

NATIONAL GOVERNMENT DISBURSEMENT PERFORMANCEⁱ

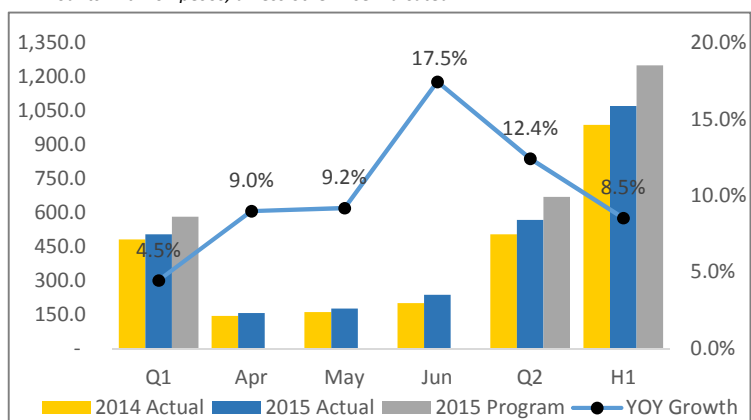
AS OF JUNE 2015

National government disbursements grew by 17.5 percent in June, the fastest since the start of the year. This pushed up government spending for the first semester of 2015 to P1,072.0 billion, up by 8.5 percent (or P84.3 billion) from the same period last year. Excluding interest payments, spending rose at a faster rate of 10.6 percent. Compared to program however, disbursements fell below target by almost P180.0 billion or 14.4 percent of the first semester program.

Government disbursements continued to accelerate during the first half of the year, at the back of strong infrastructure, social and personnel services spending (see Figure 1.0). The gradual acceleration became more noticeable in the second quarter, enabling this quarter's spending to reach P567.9 billion, 12.4 percent higher than the 2014 levels to outperform the 4.5 percent increase registered during the first quarter. Cumulative disbursements as of June ended at P1,072.0 billion, 8.5 percent higher than that in 2014, but slower than the comparable 10.9 percent growth

Figure 1.0 NG Disbursements, 2014-2015

Amounts in billion pesos, unless otherwise indicated



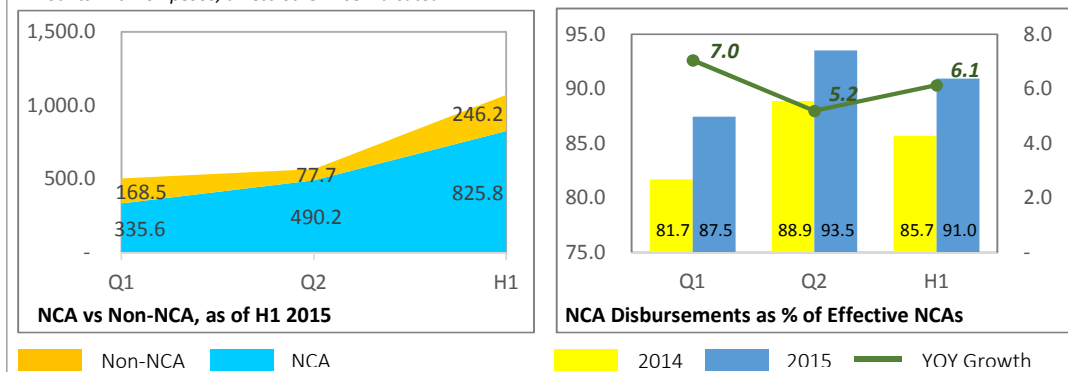
recorded last year, mainly on account of the lower support to government corporations in the form of regular subsidies and net lending assistance (see discussion in the performance vs programmed levels).

Cash Disbursements as Driver of Growth

Cash expenditures, which consist mainly of expenses to cover operations and the implementation of programs/projects of line agencies, accelerated further in Q2, reaching P490.2 billion, a significant 46.1 percent increase over Q1 (see Figure 2.0, left box). The substantial improvement in the utilization of cash disbursement authorities by big spending agencies, like the DPWH (86.5 percent in Q1 to 94.7 percent in Q2), DepEd (91.2 percent to 94.1 percent), DILG (91.2 percent to 97.4 percent) and DSWD (72.7 percent to 78.6 percent), helped drive up the cumulative NCA disbursements to P825.8 billion at the end of June.

