

**GUIDE TO THE  
TWO TIER BUDGET APPROACH**

# 2TBA

**A TOOL FOR AGENCIES**

**BUDGET 2017**

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## INTRODUCTION

The Two Tier Budget Approach (2TBA) has been introduced as part of the Administration's efforts to improve the effectiveness and transparency of public spending. This Guide has been developed in response to requests from budget departments and agencies for assistance in preparing budget submissions under the 2TBA. It is designed to support agencies to develop affordable and sustainable budgets that direct resources to the highest social and economic priorities and improve the efficiency and effectiveness of public services.

Two tiered budgeting separates discussion and deliberation about existing activities and projects from consideration of entirely new spending proposals, including proposals for the expansion of existing activities. Previous approaches to budget preparation set a budget ceiling for each Agency but allowed discretion in how the ceiling was allocated to activities and projects. The 2TBA enhances the ability of the government to prioritize and manage spending, and engages the President and the Cabinet in setting the strategic direction and distribution of unallocated resources. It will also enhance the accountability of Departments and Agencies for the implementation of their existing activities and projects. Overall, therefore, the two-tier approach will make budget preparation more strategic and will strengthen fiscal discipline.

The first section of this guide describes the main financial management reforms that have been implemented by the Government of the Philippines (GoP). It explains the objectives of the reforms and how they will help the overall budgeting process.

The next section outlines the overall budget cycle of the GoP. The Budget timeline included in this guide is based on a generic Budget Cycle which commences approximately 18 months before the Budget Year in question, and runs until the December before the new Budget comes into force. For example, for the 2017 Budget, the budget preparation cycle begins in August 2015 and ends in December 2016.

The remainder of the guide focuses on the timetable and process for the 2TBA. It explains the timeline for budget preparation and the purpose of each phase and provides advice to agencies on how to prepare successful budget submissions.

This document will serve as an ongoing guide for agencies in preparing and submitting their annual budgets. The detailed forms, instructions, and timeframes for the process may change from year to year as procedures are refined and improved. Budget Memorandums and other Circulars and information issued by the Department of Budget and Management (DBM) will provide updated instructions, dates, and forms required to submit budget proposals. Feedback from agencies on issues they encounter in implementing the reformed budget processes will be important inputs to continuous improvement of GoP budgeting.

## LIST OF ABBREVIATIONS

2TBA	Two Tier Budget Approach
BMB	Budget Management Bureau
BESF	Budget of Expenditures and Sources of Financing
BPF	Budget Priorities Framework
BTr	Bureau of the Treasury
BuB	Bottom-up Budgeting
CO	Capital Outlays
COA	Commission on Audit
COMELEC	Commission on Elections
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DENR	Department of Environment and Natural Resources
DILG	Department of the Interior and Local Government
DOF	Department of Finance
DOLE	Department of Labor and Employment
DOST	Department of Science and Technology
DSWD	Department of Social Welfare and Development
EIRR	Economic Internal Rate of Return
ERB	Executive Review Board
EXCOM	Executive Committee
FAPs	Foreign-Assisted Projects
FDU	Full-Time Delivery Units
FIRR	Financial Internal Rate of Return
GAA	General Appropriations Act
GAA-RD	GAA as Release Document
GMIS	Government Manpower Information System
GoP	Government of the Philippines
ICC	Investment Coordination Committee
MFO	Major Final Output
MOOE	Maintenance and Other Operating Expenses
MTEF	Medium Term Expenditure Framework
MTFP	Medium Term Fiscal Plan
M&E	Monitoring & Evaluation
NAPC	National Anti-Poverty Commission
NCA	Notices of Cash Allocation
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
NSCB	National Statistical Coordination Board
OP	Office of the President
OPIF	Organizational Performance Indicator Framework
OSBP	Online Submission of Budget Proposals
PAP	Project, Activity or Program
PDP	Philippine Development Plan
PIB	Performance-Informed Budgeting

PIP	Philippine Investment Plan
PREXC	Program Expenditure Classification
PS	Personal Services
PSA	Philippine Statistics Authority
RM	Results Matrices
SARO	Special Allotment Release Order
SCPPA	Sub-Committee on Program and Project Appraisal
SONA	State of the Nation Address
TRIP	Three Year Rolling Infrastructure Plan
UACS	Unified Accounts Code Structure
URS	Uniform Reporting System

## BACKGROUND

### Recent Public Finance Reforms

The GoP has introduced a range of budget process reforms aimed at strengthening public expenditure management and planning. These reforms have been implemented under the government's commitment to:

'Spend within means'

- Use resources within a planned and deliberate medium-term strategy within the aggregate resource constraints (i.e. fiscal discipline)

'Spend on the right priorities'

- Align spending with socio-economic priorities, as spelled out in the Philippine Development Plan (PDP) (i.e. allocative efficiency)

'Spend with value-for-money'

- Provide public goods and services at the most reasonable cost and taking account of the absorptive capacity of the Agency (i.e. operational efficiency)

