grow strongly in terms of real GDP by 4.8 – 5.7 percent and 5.5 – 6.4 percent, respectively. Similarly, real GNP is projected to grow by 6.6 – 7.4 percent in FY 2012 and by 7.4 – 8.3 percent in FY 2013. These projections assume the return of the government to its fiscal consolidation path, the realization of gains from the implementation of current reforms as well as economic and development policies and programs that improve the country's competitiveness, with the successful conduct of peaceful local and national elections in FY 2010, and no major adverse global economic and financial shocks.
- 3.1.4 For the period FYs 2010 to 2013, a manageable inflation environment is expected to be sustained. From 3.2 percent in FY 2009, inflation is forecast to gradually increase to the 3.5 – 5.5 percent range in FY 2010 before

settling within the 3.0 – 5.0 percent range from FYs 2011 to 2013. These forecasts are supported by inflation expectations based on the BSP's and the private sector surveys, and the results of the BSP's consumer expectations survey (CES) and business expectations surveys (BES). For programming purposes, the midpoint of the forecast inflation rate range shall be used, i.e., 4.5 percent for FY 2010 and 4.0 percent for FYs 2011 to 2013.

3.1.5 The 91-day Treasury bill rate is projected to increase from the FY 2009 rate of 4.2 percent to the forecast interest rate range of 4.0 – 6.0 percent for the period FYs 2010 to 2013. The range in the forecasts is consistent with the national government's exit strategy from crisis relief measures and from the higher fiscal deficits. For programming purposes, the high-end of the forecast interest rate range is used for expenditure projections and the low-end of the forecast interest rate range for revenue projections.

3.1.6 The exchange rate is expected to remain stable during the medium term at P45 – P47 to a US dollar. This is supported by the respectable levels of foreign exchange reserves, the sustained remittances from overseas Filipinos and a rebound in exports and capital inflows over the longer horizon. For programming purposes, the high-end of the forecast exchange rate range is used for expenditure projections and the low-end of the forecast exchange rate range for revenue projections.

3.2 Fiscal Aggregates

The government's fiscal position for the last two years has been adversely affected by the global financial crisis and the occurrence of super typhoons "Frank", "Ondoy" and "Pepeng". In spite of this, the government is gradually returning to its fiscal consolidation strategy and targeting a leaner budget deficit amounting to P285.0 billion or 3.3 percent of GDP for FY 2011. This is P8.2 billion lower than the FY 2010 revised target of P293.2 billion or 3.6 percent of GDP. On the other hand, given the tapering budget deficit, the national government's outstanding debt is estimated to be at 58.4 percent of GDP for FY 2011 compared with the 57.3 percent at the end of FY 2009.

As the country is expected to fully recover from the effects of the global economic slowdown, the government projects to raise revenues to P1.404 trillion or 16.3 percent of GDP compared to the P1.285 trillion FY 2010 revenue program. This represents

P119.0 billion or 9.3 percent more revenues in FY 2011. The Bureaus of Internal Revenue and Customs are expected to improve their tax administration efforts given the measures and reforms being pursued currently. This revenue and the target deficit of P285.0 billion will allow government disbursements to reach 19.6 percent of GDP or P1.689 trillion in nominal terms. This disbursement level represents an expansion of 7.0 percent or P110.9 billion from the FY 2010 projected disbursements level.

PARTICULARS	2009 Actual	2010 Program	2011 Proposed
Levels in Billion Pesos			
Revenues	1,123.2	1,284.5	1,403.6
Disbursements	1,421.7	1,577.7	1,688.6
Surplus/(Deficit)	(298.5)	(293.2)	(285.0)
Percent of GDP			
Revenues	14.6	15.8	16.3
Disbursements	18.5	19.5	19.6
Surplus/(Deficit)	(3.9)	(3.6)	(3.3)
Growth Rate			
Revenues	(6.6)	14.4	9.3
Disbursements	11.9	11.0	7.0
Surplus/(Deficit)	338.3	(1.8)	(2.8)
<i>GDP (in billion pesos)</i>	<i>7,669.1</i>	<i>8,108.7</i>	<i>8,622.9</i>
<i>Deficit Financing Mix (%)</i>			
<i>Foreign</i>	<i>44</i>	<i>31</i>	<i>26</i>
<i>Domestic</i>	<i>56</i>	<i>69</i>	<i>74</i>
<i>Debt-to-GDP Ratio (%)</i>	<i>57.3</i>	<i>57.5</i>	<i>58.4</i>

Sources: DBM, DOF, NEDA, BSP

3.2.1 This fiscal position will allow for an obligation budget ceiling of P1.685 trillion, growing by 9.3 percent over the FY 2010 programmed level of P1.541 trillion to allow for fiscal space for growth-enhancing expenditures.

3.2.2 Likewise, to further strengthen the foundation for stronger growth in the coming years, standby appropriations shall be proposed to Congress for additional infrastructure and social projects, the release of which shall be subject to the passage of the proposed new revenue measures by

Congress. The DBCC is proposing that a number of new tax measures be submitted to Congress to compensate for the revenue-eroding impact of recent legislations in the last two years and to be able to upgrade the government spending capacity especially for infrastructure development and the improvement of education and health services - public services critical to support sustained economic growth and attract investments.

