

NATIONAL GOVERNMENT DISBURSEMENT PERFORMANCE

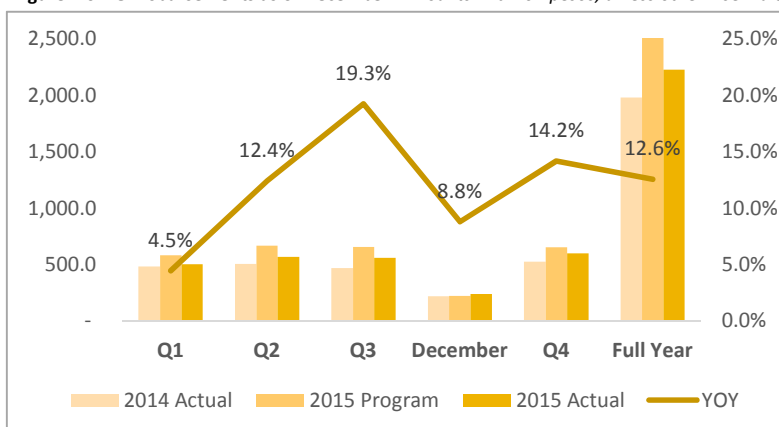
AS OF DECEMBER 31, 2015

Government spending closed at P2,230.6 billion as end of December 2015, up by 12.6 percent when compared with the disbursements in the previous year. This is the fastest annual growth in government spending recorded in the last three years, outperforming the 5.8 percent and 5.4 percent growth recorded in 2013 and 2014, respectively.

Despite the remarkable year-on-year increase, disbursements still fell below program but at a slower rate of 12.8 percent – against the 13.3 percent actual vs program gap in 2014.

Nonetheless, spending remained strong during the fourth quarter at 14.2 percent annual growth on account of higher MOOE and larger infrastructure requirements during the last two months of 2015. Maintenance and capital expenditures expanded by an average of 35.0 percent and 39.0 percent, respectively, from November to December 2015.

Figure 1.0 NG Disbursements as of December. Amounts in billion pesos, unless otherwise indicated



Disbursements for the month of December meanwhile increased by almost 9.0 percent to reach P238.7 billion and even surpassed the program level by 7.0 percent or P15.6 billion. The details of the quarterly and monthly disbursement performance are further discussed in the succeeding sections.

Use of Disbursement Authorities

The utilization of cash authorities by departments significantly accelerated on a quarterly basis, improving from 81.9 percent in Q1, to 89.0 percent in Q2, 95.7 in Q3 to 97.3 percent in Q4. This led to an 18.6 percent increase in cumulative cash disbursements in 2015 to reach P1,780.3 billion, accounting for almost 95.0 percent of all the effective NCA issuances for the year. This is better than the P1,501.7 billion cash expenditures in 2014, representing 88.1 percent NCA utilization rate. Non-cash expenditures, which is largely made up of interest payments, meanwhile, were lower by almost P30 billion compared to its 2014 level, to end at P450.3 billion in 2015.

Table 1. Comparison of NCA and Non-NCA Disbursements, Program vs. Actual 2014-2015