'Spend with Transparency and Participation'

- Empower citizens, communities, LGUs and other stakeholders through greater transparency, accountability, and participation in the PFM process (i.e. participatory budgeting)

To achieve these objectives the government uses a set of modern Public Expenditure Management tools which include:

- Medium-Term Expenditure Framework (MTEF)
- Program Convergence Budgeting (PCB)
- Zero Based Budgeting (ZBB)
- Performance-Informed Budgeting (PIB)
- Bottom-up Budgeting (BuB)
- Unified Accounts Code Structure (UACS)
- Forward Estimates (FEs) and the Two Tier Budget Approach (2TBA) and
- The GAA-as-release document (GAA-RD)

These new processes have been built on existing budget practices and have been phased in over several budget cycles.

The reforms have enhanced the operational efficiency of agencies, as well as accountability and transparency in the budget process. They align spending with results, enable communities to identify projects that they need, streamline budget release procedures, speed up disbursements, fast track the implementation of programs, and reduce leakages in the budget. Congress and citizens also have a more transparent view and therefore better understanding of how resources are being spent and what is being achieved.

### **Medium-Term Expenditure Framework (MTEF)**

The Medium Term Expenditure Framework is a multi-year budgeting approach that sets out the Government's expenditure plans within the available resource ceiling. The MTEF includes annual, rolling three-year expenditure planning, medium-term expenditure priorities, and hard budget constraints. It is the basis on which sector plans can be developed and refined, and outcome criteria defined for the purpose of performance monitoring. Together with the annual Budget Priorities Framework paper, the MTEF provides the basis for annual budget planning.

The MTEF promotes macroeconomic stability and fiscal discipline, better inter- and intra-sectoral resource allocation, greater budget predictability for spending agencies, more efficient use of public funds, stronger political accountability for expenditure outcomes, and greater credibility of budgetary decision making.

### **Program Convergence Budgeting (PCB)**

Progress in the Administration's Key Result Areas requires agencies to collaborate in the planning, budgeting, and implementation of programs. Program Convergence Budgeting is a budgeting approach to facilitate and incentivize coordination between agencies on priority inter-Agency programs such as tourism development or climate change adaptation and mitigation. National Budget Memorandum No. 114 in 2012 sets out guidelines for building and sustaining cooperation between participating agencies in the development and implementation of priority programs. The lead Agency for each program has the responsibility to ensure collaboration and coordination among all the agencies participating in the program.

### **Zero Based Budgeting (ZBB)**

The Zero-Based Budgeting approach scrutinizes the performance of existing programs and revamps, or even cancels, those which fail to meet their objectives and those which are fraught with leakages. Combining improved revenue effort with more disciplined resource allocation, ZBB and other reforms have increased the share of Social Services in the Budget from 27 percent in 2005 to 37 percent in 2015, and focused resources on programs able to deliver with measurable impact, such as the Pantawid Familyang Pilipino Program, the K to 12 Basic Education Reform, and Kalusugang Pangkalahatan.

### **Performance-Informed Budgeting (PIB)**

Under the PIB scheme, performance information has been integrated in the National Budget documents, National Expenditure Program (NEP), and General Appropriations Act (GAA), in order to inform Congress and the public about the Major Final Outputs (MFOs) and other performance targets the Agency is committing to deliver in exchange for its budget. A set of output and outcome indicators and targets are presented in the NEP and GAA for each MFO.

The adoption of the PIB has made the budget more understandable to the layman because it simplified budget presentation. It has also made it easier to gauge the performance of an Agency. Compared to the traditional line-item based budgeting, it links funding to results. This strengthens the direct relationship between planning, budgeting, and outcomes, and enhances transparency and accountability in the allocation of limited resources.

In 2018, the PIB will be strengthened through the use of the **Program Expenditure Classification (PREXC)**. PREXC builds on the Organizational Performance Indicator Framework (OPIF) and PIB reforms and aims to make the PIB more logical and useful for program managers. The PREXC will group and classify all activities and projects and their performance indicators, under the appropriate

Program or major strategy being pursued by the agency to deliver a core objective or outcome. The benefits of PREXC include:

- Simplification and standardization of the format of Agency budgets, making them more understandable to the public and to the legislators;
- The program-based structure provides a management framework to aid an Agency in aligning Agency activity/ies to sectoral and sub-sectoral outcomes, and to set priorities of the Agency, enabling a better understanding of how programs are performing;
- It will provide more performance information to better understand how well an implementing unit, Agency or department is operating; and
- It provides an opportunity for program managers or department/Agency heads to be given greater flexibility in determining how activities and projects are implemented under a specific program when the Agency has improved its managerial accountability.

### **Bottom-up Budgeting (BuB)**

The Bottom-Up Budgeting (BuB) program is a demand-driven budget-planning process. BuB institutionalizes people's participation in the budget process to gain a better understanding of their needs and requirements and ensure that these are met. The Open Government Partnership in 2015 has recognized the BuB program as one of three Best Practices in Fiscal Transparency from around the world.

