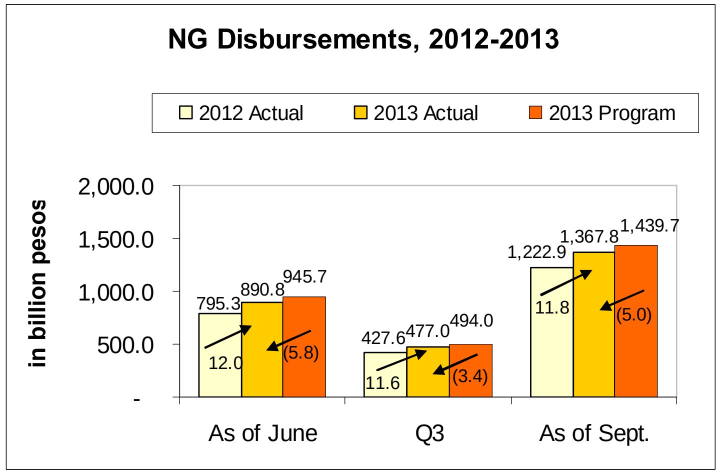
ASSESSMENT OF NATIONAL GOVERNMENT DISBURSEMENT PERFORMANCE AS OF SEPTEMBER 2013



For the first three quarters of the year, national government disbursements reached P1,367.8 billion, an 11.8 percent increase from the P1,222.9 billion outturn last year. Although this rate of expansion is 0.2 percentage points lower than the performance as of June, it compares favorably with the 8.2 percent average year-on-year increase for the period since 2005. Net of interest payments, disbursement performance is even more remarkable, recording an expansion of 13.5 percent. This was largely driven by the 26.5 percent combined growth rate for maintenance and capital spending, as well as the release of nearly twice as much subsidies to GOCCs this year, mostly for the implementation of social programs and projects. The actual spending level in the third quarter (Q3) of P477.0 billion was also the highest among the first three quarters given the release of significant amount of subsidies to GOCCs for the period.

The national government also continued to spend within the limits of its program as of September. Of the P1,439.7 billion disbursement program from Q1 to Q3, the national government spent P71.9 billion or 5.0 percent below program, with the lag becoming most evident in capital outlays (CO). This was partly due to the low absorptive capacities of implementing agencies and the large accumulation of outstanding checks of DPWH and DA. The underspending was somehow tempered in Q3 at P17.0 billion or 3.4 percent, compared to the P54.9 billion or 5.8 percent recorded lower-than-programmed spending as of June. The cumulative performance this year was also a considerable improvement from last year's record of P130.3 billion or 9.6 percent of spending-below-program.

Table 1 shows that the growth in disbursements as of September can be fully accounted for by the large increase in spending through the use of Notices of Cash Allocation (NCAs) issued by the DBM. NCA disbursements grew by 17.0 percent to P1,009.8 billion as of September, following an improvement in the utilization rate in Q3 at 98.6 percent (as compared to 84.5 percent and 90.8 percent NCA utilization in the first and second quarters, respectively).

Table 1
Comparison of NCA and Non-NCA Disbursements, Program vs. Actual, 2012-2013
in billion pesos, unless otherwise indicated

Particulars	Q1	Q2	Q3							As of September						
	2013	2013	2012	2013				2012 vs. 2013		2012	2013				2012 vs. 2013	
	Actual	Actual	Actual	Prog.	Actual	Deviation		Inc./(Dec.)		Actual	Prog.	Actual	Deviation		Inc./(Dec.)	
						Amount	%	Amount	%				Amount	%	Amount	%
NCA	289.2	369.3	303.1	366.8	351.2	(15.6)	(4.2)	48.1	15.9	863.2	1,071.9	1,009.8	(62.1)	(5.8)	146.6	17.0
% of Eff. NCA	*84.5*	*90.8*	*97.1*		*98.6*					*91.8*		*91.4*				
Non-NCA	141.6	90.6	124.5	127.2	125.8	(1.4)	(1.1)	1.3	1.0	359.6	367.8	358.0	(9.8)	(2.7)	(1.7)	(0.5)
Total	430.8	460.0	427.6	494.0	477.0	(17.0)	(3.4)	49.4	11.6	1,222.9	1,439.7	1,367.8	(71.9)	(5.0)	144.9	11.8

Source of basic data: Bureau of the Treasury (BTr)

Memo Items:

Effective NCAs Issued net of Trust Liabilities, gross of Working Fund:

As of September		3rd Quarter	
2012	940.1	2012	312.1
2013	1,105.1	2013	356.1

Allotment Releases

As of Sept. 2012 1,584.9 representing 87% of the 2012 obligation program of P1,816.0 billion