in billion pesos, unless otherwise indicated

Particulars	Q1- Q3		Q4						Full Year							
	2015		2014		2015			2014 vs 2015		2014		2015			2014 vs 2015	
	Actual	Actual	Program	Actual	Deviation		Inc/(Dec)		Actual	Program	Actual	Deviation		Inc/(Dec)		
					Amt	%	Amt	%				Amt	%	Amt	%	
NCA	1,264.9	426.8	538.9	515.4	(23.5)	(4.4)	88.6	20.8	1,501.7	2,026.4	1,780.3	(246.1)	(12.1)	278.7	18.6	
% of Eff. NCA	93.4%	92.1%		96.9%					88.1%		94.4%					
Non-NCA	365.6	98.8	113.0	84.7	(28.3)	(25.1)	(14.1)	(14.2)	480.0	532.5	450.3	(82.2)	(15.4)	(29.6)	(6.2)	
Total	1,630.5	525.5	652.0	600.1	(51.9)	(8.0)	74.6	14.2	1,981.6	2,558.9	2,230.6	(328.3)	(12.8)	249.0	12.6	
Memo Items:																
Effective NCAs Issued net of Trust Liabilities, gross of Working Fund:																
As of September				Fourth Quarter				As of December								
2014 1,240.1				2014 463.6				2014 1,703.7								
2015 1,354.5				2015 532.1				2015 1,886.6								
Allotment Releases																
As of December 2014		2,220.6	97.1% of the P2.287 trillion obligation program (including supplemental appropriations)													
As of December 2015		2,573.3	98.7% of the P2.606 trillion obligation program													

Sources: Bureau of the Treasury and DBM-Budget Technical Bureau

Compared to target however, both cash and non-cash disbursements fell below program primarily due to low obligations of agencies and savings in interest payments, respectively. The details of this assessment vis-a-vis the program are discussed in the succeeding sections.

Allotments and Obligations

Total allotment releases for 2015 amounted to P2,573.3 billion or 98.7 percent of the P2,606.0 billion obligation program for the year. This level of releases is 16.0 percent higher than the P2,220.6 billion released in 2014. Of these releases, P1,849.3 billion¹ worth of allotments were issued to departments. Only P1,502.3 billion or 81.2 percent of those allotments were however obligated as of December 31, 2015, slightly lower than the 83.3² percent obligation rate for the comparable period in 2014. This low obligation rate has been significantly affecting the pace of government spending in the recent years.

Disbursement Performance

FOR THE MONTH OF DECEMBER 2015

Disbursements for the month of December grew annually by 8.8 percent on account of higher maintenance expenditures and infrastructure outlays, which increased by 34.6 percent and 39.6 percent, respectively.

- MOOE climbed to P46.3 billion, up by nearly P12 billion or 34.6 percent, from the previous year mainly due to the payment of completed BUB projects of the DILG and social services programs of the DSWD such as the CCT and Assistance to Victims of Disaster and Natural Calamities. Higher maintenance spending was also recorded in the DOH for banner programs like the purchase of drugs and medicines, Dengue immunization, and expenses for hospital operations. In addition, disbursements of the DA for its production support and technical services for rice, corn and other high-value crops, as well as the implementation of its BUB projects contributed to higher maintenance spending.
- Capital expenditures rose to P54.0 billion, almost 40 percent higher than the outlays in the previous year owing to the DPWH's construction and repair of roads and bridges, implementation of convergence programs, and payments for completed flood control projects and rehabilitation of calamity-damaged infrastructures. Payments for completed local infrastructure projects implemented by the DPWH and the DepEd (e.g., construction of classrooms and other facilities) in the ARMM, and the upgrade of health facilities and equipment of the UP-PGH also contributed to higher infrastructure spending this month. Likewise the modernization of DND-AFP facilities, for example, with the acquisition of C-130T Aircraft, Air Defense Surveillance Radar System and Assault Amphibious Vehicles, also increased infrastructure outlays in December.

Table 2.0 NG Disbursements, For the Month of December
Amounts in billion pesos, unless otherwise indicated

Expenditure Items	December		Inc/(Dec)	
	2014	2015	Amount	%
CURRENT OPER. EXP.	174.2	177.2	2.9	1.7
PS	62.1	66.0	3.9	6.3
MOOE	34.4	46.3	11.9	34.6
Subsidy	14.1	12.0	(2.1)	(14.9)
Allotment to LGUs	22.8	26.0	3.2	14.1
IP	28.9	21.5	(7.4)	(25.8)
TEF	12.0	5.4	(6.6)	(54.8)
CAPITAL OUTLAYS	44.9	61.1	16.2	36.0
Infra & Other CO	38.7	54.0	15.3	39.6
Equity	0.3	0.2	(0.0)	(10.9)
Capital Transfers to LGUs	6.0	6.9	0.9	14.4
NET LENDING	0.2	0.4	0.2	109.0
TOTAL	219.4	238.7	19.3	8.8