### **Unified Accounts Code Structure (UACS)**

The Unified Accounts Code Structure (UACS) is a government-wide harmonized classification system for financial transactions which is used by the Commission on Audit (COA), Bureau of the Treasury (BTr), Department of Finance (DOF), and DBM. UACS enables orderly and transparent budgeting, accounting, and auditing of each budget item; allows timely, accurate reporting of actual receipts and expenditures against budgeted, programmed revenues and expenditures; and secures the integrity of the Budget as enacted by Congress.

### **Forward Estimates (FEs)**

The Forward Estimates concept was first introduced around 2007 as part of the implementation of the MTEF. It has now been given a more important role in the annual budget process through the introduction of the 2TBA process.

The Forward Estimates are estimates of the future costs of on-going policies, programs and projects of the Government for the next three years. They represent the amount that will need to be spent to maintain existing approved activities and projects. The Forward Estimates are reviewed and agreed between the agency and DBM during the Tier 1 Budget phase. Cabinet approval will be sought for the Forward Estimates ceilings and the priorities for new spending.

The Forward Estimates feed into the medium term fiscal planning process and are used to estimate the residual amount of 'fiscal space' that may be available to fund new activities or projects or to expand existing activities in future budgets. The President and the Cabinet will lead the setting of the strategic direction and distribution of the unallocated fiscal space, allowing the better assessment of trade-offs and opportunities. If fiscal space is limited or negative, decisions may need to be taken to reduce activities and limit spending on new projects.

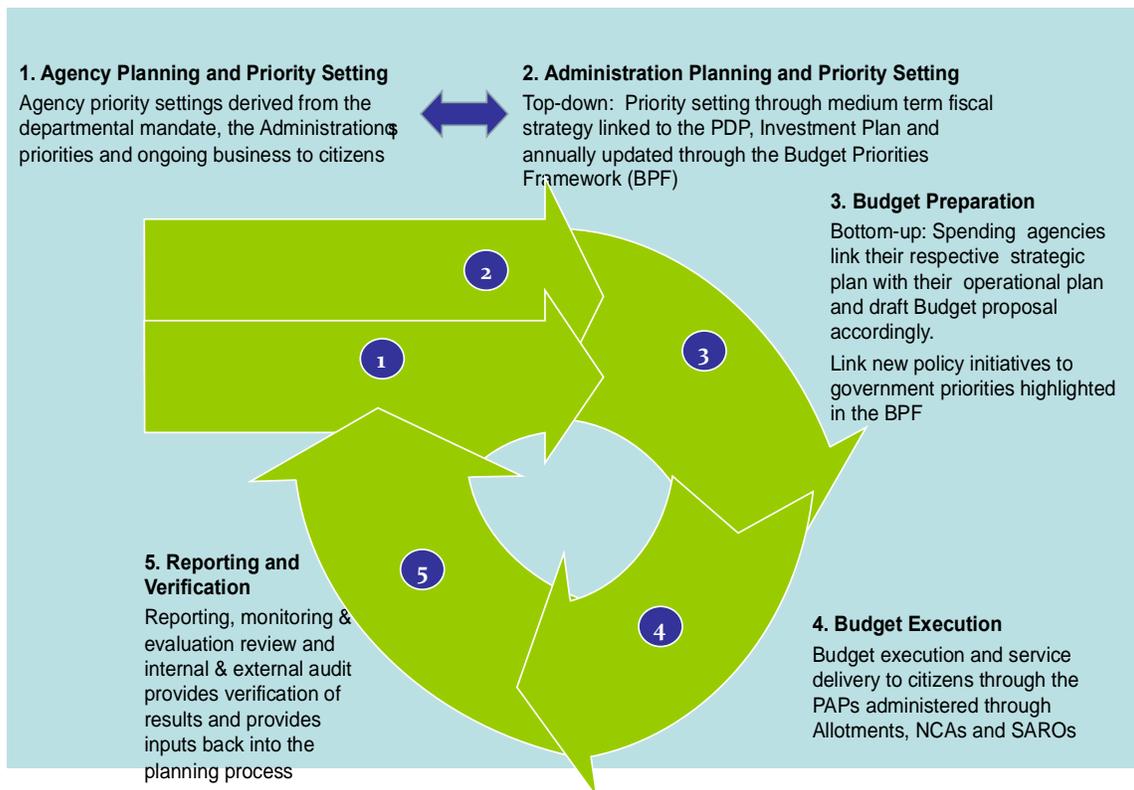
Proposals for new or expanded activities or projects are considered during Tier 2 of the budget process and are assessed in terms of their alignment with the Administration’s budget priorities framework and their ‘implementation readiness.’

**GAA as Release Document (GAARD)**

The GAA-as-Release Document (GAARD) and the creation of Full-Time Delivery Units (FDUs) have facilitated the swift and efficient implementation of the Administration’s expenditure program. It allows agencies to enter into contracts, complete the procurement process and kick-start the implementation of programs/projects on the very first working day of the fiscal year, because the disaggregated budget items in the GAA are already considered released to their respective agencies.