As of Sept. 2013 1,840.4 representing 92% of the 2013 obligation program of P2,005.9 billion

Source: Budget Technical Service (BTS)

As of September 2013, the DBM has released P1,840.4 billion[1] or 91.8 percent of the P2,005.9 billion obligation program. This reflects a relatively faster rate of budget execution compared to the 87.3 percent for the same period last year. More specifically, the DBM issued allotments for 96.2 percent of the department-specific budgets in the FY 2013 General Appropriations Act (GAA), 60.9 percent of Special Purpose Funds (SPFs), and 92.4 percent of Automatic Appropriations, which was mostly for interest payments (IP) and the Internal Revenue Allotment (IRA) of LGUs. Hence, majority of the balance that are yet to be authorized for obligation is under the SPFs and some under the department/agency-specific budgets, particularly for capital outlays.

Among the significant obligational authorities issued for the month of September are as follows: 1) requirements for terminal leave and retirement gratuity - P8.9 billion; 2) special shares of LGUs from the proceeds of national wealth - P1.9 billion; 3) customs, duties and taxes - P1.8 billion; 4) creation of new positions and filling-up of unfilled positions - P1.7 billion; 5) projects charged against the Motor Vehicle Users' Charge (MVUC) - P0.9 billion; 6) 2012 Performance-Based Bonus charged against the Miscellaneous Personnel Benefits Fund (MPBF) - P0.8 billion; and 7) payments of right-of-way and contractual obligations by DPWH - P0.3 billion.

Year-on-Year Performance

The 11.8 percent expansion in disbursements for the first nine months of the year can be largely attributed to the year-on-year growth for the following expenditure accounts:

Table 2: Disbursements by Expense Class, 2012 vs. 2013
in billion pesos, unless otherwise indicated

Particulars	As of September		Increase/Decrease	
	2012	2013	Amount	%
Current Oper. Exp.	1,010.9	1,127.6	116.7	11.5
PS	386.7	424.3	37.7	9.7
MOOE	174.8	211.0	36.2	20.7
Subsidy	18.5	35.4	16.9	91.7
Allotment to LGUs	164.0	181.4	17.4	10.6
IP	245.2	258.1	12.8	5.2
TEF	21.8	17.4	(4.3)	(19.8)
Capital Outlays	189.9	238.0	48.0	25.3
Infra & Other CO	136.4	182.6	46.2	33.9
Equity	0.9	0.6	(0.3)	(35.4)
Cap. Transfers to LGUs	52.7	54.8	2.1	4.1
CARP-LO	-	-	-	
Net Lending	22.0	2.2	(19.8)	(90.0)
TOTAL	1,222.9	1,367.8	144.9	11.8

- Personnel Services (PS) increased by P37.7 billion or 9.7 percent to P424.3 billion as of September mainly owing to the annualized implementation of the last tranche of the Salary Standardization Law III which became effective in 2012, and the more than P9.0 billion increase in claims for retirement gratuity and terminal leave benefits. Moreover, almost P9.0 billion was released for the grant of the 2012 Performance-Based Bonus (PBB) granted to government employees of departments/agencies that met the conditionalities of the incentive program.

- MOOE expanded by more than 20 percent to P211.0 billion, with the higher allocation for social protection programs of the DSWD such as the Conditional Cash Transfer (CCT) Program, and the Self-Employment Assistance - Kaunlaran (SEA-K) Program, as well as the increased provision for the national programs of the DA and the rationalization of MOOE for public elementary and high schools. Fund releases for the conduct of the FY 2013 National and Local Elections; to carry-out the Census of Agriculture and Fisheries by the NSO; for the provision of potable and safe water supply to water-less barangays, and for financial subsidies to well-performing LGU-beneficiaries under the Performance Challenge Fund of the DILG; for the FY 2013 PNP Operational Transformation Plan; for the branding campaign program of the DOT; and for the implementation of the Unified Mapping Project of the NAMRIA, all contributed to the boost in maintenance spending year-on-year. In addition, the DSWD implemented interim shelter assistance to 19,440 informal settler families along eight priority waterways in Metro Manila while their permanent houses are still under construction.

- The high double-digit growth rate was maintained in infrastructure and other capital outlays, as the cumulative expansion year-on-year was recorded at 33.9 percent to P182.6 billion. This was

[1] Based on the report on the Status of the FY 2013 Budget as of September 30 ,2013

primarily driven by the settlement of due and demandable accounts payable for the beefed-up DPWH infrastructure program this year including the larger requirements (compared to 2012 appropriations) for the implementation of major flood control and drainage projects. An amount of P1.6 billion was also released to the MMDA for the rehabilitation of water pumping stations to mitigate flooding in Metro Manila. Significant increase in budgetary releases was also recorded for the farm-to-market road and irrigation projects of the DA.