Figure 2.0 Comparison of NCA and Non-NCA Disbursements, 2014-2015

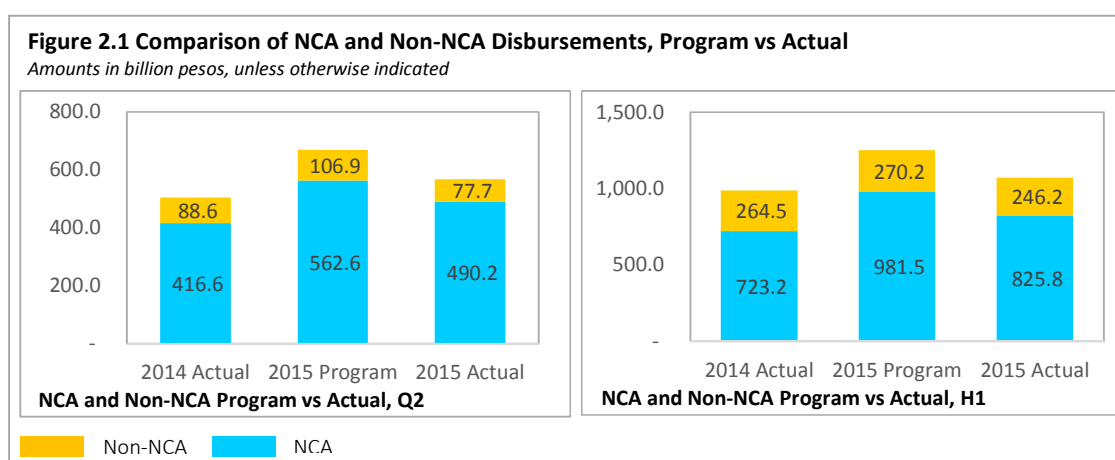
Amounts in billion pesos, unless otherwise indicated



Thus, it will be noted that NCA disbursements in Q2 accounted for 93.5 percent of all the cash disbursements authorities issued for the quarter, 6 percentage points greater than Q1, and 5.2 percent higher than the comparable period last year (see Figure 2.0, right box). This led to a 91.0 percent NCA utilization rate as of the first semester, a significant improvement from the 85.7 percent recorded in the same period in 2014.

Non-cash disbursements on the other hand, or those expense items that do not require issuance of cash disbursement authorities such as interest payments, net lending and tax expenditures, dipped during the second quarter this year – from P168.5 billion in Q1 to P77.7 billion in Q2, representing a substantial decline of 53.9 percent. These are also lower by 12.3 percent or P10.9 billion when compared with the previous year. As a result, cumulative Non-NCA expenditures as of June 2015 tallied at P246.2 billion, down by 6.9 percent or P18.3 billion from 2014.

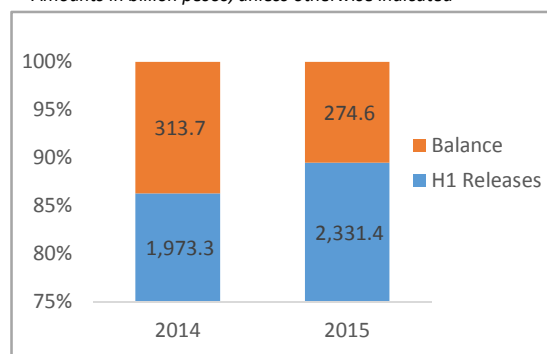
Both cash and non-cash disbursements, however, continued to fall short of program in Q2, and thus, as of the first semester of 2015 (See Figure 2.1). Cash disbursements were below target as line agencies such as the DepEd (P15.6 billion), COMELEC (P11.7 billion), DOH (P6.5 billion), DILG (P4.7 billion) and DOST (P3.9 billion) among others, were not able to meet their program spending commitments mainly due to failed biddings, failure to muster the documentary requirements for payments, and other implementation issues. Underspending in non-cash disbursements on the other hand, was mainly on account of savings in interest payments and lower net lending requirements. The details of this performance versus program are further discussed in the succeeding sections.