## THE PUBLIC FINANCIAL MANAGEMENT CYCLE

The diagram below represents the GoP’s Public Financial Management Cycle. The diagram integrates the entire financial management cycle from planning to budgeting, cash management and payments, and finally to reporting, and audit. It covers not only expenditure management but also revenue generation and deficit financing. It is important to note that each of these phases are linked, one feeding the other. Each phase of the financial management cycle is described in the following sections.



**1. Agency Planning and Priority Setting**

There is an essential link between planning and budgeting. It is, therefore, necessary for the planning officials in an agency to work closely with the budget officials to ensure that budget proposals are based on sound planning, and that planning is done within a realistic financial framework. The

planning process should begin well before the Budget Call is issued for the preparation of budget proposals. An annual update of the agency's Strategic Plans should be completed in August-December each year to feed into the budget preparation phase beginning in January.

Each agency exists through a legally constituted establishing order. Within that order the mandate of the agency is clearly stated, and thus, the services that the agency is required to provide to the citizens of the Philippines are stipulated. The purpose of agency planning activities is to integrate the agency's mandated activities with the priorities of the Administration. The senior management of the agency, at the beginning of a new Administration, is expected to develop a Strategic Plan outlining the priorities of the agency for the life of the Administration. The Strategic Plan sets out the strategic priorities for the agency over a 5- to 6-year period. Strategic Planning is a process which includes a number of activities such as: defining the Vision and Mission of the agency, assessing internal strengths and weaknesses, scanning the external environment to identify threats and opportunities, assessing risks and developing a risk mitigation strategy, and defining the agency's products and services and stakeholders. The Plan should also set out the agency's Program Structure and Performance Management Framework and consider which programs should be prioritised in order to align with the Administration's priorities.

The day-to-day activities of the agency in delivering its mandate are represented by the agency's Operational Plan. This will set out the major tasks, targets and costs for each activity or project of a Program or Sub Program over the fiscal year. Through their Operational Plans, agencies will be able to track the performance of activities and projects and provide evidence to DBM about their ongoing activities during Tier 1. The planning process also integrates citizen's bottom up requests. The Strategic Plan plus the Operational Plan produce the information required to formulate the agency's budget requirements and provide the basis for justifying the budget proposal to DBM and to Congress.

## **2. Administration Whole-of-Government Planning and Priority Setting**

The Administration defines its whole-of-government priorities at the beginning of its term through the Medium Term Fiscal Plan (MTFP) and Medium Term Expenditure Framework (MTEF) which are linked to the Philippine Development Plan (PDP) and Philippine Investment Plan (PIP). The PDP and PIP are updated annually based on the State of the Nation Address (SONA) and the annual budget submission to Congress. Annual priorities for new or expanded spending are set out in the Budget Priorities Framework (BPF) which provides the basis for the Budget Call for Tier 2 in the Two Tier Budget Process.

## **3. Budget Preparation**

During the budget preparation phase, each agency prepares its Budget proposals based on its ongoing programs and services and its priority new initiatives contained in the Strategic and Operational Plans, and supported by the Government's BPF. Under the GOP's 2-tier budget process, ongoing spending is considered in Tier 1 and proposals for new and expanded spending are evaluated in Tier 2. After Tier 1 is completed, the government knows what the ongoing spending requirements for existing activities and projects will be for the next three fiscal years. The information is used to update the Medium Term Expenditure Plan and fiscal strategy. Based on these medium term forecasts, the government can calculate the 'fiscal space' that will be available to fund new or expanded activities or projects. During the Tier 2 budget phase, agencies submit their proposals for new or expanded spending. These must be supportive of those areas highlighted in the BPF. The Development Budget

Coordination Committee (DBCC), comprised of the Office of the President, DBM, NEDA, and DoF with Bangko Sentral ng Pilipinas (BSP) as a resource institution, then balances the Government's priorities against the agency requests to ensure that new spending remains within the fiscal space available and addresses the government's policy objectives.

#### **4. Budget Execution**

With the shift to the GAA-RD regime, most of the funds are allotted to agencies quickly in the new budget year. DBM still plays a role in the release of Special Purpose Funds, and in the release of Lump Sum Funds. Agencies must obligate or commit resources against each of their activities and projects. They then request the cash required for payments through Disbursement Authorities or NCAs to DBM. Both DBM and BTr are involved in the release and management of cash, which is essential for agencies to spend on their planned projects. Agencies then implement their Corporate/Operational plan for the delivery of their services. Agencies with good Operational Plans, with strong links to their budgets, are more successful at spending their budget. One of the challenges in implementing the Operational Plan is the successful procurement of goods and services, so it is essential that agencies are set up to expedite the procurement process.