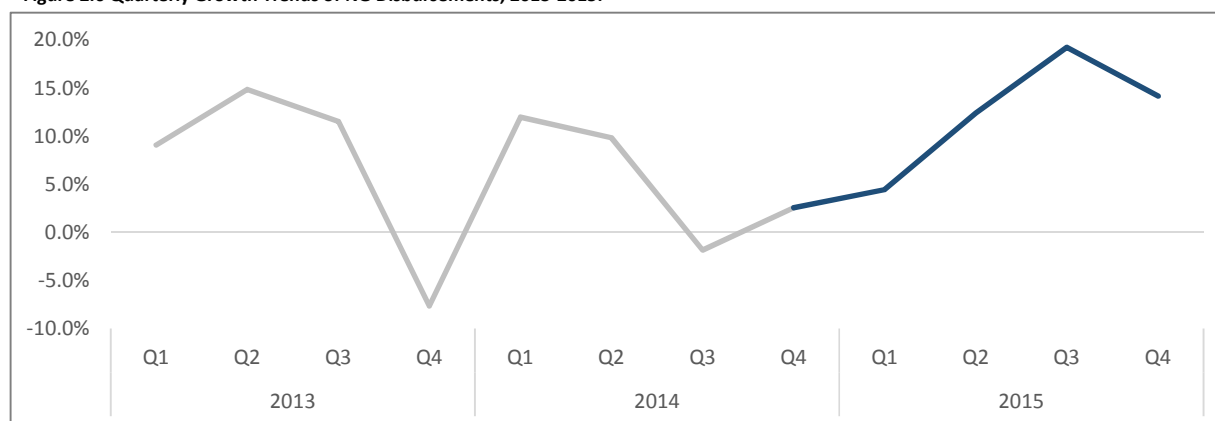
¹ Preliminary, based on Statement of Allotment, Obligation and Balances Report as of December 31, 2015. Excludes figures for the Congress and the COMELEC pending their submission of reports. The report can be accessed in the DBM website at http://www.dbm.gov.ph/wp-content/uploads/e-Fund_Releases/SAOB2015/Q4/SAOB%20FY2015-prelim.forWebsite_LINK.pdf

² Based on Statement of Allotment, Obligation and Balances Report as of December 31, 2014. Available in the DBM website at http://www.dbm.gov.ph/?page_id=12693

- Personnel services slightly increased by P3.9 billion to reach P66.0 billion this month as a result of releases for the creation of positions in the BFP and PNP, filling up of positions in the DOH, as well as payments for terminal leave/retirement gratuity benefits and monetization claims in the DOH, DILG and DND.

FOR THE FOURTH QUARTER 2015

Figure 2.0 Quarterly Growth Trends of NG Disbursements, 2013-2015.



Quarterly disbursements in 2015 have vastly improved relative to the last two years. Disbursements for the fourth quarter grew by 14.2 percent – the third time that quarterly growth rate posted a two-digit margin from only 4.5 percent in Q1 vis-a-vis 12.4 percent in Q2 and 19.3 percent in Q3. The quarterly growth rates recorded in 2015 reflected a continuous upward trajectory from the trends in 2013 and 2014.

Year-on-Year Performance

Fourth quarter spending reached P600.1 billion, almost P75 billion or 14.2 percent higher than the disbursements for the same period in 2014. This robust growth was fueled by higher maintenance and capital spending and increased PS expenditures towards the latter part of the quarter, as line agencies stepped up in the implementation of their programs and projects before the end of the fiscal year.