Allotment Releases

Allotment releases at the end of the first semester of 2015 have already reached P2,331.4 billion, or nearly 90 percent of the P2,606.0 billion obligation program given the continuous adoption of the GAA-as-a-Release Document (GAARD) policy. This policy allowed the comprehensive release of the budget of line agencies that no longer require additional requirements and further itemization, at the start of the year. Total releases include P1,441 billion new appropriations (82.9 percent of program and 61.8 percent of releases as of the first semester), P816.4 billion automatic appropriations (94.2 percent of program and 35.0 percent of releases as of first semester), and some P73.6 billion continuing appropriations (3.2 percent of total releases as of first semester).

Figure 3.0 Allotment Releases, 2014-2015
Amounts in billion pesos, unless otherwise indicated



Source: Budget Technical Bureau, DBM

Among the big-ticket items that were released during the first semester are as follows:

DEPARTMENT	NATURE OF EXPENDITURES	AMOUNT RELEASED
DPWH	Various infrastructure programs and projects , including the construction of classrooms and farm-to-market roads of DepEd and DA, respectively	P264.6 B
DEPED	Basic Education Program (i.e., computerization program, basic educational facilities, textbook and instructional materials, Science and Math equipment and GASTPE scholarship program) and construction of power supply system of the Philippine High School for the Arts	P41.9 B
DSWD	Social protection programs, which consist of the KALAHI-CIDSS, social pension for indigent senior citizens and National Household Targeting System for Poverty Reduction (NHTS-PR)	P24.6 B
DOTC	Locally-Funded Projects for the aviation industry under the Infrastructure Development Program	P11.9 B
ARMM	Local infrastructure programs	P11.9 B
COMELEC	Preparatory activities for the 2016 National and Local Elections	P11.4 B

Quarter-to-Quarter Performance: Drivers of the Q2 Acceleration

Government spending gradually built up in the second quarter, with around 9.0 and 9.2 percent year-on-year increase in April and May, respectively, before ramping up to a 17.5 percent growth in June. This led to a P567.9 billion in Q2 disbursements growing 12.4 percent year-on-year, 12.7 percent more (equivalent to P63.9 billion) than Q1. Aside from higher quarter-to-quarter increase in personnel services spending by 34.7 percent due to the grant of performance bonus, the other drivers for Q2 growth are the i) Support to GOCCs which grew by 953.9. percent, and ii) Infrastructure and Other CO which increased by 19.4 percent. Allotment to LGUs meanwhile, was also jacked up in Q2 following the release of their special shares in the proceeds of national taxes.

Table 1.0 2015 NG Disbursements, Q1 vs Q2

Amounts in billion pesos, unless otherwise indicated

Expenditure Class	2015		Increase/(Decrease)	
	Q1	Q2	Amt	%
Personnel Services	138.4	186.4	48.0	34.7
Maintenance Expenditures	86.1	93.2	7.1	8.2
Infrastructure and Other CO	68.5	81.8	13.3	19.4
Allotment to LGUs	97.6	107.8	10.1	10.4
Support to GOCCs	3.8	40.4	36.6	953.9
Interest Payments	100.6	55.5	(45.1)	(44.8)
Tax Expenditures	6.7	2.4	(4.3)	(64.3)
Net Lending	2.2	0.4	(1.8)	(80.1)
TOTAL DISBURSEMENTS	504.0	567.9	63.9	12.7