#### **5. Reporting and Verification**

With the introduction of PIB, the GoP has moved the focus of budgeting from input controls to output delivery and to the achievement of outcomes. The collection of performance information has therefore become an important requirement, alongside reporting on the use of financial resources. Program managers are now responsible for collecting performance information on their individual programs, activities, and projects. Through monitoring the performance of their activities and projects, managers will be able to make mid-course corrections during the fiscal year to improve results. Performance information also feeds back into agency Strategic and Operational Planning and government priority setting in preparation for the budget process for the following fiscal year.

## TWO TIER BUDGET APPROACH - DETAILED PROCESSES

The processes to be followed by Departments and Agencies to prepare their budget using the 2TBA are set out below. The time frame for budget preparation begins in the second half of the year prior to the budget preparation year with Agency planning processes. It continues through Tier 1, Tier 2 and Congressional consideration of the Budget.

### **Agency Planning and Preparation (August – December)**

#### **Purpose**

The objective of the planning and preparation phase is to ensure that the Agency's ongoing and new budget proposals are consistent with the priorities of the Administration, and that the annual budget is aligned with the government's sectoral and sub-sectoral objectives and resource availability.

#### **Outputs**

- A clear statement of the priorities of the agency and the operational plan for achieving them;
- Identification of existing approved activities and projects and the resources required to continue or complete them over the next three years; and
- A sound basis for identifying the new or expanded activities and projects for which additional resources will be sought in the budget submission.

#### **Strategy**

A Strategic Plan links together the priorities of the Agency and the Administration, and the other mandates of the Agency. The Agency should be able to identify priorities in terms of measurable outcome targets. A good Strategic Plan contains baseline data for these priority areas. It should be able to link these outcome targets to the various programs of the Agency.

Every program and operating unit in the Agency should have an Operational Plan. These Operational Plans link the budget with the outputs of every program and operating unit. Therefore, timely and accurate physical and financial information is important.

The best plans, either strategic or operational, always have a multi-year perspective.

#### **Steps**

##### *Development or Review of Agency Strategic Plan*

The Annual plan for each new fiscal year is derived from the multi-year plans already developed by the Administration and the agency. Planning for the budget, therefore, begins well in advance, in fact almost as soon as the NEP for the next financial year is completed, with the creation or review of the Agency's Strategic Plan.

In the first year of a new Administration, agencies will have to craft a new six-year Strategic Plan linking their mandated priorities with the priorities of the Administration as represented by the

Philippine Development Plan (PDP) and Results Matrices (RM). The Strategic Plan should cover the life of the Administration and will be reviewed each year.

To review the existing Strategic Plan, agencies should check for updates to the PDP, the GoP's MTEF, new government policies and priorities stated in the SONA, the budget submission to Congress, and any other changes in the operating environment, and make corresponding adjustments to the Plan. It is also important to highlight in the Plan any new risks, either internal or external, and adjust the plan to mitigate those risks.

*Review and update the Operational Plan for the next three fiscal years*

Once the creation or revisions to the Agency Strategic Plan is complete, it is then appropriate to review the Agency's ongoing three-year operational plan and to incorporate any changes required resulting from Strategic Plan revisions. During the review, agencies should be examining the effectiveness of the individual components of the plan and any corrections needed to be made to improve performance. Monitoring the physical and financial historical performance of their Project, Activity or Programs (PAPs) will not only better enable agencies to make changes to improve spending but provide information and evidence for their Tier 1 discussions for the approval of their ongoing budgets. It will also be important to ensure that activities or projects scheduled for termination, have in fact, been completed or will be in the near future. This review should provide the information required for the finalization of the ongoing Operational Plan on which Agency Tier 1 budget submissions will be based. It will also help to provide the evidence needed to support a request for expansion of funding for an individual PAP during Tier 2.

*Assessment of ongoing Programs, Activities and Projects*

As part of the review of their ongoing operational plans, agencies should be performing an assessment of the completed third quarter (end September) spending of their PAPs. This review will highlight any challenges in completing the work by the end of the fiscal year, and will identify potential underspending, and facilitative measures that are working and need to be continued.

*Submission of Infrastructure Proposals to NEDA*

Proposals for new or expanded/revised infrastructure projects for the next Budget will be subject to a review by NEDA for possible inclusion in the Three-Year Rolling Infrastructure Plan (TRIP). Information on the proposal should be submitted to NEDA in September. Agencies should follow NEDA guidelines on the information to be provided and the priorities for the TRIP.

*Amendments to the Budget Structures*

As a result of the review of the Strategic and Operational Plans, agencies should consider possible revision to their Performance Budget structures, if necessary. Changes could take the form of the merger of existing programs, creation of new programs or sub-programs, or the modification of their performance measurement framework. However, changes should only be proposed if they are necessary to improve program delivery or reporting. Program structures and their performance measurement frameworks are intended to be enduring so that information on expenditure and performance can be used by agencies and oversight bodies to conduct trend analysis. All changes to program structures must be approved by DBM.