- IP grew by P12.8 billion or 5.2 percent due mostly for the servicing of domestic debt, specifically for payment of semi-annual interest on fixed rate treasury bonds issued in 2012 and in the first quarter of 2013, as well as the quarterly interest on retail treasury bonds. The impact of which was partly subdued by the decline in the IP requirement for foreign borrowings due to combined effects of fluctuations of various foreign exchange rates. Nevertheless, the percentage share of IP in total disbursements, is lower at 18.9 percent from the ratio of 20.1 percent as of September 2012.

- Subsidies to GOCCs rose by P16.9 billion or 91.7 percent over last year's level with almost P10 billion of the increase accounted for by the much earlier release of the premiums this year for the National Health Insurance Program for indigents (P12.0 billion in 2013 vs. P2.1 billion in 2012), as well as the release for cash requirements for the 2011 and 2012 Resettlement Program and AFP/PNP Housing Project of the National Housing Authority (P8.3 billion in 2013 vs. P2.4 billion in 2012).

However, the impact of this higher disbursements this year was lessened by the reduction in items such as net lending, tax subsidies, and equity to GOCCs. Gains from the increase in subsidies to GOCCs was offset by the contraction in net lending in the amount of P19.8 billion or by 90.0 percent due to the combined impact of the P12.1 billion in advances made by PSALM last year and the P12.3 billion of repayments they made to the national government in January of this year.

Performance vs. Programmed Levels

Disbursements stayed within program in almost all accounts except for tax subsidies with the P8.4 billion payment of tax obligations by PSALM to the BIR in Q2. This year, there was a considerable magnitude of outstanding checks in the amount of P37.0 billion, which forms part of the below-programmed spending, but will eventually be disbursed once presented by the creditors to the banks.

Table 3: Disbursements by Expense Class, Program vs. Actual
in billion pesos, unless otherwise indicated

Particulars	As of September		Deviation	
	Program	Actual	Amount	%
Current Oper. Exp.	1,169.2	1,127.6	(41.5)	(3.6)
PS	438.5	424.3	(14.1)	(3.2)
MOOE	225.1	211.0	(14.1)	(6.3)
Subsidy	41.2	35.4	(5.8)	(14.0)
Allotment to LGUs	181.4	181.4	-	-
IP	266.9	258.1	(8.8)	(3.3)
TEF	16.1	17.4	1.3	8.4
Capital Outlays	259.5	238.0	(21.5)	(8.3)
Infra & Other CO	198.0	182.6	(15.4)	(7.8)
Equity	1.0	0.6	(0.5)	(44.0)
Cap. Transfers to LGUs	60.4	54.8	(5.6)	(9.3)
CARP-LO	-	-	-	
Net Lending	11.1	2.2	(8.9)	(80.1)
TOTAL	1,439.7	1,367.8	(71.9)	(5.0)

- The lower-than-programmed spending for PS as of September can be attributed to the low utilization of PS allocation under SPFs such as the MPBF, and the Pension and Gratuity Fund (PGF). The balances under the two SPFs consist of unused allocation for the filling-up of unfilled positions, creation of new positions, retirement and terminal leave benefits, separation benefits and incentives, and monetization of leave credits.

- Maintenance spending fell short of program by P14.1 billion or 6.3 percent given the relatively low NCA utilization rates[2] for the following MOOE-heavy departments: DAR (77.5 percent), DENR (77.8 percent), DOH (87.3 percent), DSWD (89.3 percent), and DOT (70.4 percent).

[2] Ratio of negotiated checks over NCAs credited based on the reports from MDS-Government Servicing Banks

The unreleased balances under the following departments and SPFs also contributed to the lower-than-programmed spending as of September: 1) Calamity Fund (P2.4 billion in from the 2013 current appropriations and P2.1 billion from the 2012 continuing appropriations); 2) PDAF (P3.1 billion); and 3) foreign-assisted projects of the DENR (Integrated Natural Resources and Environment Management Project - P275 million, and Land Administration Management Project II - P910.2 billion).

- Likewise, disbursements in infrastructure was slower than expected by P15.4 billion or 7.8 percent with the fairly low NCA utilization rates[3] of DA (82.8 percent), DPWH (74.1 percent) and DOTC (84.7 percent). This is partly on account of the large accumulation of outstanding checks[4] in DA and DPWH in the amounts of P2.7 billion and P5.0 billion, respectively, although they have shown good performance in terms of their obligation rates as of September, registering at 81.3 percent and 71.6 percent, respectively. This reflects that the more pressing issues for these two departments are on the actual project implementation (i.e., physical accomplishment) and the processing of payments for the delivery of goods/services. In one of the AMT meetings in September, the DPWH reported that for the first semester, they incurred a negative slippage in physical accomplishment of almost 2 percentage points.