- **NG support to GOCCs surged in the second quarter mainly to boost social and food security programs.** Subsidy releases amounted P40.3 billion during the quarter following the release of the P32.6 billion subsidy to PHIC to cover the insurance premiums of indigent families under the National Health Insurance Program and the P4.3 billion to NFA for its Rice and Corn Price and Supply Stabilization Program. The government also extended some P171 million in investment outlays to finance the capital expenditures of a number of government corporations.
- **Infrastructure spending likewise accelerated in Q2 as agencies fast tracked the implementation and completion of capital outlay projects.** Favorable weather conditions allow the DPWH to speed up the pace of its infrastructure activities such as road improvements and the construction of flood control projects. The dry season or lean months are also longer this year, ending in the fourth week of June

compared to the first week in 2014¹. This gave an additional two-week time for construction activities to be completed ahead of the rainy season. Other CO expenditures which also contributed to higher quarter-to-quarter rise in infrastructure spending include locally-funded infrastructure projects in the ARMM, as well as the construction, rehabilitation and improvement of a number of airports and seaports nationwide under the transport infrastructure development program of the DOTC.

Year-on-Year Performance: Explaining the Trends

June Performance

Disbursements for the month of June reached P236.2 billion, up by 17.5 percent or P35.1 billion from year-ago-levels. This is the fastest year-on-year growth since January this year, and was higher than the average spending growth for the first five months of the year of 6.7 percent.

- **Growth in June disbursements was mainly on account of the increased spending for personnel services (PS) in view of the release of the Performance Enhancement Incentive (PEI) to government employees.**

PS levels reached P76.6 billion in June, 56.3 percent or P27.6 billion higher than the P49.0 billion in personnel expenditures in 2014. The PEI is a productivity incentive equivalent to a month's salary provided to the employees of agencies this year who

were able to deliver at least 90 percent of at least two of their performance commitments in the previous year. As approved by Congress, the amount of PEI was increased from P5,000 last year to equivalent of one-month salary this year. This release on top of the regular mid-year bonus (equivalent to one-half of the monthly basic salary) given in May. Based on the report from AO 25 Secretariat, around 326 of 330 government agencies and 14 of 15 GOCCs qualified for the PEI.

- **June disbursements were also driven by strong infrastructure spending and expanded social services expenditures.** Infrastructure spending amounted to P34.6 billion, P10.2 billion or 42.0 percent higher from the 2014 level largely due to the road infrastructure program of the DPWH. Maintenance expenditures improved to P36.8 billion from the P29.8 billion in the year-ago period as the government continue to widen the coverage of its social protection services, notably the Pantawid Pamilyang Pilipino Program or 4Ps, and the Emergency Shelter Assistance program for the victims of Typhoon Yolanda.

Table 2.0 NG Disbursements for the Month of June

Amounts in billion pesos, unless otherwise indicated

Expenditure Class	June		Increase/(Decrease)	
	2014	2015	Amt	%
Personnel Services	49.0	76.6	27.6	56.3
Maintenance Expenditures	29.8	36.8	7.0	23.4
Infrastructure and Other CO	24.4	34.6	10.2	42.0
Allotment to LGUs	30.9	34.3	3.4	11.1
Support to GOCCs	46.4	35.0	(11.4)	(24.6)
Interest Payments	19.6	19.2	(0.4)	(2.1)
Tax Expenditures	0.6	0.2	(0.4)	(68.2)
Net Lending	0.5	(0.3)	(0.8)	(168.4)
TOTAL DISBURSEMENTS	201.1	236.2	35.1	17.5

First Semester Performance

Disbursements levels for the month of June helped propel first semester spending to grow by 8.5 percent year-on-year to end at P1,072.0 billion.

- **Robust growth in maintenance expenditures continued to drive disbursement performance.** Maintenance spending grew to P179.3 billion this first semester, higher by almost 18 percent from the comparable period last year owing to the increased social services expenditures such as Conditional Cash Transfers, community development programs and assistance to victims of calamities under the DSWD and health services of the DOH.

¹ PAGASA Press Statement dated June 22, 2015. Available at <http://www.pagasa.dost.gov.ph/index.php/news/92-press-release/1007-onset-of-the-rainy-season>.

- **Higher personnel services expenditures, and steadier pace of infrastructure spending during the second quarter bolstered first semester spending.** Personnel benefits expenditures increased to P324.7 billion, almost P32 billion or 11 percent larger year-on-year. On top of the grant of mid-year and productivity bonus this May and June, respectively, the government also provided funds to beef up manpower in key agencies such as the DepEd (teaching positions), DPWH (engineering positions) and the DILG (police officer positions).