*Inter-Agency Coordination*

The review of Agency plans and ongoing programs, and the development of proposed new programs, should be done in cooperation with other participating agencies in the case of priority programs under the guidelines for Program Convergence Budgeting. To ensure a coordinated effort among the

agencies participating in priority programs, the lead Agency should gather their participating agencies to a meeting to conduct a consistency check on assumptions, targets, beneficiaries, focus areas, and implementation timelines and resources.

### **Strategic and Operational Planning with PREXC**

The shift to PREXC with agency program structures and performance information in future budgets will enable agencies to make more direct linkages between the sectoral and sub-sectoral outcomes of the PDP (RM) results chain. With the introduction of PREXC for the 2018 Budget, Strategic and Operational Plans will be structured to reflect the Program and Sub-Program structures of the agency. The Operational Plan review should examine the effectiveness of each of the agency's Programs and Subprograms in achieving its objectives. Information on the resources used to achieve objectives and implement program activities up to the third quarter should be assessed to identify any challenges and facilitative measures required.

### **DBM role**

Proposed changes to PIB structures, if approved, will be incorporated into the agency budget structure, Performance Indicators, UACS, and budget preparation IT systems before commencement of the Tier 1 budget process.

### **Key issues**

There is a strong relationship between good planning within an agency and good performance in implementing government priority programs. Effective agency planning is important for ensuring that proposed new activities are 'implementation ready' and likely to be successful.

## **Tier 1 Budget Submission Process (January to March)**

### **Purpose**

The objective of the two-tiered budget preparation system is to separate the consideration of ongoing funding requirements for activities and projects that have already been approved from decisions on new or expanded funding. In Tier 1, the agency and DBM agree on the resources that will be required to continue implementing already existing activities, projects, and programs.

### **Outputs**

The primary output of this phase of budget preparation will be an approved budget for all ongoing activities. For many agencies this will be the budget included in the NEP as the proposed agency budget for the next fiscal year.

### **Strategy**

The goal of the Forward Estimates process is to set the budget amount that would be required to fund a) the mandatory expenses of the Agency, and b) ongoing projects and programs, to enable the Agency to deliver the same level of output efficiency as in the previous years. Anything beyond this is considered in Tier 2.

When computing the Forward Estimates, they should be based on the most recent budget utilization rate for the project or program, and the accomplishment report of the output and outcome targets of the programs. Forward Estimates amounts should not include funds that the Agency cannot utilize, or that are not necessary to produce the expected outputs and outcomes.

Additional evidences that show improvements in operations efficiency and the effectiveness of on-going programs can help in setting the Forward Estimates amount.

## **Steps**

### *Budget Call and DBM Budget Forum (January)*

DBM releases the National Budget Memorandum on the Budget Call in January. The Budget Call contains general information on the budget process and strategy plus the Budget Preparation forms and instructions, and timelines for agencies to complete and submit the forms in the Budget Process.

Following the release of the Budget Call memorandum, DBM convenes a Budget Forum to discuss the Budget Process. Agencies will be invited to participate and listen to presentations from DBM discussing any changes to the budget process, highlights of budget preparation or execution issues that are problematic, and specific instructions on calculating agency ongoing budgets and Forward Estimates. Both planning and budgeting personnel should attend to hear key messages from the government.

### *Submission of previous budget year actual obligations (February)*

Information on spending history is especially important for determining the actual cost of delivering the outputs or for justifying a proposal to expand an existing activity or project. DBM will consider how successful the Agency has been in utilizing the existing resources for the activity. If, for example, the PAP has a 90% utilization rate over the past 3 or 4 years, then DBM will understand that the Agency has been successful in delivering this PAP. However, if the PAP has a significantly lower average utilization rate and the agency has not obligated a large part of the PAP budget over past years, the case for additional resources is very weak.

In the case of proposals for new activities or projects, DBM analysis will consider the agency's previous utilization rates as a whole. A high utilization rate in similar existing activities or projects would indicate a good probability of success in implementing the new activity. Low average utilization rates indicate a poor probability of success.

Agencies should therefore ensure that the most up-to-date information on actual obligations and disbursements in the previous budget year is available to DBM through its online monitoring systems like the Unified Reporting System (URS) and submitted with the budget submission forms.

### *Calculation and submission of ongoing Budgets of Agencies and three-year Forward Estimates (February)*

The budgetary requirements for on-going/existing activities and projects of departments and agencies will be determined through the Forward Estimates process. The approved Tier 1 budget will then be used to determine the overall amount that will be available for allocation to new or expanded programs across the budget during the Tier 2 process.

During their operational planning process, agencies should be clear about which projects and activities will be continuing into the new budget year and which will be terminating. In preparation

for the Tier 1 phase, agencies should also complete their physical accomplishments and financial accounts for the previous fiscal year so that this data can be used as evidence during Tier 1 discussions. Having a complete record of performance for the last three fiscal years is important for providing evidence to DBM on the efficient utilization of resources and the funding requirements for future years.