  In the case of DOTC, among the big-ticket allotment releases[5] under its current year's budget for which no or minimal obligations have been made are as follows - LRT 1 Line 2 East Extension Project (P2.0 billion), DOTC Road Transport IT Infrastructure Project (P2.6 billion), Transport Studies Fund (P880 million), and foreign-assisted projects such as the LRT Line 1 Cavite Extension (P3.8 billion), Multi-Role Response Vessel Acquisition Project (P1.5 billion), and Bus Rapid Transit System for Cebu City (P975 million). During the AMT meeting with the DOTC, they reported delays in and failure of biddings for some of these projects. To address this bottleneck, the DOTC is looking at the decentralization of procurement within the department including attached agencies, creating multiple Technical Working Groups and multiple Bids and Awards Committees.

  The unreleased balances from the budgets of the following departments and SPFs also contributed to the underspending in infrastructure and other CO: 1) Calamity Fund (P3.5 billion); 2) PDAF (P11.5 billion from the 2013 current appropriations and P2.4 billion from the 2012 continuing appropriations); 3) DOTC's new PPP project (P3.8 billion); 4) various public infrastructure projects under the DPWH (P9.1 billion); 5) AFP Modernization Program (P5.0 billion); 6) DOE's market transformation through introduction of energy efficient electric vehicles project (P2.4 billion); 7) farm-to-market road projects of the DA (P1.6 billion); 8) DepEd's Basic Educational Facilities (P1.5 billion); and 9) synchronization and coordination of agricultural credit and other finance under the ACPC (P1.0 billion).

- Savings in IP amounted to P8.8 billion or 3.3 percent due to the combined effects of lower volume of domestic borrowings particularly treasury bills and fixed rate treasury bonds, as well as lower-than-programmed interest rates.

- The reprogramming of releases for operational subsidies to NFA, NEA and PHIC due to delayed submission of documentary requirements accounted for the P5.8 billion lower-than-programmed spending under subsidies to GOCCs.

- Likewise, capital transfers to LGUs were below program by P5.6 billion or 9.3 percent, on account of the delays in the submission of the list of projects. Moreover, 30 percent of the 2013 shares of LGUs from VAT where the principal offices are located has not been released as of the reporting period awaiting BTr confirmation to the certification issued by BIR. Also, the remaining 70 percent has not been released yet as the mechanism for locating the sites where factories, projects, offices, plants and plantations between the BIR and LGUs is still being devised.

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[3] Ratio of negotiated checks over NCAs credited based on the reports from MDS-Government Servicing Banks
[4] Checks issued by the departments/agencies to the creditors but have not been presented to the banks for encashment
[5] Based on the Statement of Allotment, Obligations and Balances as of September 30, 2013 submittec by the DOTC

- With the repayments made by PSALM this year, and as programmed advances of GOCCs did not materialize with the efforts to reform GOCCs, net lending as of September closed at almost P9.0 billion lower than program. However, the DOF-CAG signifies that this will most likely be recouped in Q4.

Outlook for the Rest of the Year

Table 4: Status of 2013 Allotment Releases
in billion pesos, unless otherwise indicated

Particulars	Program	Releases as of Sept.*	Balance	
			Amount	%
Original Program	2,005.9	1,840.4	165.5	8.2

* *Inclusive of releases charged against R.A. 10155 - 2012 Continuing Appropriations and Automatic Appropriations*

A program balance of P165.5 billion or 8.2 percent of the P2,005.9 billion obligation program for 2013 will still be available for release this year. This balance comprise of P47.2 billion (or 28.5 percent) for automatically appropriated expenditures, and P118.2 billion (or 71.5 percent) for items under department-specific budgets and SPFs, for which special budget requests and submission of documentary requirements are required. Some of these unreleased appropriations were mentioned in the previous sections.

Despite the early release of allotments and the measures being undertaken by the government to speed up spending, low absorptive capacities and bottlenecks in program/project implementation continue to slow down disbursements this year. The departments/agencies seemed to be more cautious in the disbursement of funds given the current issues including the Disbursement Acceleration Program (DAP) and the TRO on PDAF releases.

However, the government anticipates that the spending performance of the departments/agencies in the last quarter will partly offset the lag in spending, given that their appropriations and allotments will only be valid for obligation until end-2013, as well as the additional fund release to finance urgent requirements for the relief operations, rehabilitation and reconstruction activities for the provinces affected by the recent calamities and the Zamboanga siege.