As already mentioned in our October and November reports, and as discussed in the December performance above, the following expenditure items were the reasons for the strong quarter results:

Table 3.0 NG Disbursements, For the Fourth Quarter. Amounts in billion pesos, unless otherwise indicated

Expenditure Items	Fourth Quarter			Deviation		Inc/(Dec)	
	2014	2015		Amount	%	Amount	%
		Program	Actual				
CURRENT OPER. EXP.	422.0	483.2	472.0	(11.2)	(2.3)	49.9	11.8
PS	174.3	190.9	193.2	2.3	1.2	18.9	10.8
MOOE	83.8	102.5	117.6	15.2	14.8	33.9	40.4
Subsidy	18.2	22.7	22.2	(0.5)	(2.3)	4.0	21.7
Allotment to LGUs	68.3	78.0	78.0	-	-	9.7	14.1
IP	63.8	78.4	53.6	(24.8)	(31.6)	(10.2)	(16.0)
TEF	13.6	10.8	7.4	(3.4)	(31.6)	(6.2)	(45.9)
CAPITAL OUTLAYS	98.5	165.6	122.9	(42.6)	(25.8)	24.4	24.8
Infra & Other CO	80.6	142.2	102.3	(39.9)	(28.1)	21.7	27.0
Equity	0.5	0.4	0.4	0.1	22.7	(0.1)	(16.5)
Capital Transfers to LGUs	17.4	23.0	20.2	(2.8)	(12.1)	2.8	15.8
NET LENDING	5.0	3.2	5.2	2.0	62.3	0.2	4.5
TOTAL	525.5	652.0	600.1	(51.9)	(8.0)	74.6	14.2

- Personnel Services – increased due to the grant of performance-based bonus in October this year, release of the requirements for creation and filling up of positions in key agencies (i.e., DOH, DepED, DILG and DND) all throughout the quarter, including payment of other personnel benefits such as retirement gratuity, terminal leave and monetization claims.
- Maintenance Expenditures – expanded because of the disbursements for the implementation of social programs particularly for CCT of the DSWD in October and December this year, following their two-month billing scheme, as well as spending for the health banner programs of the DOH. Payments for

the completion of BUB and PAMANA projects for the whole quarter, and the implementation of the basic education (i.e., purchase of textbooks) and scholarship (i.e., GASTPE) programs of the DepEd in November also contributed to higher MOOE. Moreover, a sizeable portion of maintenance spending came from the expenditures made by the COMELEC amounting to some P8.0 billion this quarter for the lease of vote counting machines as part of the Automated Election System project in preparation for the National and Local Elections in 2016.

- Capital Outlays - the bulk of capital spending for the quarter was disbursed in December (P54.0 billion, compared to only P27.9 billion in October and P20.4 billion in November). Additional NCAs were released to DPWH in December to cover the payments of completed projects nationwide like road rehabilitation and upgrading, convergence programs, and repair of road assets damaged by calamities in the recent years. Some of the larger disbursements this quarter came from the releases made to the DND amounting to around P4.6 billion³ for the AFP modernization program. In addition, some P977.7 million payments made by the DOTC for the repair and rehabilitation of LRT Lines 1 and 2 led to higher capital expenditures this quarter.⁴
- Subsidy - support to government corporations grew by almost 22.0 percent or P4.0 billion more than the subsidies in the same period last year. This is largely on account of the release of some P6.0 billion subsidies to NHA this December to cover the requirements of construction of housing units for victims of calamities, housing material assistance and for the relocation of informal settler families. Subsidies were also higher due to the payments made by the NIA for completed irrigation projects amounting to around P5.0 billion since October, as well as the release of some P2.3 billion subsidy to cover the insurance premiums of additional beneficiaries under the National Health Insurance Program in November. The increase however was partially offset by lower or one-time releases to other corporations either due to programming difference or non-avilment of GOCCs.