4.0 GUIDE TO DEPARTMENT/AGENCY BUDGET FORMULATION AND RESOURCE ALLOCATION

In accordance with the budget framework and expenditure reforms contained in the preceding sections, agencies shall follow the guidelines below to ensure the improved allocation of funds among competing sectors:

4.1 FEs

4.1.1 The FEs, i.e., projections or estimation of the future annual costs of on-going budgetary programs and projects for the MTEF period, will be formulated based on the prescribed guidelines as stated under CL No. 2010-5 dated March 1, 2010.

4.1.1.1 For budgetary programs, the FEs shall cover the estimated requirements for the three outyears beyond the current budget year and shall consider, among others, the agency's actual financial and physical performance in FYs 2007-2009 as reflected in the submitted Budget Accountability Reports/OPIF Book and the macroeconomic assumptions for the medium-term.

4.1.1.2 For budgetary projects, the FEs shall cover the annual requirements up to the approved completion date. Annual requirement shall be based on the approved project profile after considering the financial and physical accomplishments as of December 31, 2009.

4.2 Output-Based Budgeting/OPIF

4.2.1 OPIF logframes show the relationships and the alignments of P/A/Ps with identified outputs and outcomes at the organizational, sectoral and societal levels. The

budget proposals of the OPIF-ready departments/agencies/OEOs shall be configured by MFOs using MFO Budget Matrix (Form A). Performance targets for the MFOs shall be set using the Agency Performance Measures (Form B).

4.2.2 The MFOs are defined as the goods and services that a department or agency is mandated to deliver to external clients through the implementation of programs, activities and projects.

4.2.3 Agency P/A/Ps shall be attributed to appropriate MFOs. The P/A/P attribution process shall test the contribution/appropriateness of the P/A/P in the attainment and delivery of the MFOs.

4.2.3.1 P/A/Ps or its component activities that are neither attributable nor linked to any MFO shall be identified and indicated.

4.2.3.2 P/A/P attribution to the MFOs shall cover General Administration and Support Services, Support to Operations and Operations cost structure categories in the GAA. The method used for the attribution shall be attached to Form A.

4.2.3.3 Unlinked P/A/Ps and/or non-strategic/low priority component activities shall be identified and corresponding savings may be reallocated to on-going policies supporting core mandates.

4.2.3.4 Pending the approval of the agency Rationalization Plans (RPs), the P/A/P structure of the agency shall be on status quo. Any change in the P/A/P structure shall be addressed during budget execution either in the FY 2010 or 2011 budgets, whichever is appropriate.

4.2.4 OPIF–Based Performance Indicators/Targets

4.2.4.1 Appropriate key performance indicators/targets shall be identified per MFO. There could be several indicators/targets as the agency may find necessary to monitor and use. However, for focus and manageability, agencies are advised to present three (3) key indicators per MFO.

4.2.4.2 Performance Indicators (PIs), defined under NBC No. 501 (s. 2005) as performance measures to be used for the assessment of the delivery of MFOs contributing to organizational outcomes, can be expressed in either quantitative or qualitative terms:

- a. Quantity Indicators - are measures of the volume of outputs. These indicators shall be well-selected and limited to those that best reflect the workload involved as well as the inputs required to deliver the MFOs.
- b. Quality Indicators - are measures of "how well" an MFO is delivered. These may include measures of timeliness, cost-efficiency, accuracy, completeness, accessibility, compliance with standards or satisfaction of client needs.

4.2.4.3 Performance targets (PTs) are the achievable levels of accomplishment (quantitative and qualitative) pertaining to an agency's MFO - PI consistent with its budget allocation within a one-year period. It is generally expected that PTs will rise with an increase in budget.

4.3 Total Resource Budgeting

4.3.1 Trust Funds, Revolving Funds and Special Accounts in the General Fund earmarked to support identified P/A/Ps as provided for under specific provisions of law, shall be fully reflected in the budget proposal. In relation thereto, all other proposed sources of funds, including use of income and all other cash collections should be identified.

4.3.2 Activities which are not funded out of the regular budget of the agency but have the probability of becoming real liabilities such as contingent liabilities arising from BOT projects and other multi-year obligations or multi-agency projects must be identified through a footnote in the agency budget proposal (BP 201 Forms).

4.3.3 Complementation in the identification and implementation of programs and projects among NGAs and LGUs shall be observed to avoid duplication, maximize benefits and promote greater efficiency in service delivery particularly for programs and projects that have been devolved to LGUs under the Local Government Code.

4.3.3.1 As part of the planning phase, the Agency Central Offices (ACOs) shall inform the Agency Regional Offices (AROs) of their program thrust, focus of agency budget and indicative distribution of the lump-sum funds. The AROs, on the other hand, shall formulate programs/activities/projects accordingly for submission to ACOs. The RDCs shall coordinate the conduct of consultations with AROs, SUCs and LGUs for the purpose of reconciling and confirming program thrusts and priorities of the national agencies in the region and to ensure they complement with programs and projects of the local government units.

