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

CORPORATE BUDGET MEMORANDUM No. 30

F O R : ALL HEADS OF GOVERNMENT-OWNED AND/OR CONTROLLED CORPORATIONS, INCLUDING GOVERNMENT FINANCIAL INSTITUTIONS AND ALL OTHERS CONCERNED

SUBJECT : **POLICY GUIDELINES AND PROCEDURES IN THE PREPARATION AND SUBMISSION OF BUDGET ESTIMATES FOR FY 2011**

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 and submission of requests for budgetary assistance from the national government in FY 2011;

1.3 To prescribe the guidelines and procedures in the preparation of financial and related data to be incorporated in the Budget of Expenditures and Sources of Financing for FYs 2009-2011 and the Corporate Operating Budget (COB) for FY 2011; and

1.4 To set the schedule of budget preparation activities.

2.0 BUDGET FRAMEWORK

2.1 The FY 2011 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 and 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 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 on-going 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:

- Rehabilitation 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.

2.4.2 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 the evaluation of budgetary proposals for FY 2011.

2.4.2.2 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 Major Final Outputs (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.

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 (E.O.) 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 (R.A.) 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 E.O. No. 605 dated February 23, 2007; and

2.5.3.6 Disclosure on contingent liabilities with high probability of becoming real, stating the risks.

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 2009, real GDP growth is expected to reach 2.6 – 3.6 percent in 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 2009.

3.1.2 In 2011, a stronger growth is seen as global economy 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 2011 barring another extreme weather phenomenon. From a growth of 0.1 – 1.1 percent in 2010, the agriculture sector is projected to increase between 2.8 – 3.8 percent in 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 continue implementation of various conservation activities. Forestry will likely 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 complimentary 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 2011 from 3.0 – 4.0 percent in 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 2011 compared to 11.0 – 13.0 percent the year before while import growth will remain the same as in 2010 at 17.0 – 19.0 percent.

3.1.2.3 The services sector will likely continue to lead growth in 2011 with a projected increase of 4.3 – 5.2 percent from 3.3 – 4.3 percent in 2010. The sector is seen to accelerate further with the faster growth in its subsectors, including ownership of dwellings and real estate as businesses in the off-shoring and outsourcing industry reconsider expansion plans.

3.1.3 For 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 2012 and by 7.4 – 8.3 percent in 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 2010, and no major adverse global economic and financial shocks.

3.1.4 For the period 2010 to 2013, a manageable inflation environment is expected to be sustained. From 3.2 percent in 2009, inflation is forecast to gradually increase to the 3.5 – 5.5 percent range in 2010 before setting within the 3.0 – 5.0 percent range from 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 survey (BES). For programming purposes, the midpoint of the forecast inflation rate range shall be used, i.e., 4.5 percent for 2010 and 4.0 percent for 2011 to 2013.

3.1.5 The 91-day T-bill is projected to increase from the 2009 rate of 4.2 percent to the forecast interest rate range of 4.0 – 6.0 percent for the period 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 in the medium term at P45 – 47 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 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 2011. This is P8.2 billion lower than the 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 2011, compared with 57.3 percent at the end of 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 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 2010 projected disbursements level.

PARTICULARS	2009 Actual	2010 Revised 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)
GDP (in billion pesos)	*7,669.1*	*8,108.7*	*8,622.9*
Deficit Financing Mix (%)			
Foreign	*44*	*31*	*26*
Domestic	*56*	*69*	*74*
Debt-to GDP Ratio (%)	*57.3*	*57.5*	*58.4*

Sources: DOF, DBM

3.2.1 This fiscal position will allow for an obligation budget ceiling of P1.685 trillion, growing by 9.3 percent over the 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 of a 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 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 crucial to support sustained economic growth and attract investments.

4.0 POLICY GUIDELINES

In accordance with the budget framework and expenditure reforms contained in the preceding sections, GOCCs/GFIs shall follow the budget formulation guidelines prescribed below:

4.1 Performance-Based Budgeting

4.1.1 GOCC/GFI budgets shall be formulated to ensure attainment of its mandate. Moreover, the targeted major final outputs and outcomes of programs and projects should be clearly specified, measurable and reflective of the levels of performance which the GOCC/GFI head commits to achieve thru the efficient and effective use of corporate resources.

4.2. Total Resource Budgeting

4.2.1 GOCCs/GFIs shall fully reflect in the budget proposal all sources of funds such as corporate funds, borrowings, and budgetary support from the national government.

4.2.2 All funding requirements of the GOCCs/GFIs including contingent liabilities arising from BOT projects and similar sizeable liabilities due from previous years' suppliers contracts and other multi-year obligations or multi-year agency projects must be identified in the budget submissions.