Program vs. Actual Performance

The acceleration of spending in the fourth quarter resulted to the narrowing of the quarterly deviation of actual vs program of 8.0 percent (P51.9 billion), compared to 13.4 percent (P78.2 billion) in Q1, 15.2 percent (P101.5 billion) in Q2 and 14.8 percent (P96.7 billion) in Q3. A major contributing factor to the smaller underspending this quarter was the improvement in obligation rates of departments. Aggregate obligation rate of departments/agencies stood at 434.7 percent in Q4 from only 21.7 percent in Q1, 133.8 percent in Q2 and 413.0 percent in Q3, to cap a full year obligation rate of 81.2 percent. The improving obligation rate towards Q4 meant that line agencies were increasingly able to contract-out or commit most of their allotments starting the second semester. While this was the case, it was not enough to fully catch-up and drive disbursements as unobligated balances were too large during the first semester.

For the fourth quarter (see *Table 3.0*), the two major sources of underspending were infrastructure spending at almost P40.0 billion (28.1 percent of the program) and interest payments at P24.8 billion or (31.6 percent).

- Although disbursements for infrastructure outlays this quarter were already high at P102.3 billion, it still fell short of the program since, as discussed above, line agencies have only obligated most of their allotments in Q4 indicating that a large number of programs/projects are still ongoing during the period. Payments therefore are likely to spill over towards the first two quarters of 2016. Example of these projects that were only obligated in Q4 after facing some implementation and procurement difficulties among other issues at the start of the year include some projects of the DOTC⁵ - Integrated Transport System (P1.5 billion), Cagayan De Oro Airport Development Project (P1.0 billion) and NAIA I Development, Improvement and Capacity Expansion (P479.5 million), the DOH – Health Facilities Enhancement Program (most of the P12.5 billion obligations were made in Q4), and the DOST-PAGASA

³ Estimated disbursements based on NCA releases under the AFP Modernization Program for the Fourth Quarter of 2015.

⁴ Based on DOTC Financial Accountability Report as of December 31, 2015

⁵ Based on DOTC Financial Accountability Report as of December 31, 2015

– Purchase of Weather Forecasting Equipment (P2.1 billion)⁶. Per coordination with our Budget and Management Bureaus, some programs which require CO purchase are also expected to be fully obligated in the earlier part of 2016 due to procurement-related process and regulatory approval from authorities. An example of which is the Crime Prevention and Suppression Services program of the PNP where some P2.0 billion was allotted for the purchase of transport equipments, storage facilities and supplies and materials. This will be fully obligated in 2016 after complying with the approval process of the NAPOLCOM and related procurement process. Requirements for the implementation of the Informal Settler Program of the DILG (P700 million, CO component) are also set to be released in 2016 since the agency needs to comply with the special provisions of the GAA like submission of People's Plan, listing and details of projects indicating the location of sites and names of prospective beneficiaries. Other agencies meanwhile continue to face procurement difficulties due to the size and complexity or nature of their projects. This has been the case of the DepED for its nationwide computerization project and purchase of S&T equipment, and the DND for some of its projects under the AFP Modernization Program.

- The effective and efficient debt management strategy of the government continue to make interest payments a source of savings. The Treasury took advantage of favorable market conditions and continued to swap debt instruments by retiring more expensive loans in favor of longer maturing securities. Although this dragged down disbursement levels, the government saved nearly P25 billion in debt servicing costs for the fourth quarter alone.

The combined P64.7 billion underspending from infrastructure and capital outlays and interest payments however, was tempered by the P15.2 billion overspending (nearly 15.0 percent of the program) in maintenance expenditures as a result of the implementation of social and community development programs of the government. The disbursements include payments for completed projects and releases from continuing appropriations. For instance, a portion of the 2014 requirements of the 4Ps under the DSWD was only disbursed in 2015. It may be recalled that in 2014 only around half of the expected number of beneficiaries were considered in the program while the remaining were either no longer qualified (e.g., beneficiaries getting pregnant), opted out of the program (e.g., no longer interested or did not enroll in high school) or have changed their residence. The agency however was able to fully implement this program in 2015.