Meanwhile, Infrastructure and Other Capital Outlays reached P150.4 billion coming from P136.6 billion in the previous year largely due to the continuous roll out of road infrastructure programs of the DPWH.

- **LGUs received higher financial subsidies because of larger revenue collections and broader tax base of the BIR following the enactment of Sin Tax Law.** Allocation to LGUs, which consist of the 80 percent of Internal Revenue Allotment (IRA) and Capital Transfers (i.e., equivalent to the remaining 20 percent of IRA plus the Special Shares in the Proceeds of National Taxes) reached P205.4 billion as of June this year, exceeding the 2014 level by P30 billion.

Table 3.0 NG Disbursements As of June

Amounts in billion pesos, unless otherwise indicated

Expenditure Class	As of June		Increase/(Decrease)	
	2014	2015	Amt	%
Personnel Services	292.8	324.7	32.0	10.9
Maintenance Expenditures	152.4	179.3	26.9	17.6
Infrastructure and Other CO	136.6	150.4	13.7	10.1
Allotment to LGUs	175.8	205.4	29.6	16.8
Support to GOCCs	50.0	44.3	(5.7)	(11.4)
Interest Payments	159.7	156.1	(3.6)	(2.3)
Tax Expenditures	13.9	9.1	(4.8)	(34.3)
Net Lending	6.5	2.7	(3.8)	(58.8)
TOTAL DISBURSEMENTS	987.7	1,072.0	84.3	8.5

While growth has been observed in these expense items, the total disbursements have been partially trimmed down by the lower support to government corporations, tax subsidies and debt burden (i.e., Net Lending and Interest Payments) with a combined year-on-year contraction of 7.8 percent or P17.9 billion.

Performance vs Programmed Levels

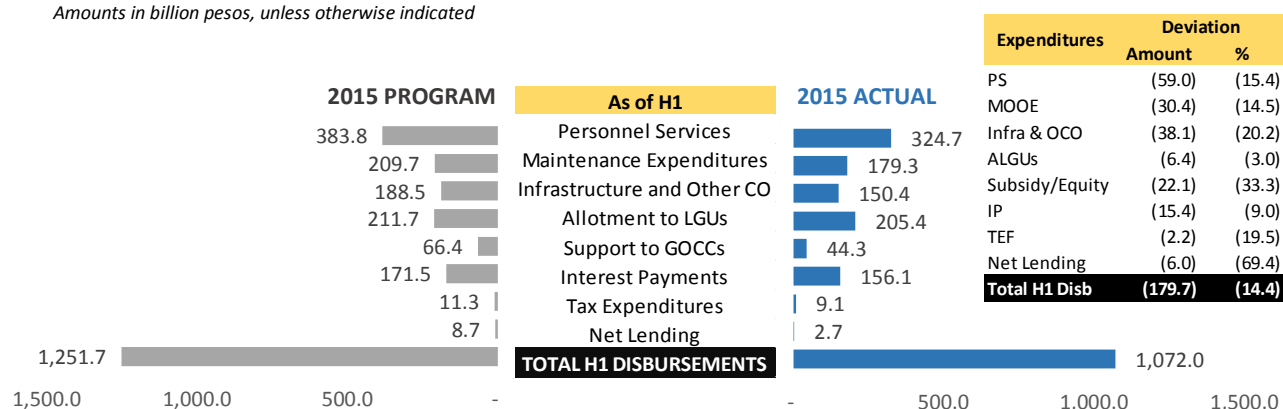
First semester disbursements slid below program by P179.7 billion or 14.4 percent which is lower by almost 2 percentage points (or P11.4 billion) when compared to the 16.2 percent of the previous year. The slower-than-expected spending performance is primarily due to the low obligations of some agencies as they continue to tackle implementation issues, procurement difficulties and payment or billing concerns. It can be noted however, that outstanding checks account for a large portion of this underspending by as much as P43.4 billion², or 25 percent. Nearly two-thirds of these check floats or P28.0 billion was accumulated in Q1, and to a lower extent (at P15.4 billion) in Q2. The encashment of these outstanding checks nonetheless is expected to positively impact disbursement levels in the succeeding quarters.