Agencies will provide the specific updates and assumptions underlying their Forward Estimates for each budget activity or project to DBM consistent with the guidelines and procedures prescribed by DBM. Once Tier 1 Ongoing Budgets are finalized and approved, agencies will submit their Tier 1 ongoing budgets and Forward Estimates through the DBM OSBP system.

*General Guidelines for formulating the Forward Estimates*

Forward Estimates are rolling three-year estimates of the amounts of New Appropriations that will be required to fund current government policies, as approved in the GAA, in order to continue to deliver the same level of services or the same outcomes. Forward Estimates do not include new activities or projects that have not yet been approved by the government, the expansion of existing programs, or programs that will terminate in the next year. The Forward Estimates, therefore, pertain to the annual funding required to implement activities, programs, and projects that are ongoing as reflected in the current GAA. Where Congress has made changes to the Budget policies proposed in the NEP, the approved GAA budget will be used for the calculation of ongoing budgets. Proposals by agencies to vary the strategies reflected in the GAA will be considered in Tier 2. The existing budget structure and classification under the UACS, as amended for the new budget year, will be used to calculate the Forward Estimates.

Budget requirements of the PAMANA and BuB program and Congressional initiatives will not be included in Tier 1 ongoing budgets. These will be considered in Tier 2.

*Demographic parameters:* *The requirements of programs that are 'demand driven' according to the number of clients or beneficiaries (i.e. where the government has agreed that funding levels will be linked to demographic changes such as student numbers) will be considered in Tier 2. The source of demographic data and the method for calculating the effect of the demographic changes will be agreed with DBM beforehand and will be consistent from year to year.*

*Approved revisions to the GAA:* Changes to the published GAA for the current budget year that have been authorized by the President will be reflected in the Forward Estimates.

*Inflation:* Mandatory expenditure items that may be affected by changes in prices will be indexed by an inflation rate to be determined by DBM. Inflation adjustments should be calculated after all other changes have been agreed. The following items are not indexed for inflation: rents, professional services, subscription expenses, membership dues and contributions, confidential and intelligence, extraordinary and miscellaneous expenses, awards and indemnities, subsidies and donations, taxes and premiums, labor and wages, rewards and other claims, and other expenses based on a contract or fixed amount.

*Foreign Exchange adjustment:* Adjustments due to foreign exchange movements will be based on the foreign exchange rates approved by the DBCC.

*Personnel Service (PS):* Requirements for PS will be based on the data entered into the Government Manpower Information System (GMIS) as of December 31 of the prior year, or better yet, latest

available data during the current year. Agencies should ensure that GMIS is up-to-date before they submit their Tier 1 budgets and Forward Estimates. The amount required for special allowances and pension payments during the next Budget year and the Forward Estimates are estimated by DBM outside the GMIS. Evidence on the calculation of these amounts should be provided to DBM to ensure accuracy and sufficiency. Salaries for staff to be appointed after December and approved salary increases should not be included in the Tier 1 budget and Forward Estimates by the agency as these are set by DBM based on policy decisions using the GMIS. The funding required for these items should be disclosed separately.

### **Terminating Activities**

If an activity was approved for implementation over a limited period of time, or the government has taken a decision to terminate the activity, the funding that was appropriated for it will not be included in the Forward Estimates. If there is a need for limited 'phasing out' funding, e.g. final payments to staff or suppliers, this may be negotiated with DBM and included in the first forward year estimate only.

### **Periodic Activities**

The agreed cost of conducting periodic activities such as Philippine Statistics Authority (PSA) surveys and the conduct of elections by the Commission on Elections (COMELEC) will be included in the Tier 1 ongoing budget and Forward Estimates using historical information on previous spending to determine the appropriate cost and the year in which it will be spent.

### **Capital and other projects**

The Forward Estimates for capital projects will be based on the originally approved project profile, updated for implementation status. The Forward Estimates for capital projects also need to take account of the two-year validity of appropriations in the GAA.

If the project was previously approved by the Investment Coordination Committee (ICC), and there is a need to extend the project, the Agency shall first file a request to the NEDA-ICC for approval. This should be done during the planning and preparation phase. The processing of the request will follow the regular ICC process. Once approved by the ICC, then, the new timelines shall be used for budgeting purposes. If the implementation period has been approved to be extended, the Forward Estimates for the project will therefore be revised.

The continuation of unused appropriations from the previous budget year will also need to be taken into account in calculating the funds required to be appropriated in each forward year. In determining the amount required for the Budget Year, the Agency should estimate the amount of unobligated funds which can still be used for the Budget Year, if any, and the corresponding target.

If the expected cost of completing a project is higher than originally approved, a request for a budget increase may be considered during Tier 2 of the Budget Process when program expansions are assessed. In case there is a need to increase the project cost, the Agency shall first file a request to the NEDA-ICC for approval if 20% or more or for notation, if less than 20%. The processing of the request follows the regular ICC process. Once approved/noted by the ICC, then the adjusted project cost shall be used for budgeting purposes. However, where there are significant cost overruns the Cabinet may reconsider the viability of the project as originally planned.