FOR THE PERIOD JANUARY TO DECEMBER 2015

Year-on-Year Performance

As a result of the solid Q4 performance, disbursements for the year stood at P2,230.6 billion, almost 13.0 percent higher than the P1,981.6 billion spending level in 2014. The growth was made possible by: i) higher personnel services expenditures from the grant of performance-based bonuses (i.e., Performance Enhancement Incentive in June and PBB starting July) and requirements for creation and filling up of positions in key agencies; ii) increased MOOE due to the expansion of social and community development programs implemented throughout the year, as well as the payments for the hosting

Table 4.0 NG Disbursements, January to December. Amounts in billion pesos, unless otherwise indicated

Expenditure Items	January to December			Deviation		Inc/(Dec)	
	2014	2015		Amount	%	Amount	%
		Program	Actual				
CURRENT OPER. EXP.	<u>1,616.7</u>	<u>1,985.7</u>	<u>1,784.9</u>	<u>(200.8)</u>	<u>(10.1)</u>	<u>168.2</u>	<u>10.4</u>
PS	603.6	743.2	664.4	(78.7)	(10.6)	60.8	10.1
MOOE	308.7	424.8	403.4	(21.4)	(5.0)	94.7	30.7
Subsidy	80.4	118.6	78.0	(40.6)	(34.2)	(2.4)	(3.0)
Allotment to LGUs	273.2	311.9	311.9	-	-	38.7	14.1
IP	321.2	361.8	309.4	(52.5)	(14.5)	(11.8)	(3.7)
TEF	29.5	25.5	17.8	(7.7)	(30.0)	(11.7)	(39.7)
CAPITAL OUTLAYS	<u>351.5</u>	<u>546.7</u>	<u>436.0</u>	<u>(110.6)</u>	<u>(20.2)</u>	<u>84.5</u>	<u>24.1</u>
Infra & Other CO	276.0	431.6	345.3	(86.3)	(20.0)	69.3	25.1
Equity	1.7	2.9	0.8	(2.2)	(73.8)	(1.0)	(56.1)
Capital Transfers to LGUs	73.8	112.2	90.0	(22.2)	(19.8)	16.2	22.0
NET LENDING	13.4	26.5	9.7	(16.8)	(63.4)	(3.7)	(27.6)
TOTAL	1,981.6	2,558.9	2,230.6	(328.3)	(12.8)	249.0	12.6

⁶ Based on DOST-PAGASA Financial Accountability Report as of December 31, 2015

of the APEC Summits, and requirements of the COMELEC Automated Election System; and iii) huge investments in infrastructure outlays mainly for road infrastructure of the DPWH and expenditures related to the modernization of AFP assets and facilities.

Program vs. Actual Performance

Underspending however remained to be a challenge. This was largely evident during the first two quarters where close to 55 percent of underspending was recorded - P78.2 billion or 13.4 percent in Q1 and P101.5 billion or 15.2 percent in Q2. By the third and fourth quarters, underspending slowed down to P96.7 billion or 14.8 percent in Q3 and P51.9 billion or 8.0 percent in Q4, respectively, to bring total underspending at just 12.8 percent of the program by the end of the year. This is slightly lower than the 13.8 percent deviation in 2014 and even lower when debt burden is excluded at 11.9 percent compared to 13.6 percent in the previous year.