4.3.3.2 ACOs, through the AROs, are enjoined to provide RDCs and DBM ROs with feedback information on RDC-endorsed programs/projects including regionally defined projects funded from nationwide lump-sums which they have included in their consolidated budget proposal to DBM. To the extent feasible, these lump-sum funds shall be lessened in the 2011 budget and replaced by approved list of projects to increase transparency. They shall also inform the pertinent RDC of these programs/projects which are finally submitted for congressional approval.

4.4 Department Ceilings for FY 2011

4.4.1 The indicative budget ceiling of each Department or OEO for FY 2011 shall correspond to their FEs which shall be issued separately.

4.4.2 Consistent with the performance-based budgeting approach, the indicative budget ceiling **may** be adjusted based on demonstrated absorptive capacity in relation to the agency MFOs.

4.4.3 In the preparation of their budget proposals in FY 2011 for on-going budgetary programs and projects, agencies are reminded to relate their proposed financial allocation with the targeted output/indicator and to consider the FEs guidelines prescribed under CL No. 2010-5 dated March 1, 2010. Effort shall be made to compare the budgetary allocation and targeted output/indicator with the past years' performance to avoid fluctuating targets, as well as

inconsistent cost estimates for the same targets on a year-to-year basis.

4.4.4 If agencies fail to support their proposed financial allocation with the targeted output/indicator, the budget level shall thus be limited to the FY 2009 actual expenditure level, net of non-recurring expenditure items. This budget level may also be adjusted on the basis of sectoral priorities as finally determined by the President and the Cabinet.

4.4.5 Department heads shall have final discretion over the reallocation of the ceiling among its bureaus, regional offices and attached agencies, including component programs and projects.

4.5 Gender and Development (GAD)

4.5.1. A GAD Plan shall be formulated outlining how agencies intend to include the priorities set in the Framework Plan for Women. GAD issues and concerns shall be considered in preparing the budget of the agency consistent with the provisions of DBM, NEDA and NCRFW Joint Circular No. 2004-1.

4.6 The specific costing guidelines in the preparation of the FY 2011 Agency budget proposals are contained in **Annex A** of this Memorandum.

5.0 SUBMISSION REQUIREMENTS AND TIMETABLE

5.1 The FY 2011 budget presentation shall adopt the MTEF and OPIF frameworks. Agencies shall accomplish OPIF Forms A and B following the guidelines in Section 4.2 of this Memorandum.

5.2 Agencies shall accomplish the pertinent Budget Preparation (BP) forms in accordance with expenditure and income accounts under the New Government Accounting System (NGAS) prescribed under COA Circular No. 2003-001 dated June 17, 2003.

5.3 The Department Secretary/Head of the OEO shall ensure that the proposals submitted by their respective bureaus, offices and attached agencies are in accordance with the guidelines and submission schedule in this Memorandum.

- 5.4 The budget proposals must be duly endorsed by the Department Secretary/OEO Head and shall highlight the agency thrust and the major programs and projects.
- 5.5 In addition, the budget proposals of agencies involving specific concerns shall require the endorsement of the following:

Endorsing Agency	Subject of Endorsement
CHED	SUCs Budget
TESDA	Technical education and skills development programs
DA	Research and Development (R&D) in Agriculture and Fisheries
DOST	R&D in natural resources, environment, technological and engineering sciences
NSCB	Systems of Designated Statistics pursuant to EO 352
OP-CICT	Information Systems Plan in support of IT-related proposals.
NCRFW	GAD Plan

- 5.6 Agency budget proposals shall include the following:
- 5.6.1 Five (5) complete sets of properly accomplished Budget Preparation (BP) Forms prescribed in Annex B and Forms A and B. (For agencies which are not yet OPIF-ready, their proposals shall basically consist of required budget preparation forms. However, they may also submit Forms A and B);
- 5.6.2 Inventory of equipment required under NBC Nos. 438, 446 and 446-A; and,
- 5.6.3 Five (5) copies each of the agency's FY 2008 and FY 2009 Accomplishment Reports.
- 5.7 The deadline for the submission of the required BP Forms under Annex B and Forms A and B for FY 2011 budget proposals shall be as follows:
- 5.7.1 May 21, 2010 – for FY 2009 Actual Obligations and FY 2010 Current Year Program (using BP Forms 201-A, B and

C) as well as FYs 2009 and 2010 physical and performance/targets (using Forms A and B);

5.7.2 June 4, 2010 – for FY 2011 Budget Proposals.

5.8 Submission by all national government agencies shall be to the Budget Technical Service (BTS), Ground Floor, DBM Building II, General Solano St., San Miguel, Manila. SUCs shall submit these aforesaid forms to the DBM-RO concerned.

6.0 BUDGET PREPARATION CALENDAR

Agencies are enjoined to adhere to the budget preparation calendar as contained in Annex C.

JOAQUIN C. LAGONERA
Secretary

May 12, 2010