In terms of expenditure classification, the magnitude of underspending is recorded in Personnel Services at P59.0 billion, Infrastructure and Other Capital Outlays at P38.1 billion, and Maintenance Expenses at P30.4 billion.

² Based on Report of MDS-Government Servicing Banks

Figure 4.0 2015 NG Disbursements, Program vs Actual

Amounts in billion pesos, unless otherwise indicated



- **Program balances in the MPBF (filling up of positions and PEI) and unclaimed payments contributed to the underspending in Personnel Services.** Releases for the filling up of positions are still minimal (P6.6 billion against first semester program of about P21.6 billion) pending request from the agencies. In addition, about P3.7 billion from the PEI are yet to be released as some departments/agencies still need to comply with the submission of their accomplishment or performance reports as basis for the grant of the incentive.

The presence of large outstanding checks also dampened personnel services spending. For example, the PNP has around P945.3 million of unencashed checks representing retirement and terminal leave payments, and remittances to GSIS, PAG-IBIG, PHILHEALTH and other lending institutions. Advice have already been made to these payees that the checks could already be claimed. Also, a large portion of retirement and terminal leave payments which was already released in the first semester are only expected to be credited in July due to the verification process of payee's accounts being conducted by the banks.

- **Maintenance expenditures could have been higher if not for the large volume of unclaimed checks, and low obligation rate of agencies mainly due to delays in the implementation of programs and submission of supporting documents.** The DSWD has some P11.9 billion outstanding checks as of June³ which is attributed to the two-month billing cycle for the payment of cash assistance under the CCT, as well as the check payments for transactions pertaining to cash for work, emergency shelter assistance, social pension and supplementary feeding program which were not yet released to or claimed by the concerned LGUs because of incomplete or non-submission of documentary requirements. To address this payment back-logs, specifically for the CCT, the DSWD plans to use pre-paid or debit cards, especially for those in the remote or hard to access areas.⁴

Low obligation rates for some programs continue to negatively impact on disbursement levels as the procurement process and hiring of personnel have not been completed as in the case of the DOH (Provision of Medicines and Doctors to the Barrios and Nurse Deployment programs) and DOST-ICTO (Free Public Wi-Fi project). A low obligation rate was also recorded under the Land Tenure Services of the DAR since the agency is still in the process of acquisition of private agricultural lands.

Delays in the implementation of a number of programs and projects, for example grants-in-aid and R&D efforts of the DOST, have also contributed to the underspending since payments cannot be made until these projects are completed. Similarly, a portion of the scholarship assistance of the SEI which was programmed in the first semester was not disbursed given the shift in the academic calendar of some

³Based on Report of MDS-Government Servicing Banks

⁴As reported by the agency in its Q1 Catch-Up Plan

colleges and universities from June to July or August. Payments are therefore expected to be credited in Q3.

Part of the underspending in MOOE is also the result of deferred payments of some obligations pending submission of complete supporting documents, liquidation reports, and billing statement from contractors. This is common among departments with regional field offices and those agencies that deal with LGUs such the DepEd for its school operations⁵, and the DILG⁶ for its locally funded projects such as PCF and PAMANA.

- **Procurement difficulties remain a concern in meeting programmed infrastructure spending.** Infrastructure and Other Capital Outlays fell below target as different agencies encountered difficulties in various stages of procurement. For instance, it was reported that delays were encountered in the bidding for the Health Facilities Enhancement Program or HFEP of the DOH due to the problems of technical specification, while bidding for the Enterprise Information Systems Plan or EISP of the Judiciary has not been completed. Specific procurement timelines also affected the delivery and payments of goods or services as in the case of the DOST-PAGASA for the acquisition of its weather reading/forecasting equipments. The agency gives a two-year timeframe for the purchase until the delivery of the equipment which involves i) manufacturing, ii) installation and iii) testing. Further, procurement of the said equipment tends to be difficult as these should comply with the standards or specifications set by the World Meteorological Agency.