- Under infrastructure outlays, around P86.3 billion or 20.0 percent (*see Table 4.0*) was not disbursed in view of low obligations of agencies arising from procurement difficulties and weak planning capacities.
- For maintenance expenditures, underspending amounted to P21.4 billion or 5.0 percent mainly due to payment or billing issues resulting from incomplete or non-submission of documentary requirements, progress billings and delayed encashment of checks of creditors or contractors.
- In the case of personnel services, some P78.7 billion or 10.6 percent underspending was recorded largely on account of program balances from MPBF (P36.1 billion) and PGF (P27.6 billion). While there has been filling up and creation of positions during the year for some key agencies, a number of vacancies are still available in the DepED (i.e., non-teaching and non-entry level positions) and PNP (i.e., police officer positions). These agencies were however experiencing some hiring difficulties particularly on the qualifications of applicants. For PGF meanwhile, the actual turn out for terminal leave, retirement gratuity and monetization claims were lower than the programmed levels.
- Another source of huge underspending is the subsidy to government corporations at P40.6 billion or 34.2 percent of the programmed budgetary support. Bulk of this amount can be traced back to the NIA (P10.8 billion) and the NHA (P11.4 billion). As discussed in our June report, the NIA cited progress billings and delays in processing of payments as the reasons for the lower disbursements. For the NHA meanwhile, allotments were not released pending the submission of utilization reports. Based on coordination with the operations group handling these two agencies, the NIA mentioned encountering right of way negotiation and environmental compliance issues while the NHA reported land acquisition issues along with LGU objections to absorb ISF relocations as some of the other reasons affecting their disbursement performance.
- The other sources of underspending are the savings from interest payments (P52.5 billion or 14.5 percent of the program) and lower capital transfers to LGUs (P22.2 billion or 19.8 percent deviation) due to non-release of some of the programmed amounts for the Special Shares of LGUs in National Taxes pending certification by collecting agencies.

Outlook for 2016

The government is setting a P2,995.4-billion level of disbursements this 2016, equivalent to 20.1 percent of the target GDP this year. Although a significant amount of underspending was recorded in the last two years, the government remains optimistic of utilizing the programmed spending for 2016 to fund critical social development programs and higher investments in public infrastructures, particularly with the national election in May and the impending change in Administration in June 2016. With this level of spending, the economy is expected to grow by at least 6.8 percent this year.

To improve agency spending, expenditure measures will be in place this 2016 taking off from the lessons learnt from the underspending in the previous years. With the implementation of expenditure measures under AO 46, agency fund utilization recovered towards the latter part of 2015. Although the improvement may not be enough to reverse the large underspending recorded in the first half of the year, the measures proved to be

effective in pushing upward the spending performance of the line agencies. Hence, the measures under AO 46 will likely be sustained, specifically on advance procurement to enable the agencies implement their programs/projects on time. Corollary to this, almost 86.0 percent of agency regular budget have already been comprehensively released at the start of the year under the GAA-as-a-Release Document policy. This policy will allow line agencies to bid out their various programs and projects and jump-start implementation ahead of the election ban.

The government is also strengthening its operational planning exercise and monitoring mechanisms. The DBM will soon release a fiscal calendar as a guide for agencies in their planning and budgeting exercise. The calendar will synchronize the schedule of specific fiscal activities and will determine and clarify the roles and responsibilities of oversight and concerned government agencies. At the same time, the regular frequency of FDU meetings will enable the better tracking of the progress of agencies in their program/project implementation and resolve implementation issues as they arise.

The direct release to LGUs modality will also be scaled up, where projects will be implemented by qualified LGUs and funding will be shouldered by the national government. This modality aims to fast track the completion of small infrastructure projects and is expected to speed up the disbursements of funds. A number of local infrastructure development projects under the Bottom-Up Budgeting (BUB) and *Konkreto at Ayos na Lansangan at Daan Tungo sa Pangkalahatang Kaunlaran* (KALSADA) programs are already included under the Local Government Support Fund in the enacted 2016 National Budget and 95.5 percent has been released as of the end of the February 2016.⁷

⁷ Based on Status of Allotment Releases as February 2016. Available at the DBM website: http://www.dbm.gov.ph/?page_id=15162. Total appropriations for Local Government Support Fund amounted to P19.1 billion, comprised of P862.5 million Financial Subsidy to LGUs, P11.7 billion for BUB projects and P6.5 billion for Rehabilitation and Upgrading of Provincial Roads. Total allotment releases as of February 2016 amounted to P18.2 billion.