4.2.3 GOCCs/GFIs should also consider in their investment decisions all available resources within a specific area or locality, to the extent feasible. Hence, programs to be undertaken shall be consistent with the development plan of said area such that the resources from all stakeholders, namely: national agencies, local governments, congressional allocations and private initiatives will complement each other.

4.2.3.1 In the allocation of their budget, GOCCs/GFIs shall undertake consultation with their major stakeholders to ensure that their concerns and priorities are addressed in their budget proposals.

4.3 Financial independence of GOCCs/GFIs

4.3.1 Measures to enhance corporate revenue generation and improve operational efficiency, including privatization of certain GOCC operations and assets, should be undertaken. GOCCs/GFIs are encouraged to supplement available resources through other means, such as external financing, BOT schemes and variant arrangements, sale/lease of assets, etc. before requesting budgetary support from the national government.

4.4 Alignment of corporate programs to government priorities:

4.4.1 GOCCs/GFIs shall implement their core mandates towards the attainment of the Agenda of the Administration, key programs stated in various addresses on the State of the Nation and the Millennium Development Goals. Budgetary support to GOCCs/GFIs shall be channeled to strategic on going programs and completing projects aim to enhance productivity and social equity in the country.

4.5 Resource Optimization

GOCCs/GFIs are encouraged to maximize their budget and undertake innovative ways to enhance their revenue possibilities through the following:

4.5.1 Cost Recovery Measures and Revenue Generation/ Enhancement

4.5.1.1 GOCCs/GFIs should strive to fully recover the cost of services being rendered by them thru users fees.

4.5.1.2 GOCCs/GFIs are encouraged to identify/ implement programs with the potential to generate revenues. In cases where revenues are already being generated for services rendered, measures such as the improvement of the quality of service delivery and reduction in the cost of production should be adopted to further increase revenues.

4.5.2 Focused Resource Utilization

4.5.2.1 GOCCs/GFIs shall refrain from undertaking activities and programs which other national government agencies, LGUs or other government corporations are mandated by law to perform. Complementation in the identification and implementation of the programs and projects among said agencies shall be observed to avoid duplication, maximize benefits and promote greater efficiency in service delivery.

4.5.2.2 A strategic review of GOCCs/GFIs operations shall be undertaken to rationalize and accommodate the requirements of new loan or grant assisted projects within the GOCCs/GFIs budget. This review should include, as part of the objective, the use of organic structures and staff within the

GOCCs/GFIs and the use of corporate funds as GOP counterpart for foreign assisted projects.

4.5.2.3 The Rationalization Plan formulated and approved under EO 366 shall provide the overall framework for a more focused utilization of resources vis-à-vis the core mandate of the corporation.

4.6 Gender and Development (GAD)

4.6.1 A GAD Plan shall be formulated outlining how GOCCs/GFIs 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 GOCCs/GFIs consistent with the provisions of DBM, NEDA and NCRFW Joint Circular No. 2004-1.

5.0 SUBMISSION REQUIREMENTS AND TIMETABLE

5.1 All the budget forms prescribed under Annex A shall be accomplished by all GOCCs/GFIs, in accordance with the general guidelines above mentioned and specific guidelines indicated in each form.

5.2 Energy corporations whose budgets are required to be submitted to Congress under R.A. No. 7638 (An Act Creating The Department Of Energy, Rationalizing The Organization And Functions Of Government Agencies Related To Energy, And For Other Purposes) shall likewise use the herein prescribed forms in submitting their operating budgets as part of the FY 2011 National Expenditure Program.

5.3 The FY 2011 portion/column of the budget submissions under this Budget Memorandum shall already be considered as the COB proposal of the GOCC/GFI which shall observe the guidelines prescribed under Corporate Budget Circular No. 20 dated April 27, 2005 for this purpose.

5.4 Amounts indicated in the FY 2009 column of the prescribed Forms should be consistent with the Annual COA Audited Financial Statements of the same year.

5.5 GOCCs/GFIs budget estimates shall include the following:

a) Approval of the Governing Board through a duly certified Board Resolution;

b) Letter of endorsement of the head of GOCC/GFI;

c) Five (5) complete sets of properly accomplished Budget Forms; and,

d) Five (5) copies each of the FY 2008 and FY 2009 Accomplishment/ Annual Reports.

5.6 The budget estimates shall be submitted to the Budget and Management Bureau – F, 4th Floor, DBM Building II, General Solano Street, San Miguel, Manila on or before June 4, 2010**.**

6.0 BUDGET PREPARATION CALENDAR

GOCCs/GFIs are enjoined to adhere to the budget preparation calendar contained in Annex B.

JOAQUIN C. LAGONERA
Secretary

May 12, 2010