A sizeable portion of the underspending in Infrastructure and Other Capital Outlays stemmed from the undisbursed P11.9 billion allocation of the COMELEC representing requirements of the Automated Election System (AES). It may be recalled that the funds were not disbursed following the Supreme Court's decision⁷ declaring the earlier contract of the COMELEC with SMARTMATIC⁸ as null and void, as well as delays encountered in the procurement of other components of the AES. The COMELEC has already conducted another round of public biddings for the said contracts and is set to award them in Q3.

- **Actual budgetary support to government corporations were lower than programmed since a huge amount of programmed subsidies were not released to the GOCCs.** For example, release to Philippine Coconut Authority (PCA) has not been made pending submission of special budget request from the agency. The same is true for the NIA since payments of their contractors are based on progress billings. The agency however has reported some delays in the processing of payments which takes place in the implementing units and submitted to the central office. In terms of project implementation meanwhile, the agency has already entered into a MOA with 4 pilot provinces, namely Albay, Palawan, Lanao Del Sur and Oriental Mindoro, to fast-track completion of projects and hence payments. The implementation agreements however are still being finalized.

Moreover, subsidy fell below target as the corresponding cash requirement of the P4.1 billion allotment issued to NHA this June was not yet released pending submission of utilization reports of the agency. The payment of the said allotment is likely to be credited in Q3.

It is worth mentioning that some P21.4 billion (P15.4 billion from interest payments and P6.0 billion from net lending) or around 12 percent of the underspending is credited not to implementation bottlenecks but due to the operational efficiency of the government from its financial and debt management strategies.

- Net lending releases were lower than program in the absence of request from the GOCCs. While there were less availments from government corporations, the DOF has also been more prudent in granting

⁵Based on reports from DBM Regional Offices and the DepEd

⁶ Among the documents required include LGU proposals, plans/drawings and cost estimates, programs of work, detailed engineering design, and Sanggunian Resolutions among others

⁷ GR Nos. 216098 and 216562. Promulgated on April 21, 2015

⁸Contract for the repair and maintenance of PCOS machines

debt relief or assistance to GOCCs. The department is strictly monitoring the financial position of GOCCs as basis for the grant of net lending assistance.

- Savings were generated from Interest Payments due to the combined effects of lower volume transactions, interest rates and assumed foreign exchange rates.

Outlook for the Rest of the Year

Only some P274.6 billion or 10.5 percent of the P2.606.0 billion national budget for the year remain unreleased. This is comprised mostly of special purpose funds such as the MPBF, PGF and shares of the LGUs in the proceeds of national taxes. By the very nature of these funds, releases are either subject to submission of additional requirements (e.g. clearance from oversight agencies, geotagged locations, listing of beneficiaries), fulfillment of certain conditions (e.g. positions are either created or filled, successfully met performance commitments) or contingent to occurrence of certain events like calamities or emergencies.

As a result of the underspending in the first semester, spending targets were pushed back to the second semester as agencies try to implement their catch-up plans. Starting August, agencies have been submitting reports on their first semester performance to the Cabinet Secretary, copy furnished the DBM, following the issuance of AO 46. Based on these submissions, a number of agencies such as the DPWH (8.3 percent over target), and DSWD (from 58.3 percent disbursement rate in Q1 to 83.4 percent in Q2) reported improvements in their budget utilization at the end of the second quarter. The DBM is also conducting FDU meetings with the line agencies to follow up on the status of their programs/projects and catch-up plans. While most have experienced delays in their implementation, targets and spending commitments are slated for completion/implementation towards the second semester.

ⁱ Approved for posting on the DBM website on 7 October 2015

Data and information are based on the reports of and further coordination with the Bureau of the Treasury, DOF-Corporate Affairs Group, Budget Preparation and Execution Group, Budget Technical Bureau and Regional Offices of the DBM, and Departments/Agencies.