*Limited term activities:* Forward-year funding for other activities that are approved for a fixed period, such as training and capacity development initiatives, will also be adjusted within an overall total expenditure limit, in the same way as infrastructure projects.

### **Adjustments for Underspending**

Budget resources are provided to an Agency in order to deliver a service or a project. The amount appropriated is the estimated cost of the service or project. If, at the end of the fiscal year, the agency has underspent the resources provided, it means either:

- a. that the cost of delivering the service or project was wrongly estimated; or
- b. that the agency has, for some reason, not been able to deliver the service or project as planned.

The treatment of the underspending will be different in each case. The agency and DBM need to agree on the reasons for the underspending.

- If the agency has delivered the targeted outputs at a lower cost than originally estimated, the resources required in future years for the same activity will also be lower. The ongoing budget for the activity will therefore be adjusted downwards and the difference between the original estimated cost and the revised estimate will be returned to the 'fiscal space' for allocation, during the Tier 2 process, to other activities. Any continuing appropriation carried forward to a future year will be taken into account in estimating the new appropriation required.
- If the underspending occurred because the agency has not been able to deliver the expected activity due to a temporary situation, for example, related to an extreme weather event, a legal intervention, or their inability to obtain a required permit from a local government, and DBM is confident that the situation has been resolved, the total resources required in future years will be the same as the amount appropriated in the current year. Continuing appropriations should be taken into account in calculating the ongoing budget.
- If the reason that the agency has not been able to deliver the expected activity is due to problems with the design or feasibility of the project, or ongoing, systemic implementation problems within the agency, the project or activity will be referred for consideration during Tier 2 discussions so that a revised, implementable budget can be agreed for the activity. In some cases, a decision may be taken to terminate the activity or project.

### *Tier 1 Technical Budget Hearings (February-March)*

In February-March, agencies will be invited to discuss the calculation of their ongoing budgets with their respective Budget Management Bureau (BMB). Agencies need to come prepared to discuss each PAP with evidence, particularly, concerning any underspending in the previous financial year, why it happened, and what changes have been made to improve spending in the future.

At these meetings, the agency should present an overview of its performance in previous fiscal years, particularly the most recent, outlining the successes and challenges in delivering its mandate. Agency officials should provide a detailed explanation of budget utilization rates over the past three to four years highlighting the difficulties that have been encountered, and discussing any management improvements that have enhanced the capacity to utilize the budget. These could include improved procurement processes, the creation of a Delivery Unit to monitor key expenditures, or a better

integrated planning and budgeting process. The Agency will need to provide evidence of how these changes have improved budget implementation.

It is DBM's responsibility to verify the ongoing spending requirements of agencies. Particular attention will be paid to budget utilization rates. It will be important for agencies to be able to explain their individual PAP's utilization rates. If the rate is below 90%, agencies must be able to explain why and what changes will be made to correct the underspending. It will also be important to be able to discuss the physical performance of ongoing PAPs and what any changes need to be implemented to improve performance.

#### **Tier 1 with PREXC**

Under the PREXC, ongoing budgets will be calculated on the basis of programs and sub-programs. Agencies should provide their Forward Estimates calculations for each subprogram, indicating the assumptions used for estimating the resources required for the component activities and the projects or activities that have been discontinued.

At the Technical Budget Hearing, the Agency and DBM officials will review the past performance of each Program and its Subprograms, in turn, including budget utilization rates, outcomes achieved, problems encountered, and the relationship between previous budgets for the program and the proposed Tier 1 budget.

#### **DBM role**

##### *Tier 1 Executive Review Board (ERB) (March)*

In March, DBM's Executive Review Board (ERB) reviews the recommended Tier 1 Agency ongoing budgets and approves them, as required. DBM informs agencies of their approved ongoing budgets and finalizes the Tier 1 Budget Ceiling. If the ongoing budgets approved by ERB are lower than the amounts proposed by the Agency, these adjustments to the estimated costs of PAPs should be reflected in the Agency Forward Estimates.

#### **Key issues**

The Forward Estimates process is not an opportunity for agencies to increase the size of the ongoing budget or to implement changes in policy that have not already been approved by Cabinet. Only activities and projects that are already included in the NEP for the current budget year will be included in the estimates for future years, at their current level of activity, with appropriate adjustments to costs according to the instructions for calculating Forward Estimates.

The Tier 1 process is also not an opportunity to change the policy priorities of the Agency or to transfer resources between programs, unless this change has already been approved by Cabinet. A proposal to reduce ongoing funding for one Program and increase funding for another must be considered during the Tier 2 process and be supported with adequate information on the benefits of the change in policy.

### **Tier 2 Budget Submission Process (April-May)**

#### **Purpose**

During the Tier 2 phase of budget preparation, the resources available in the 'fiscal space' identified in the MTEF are allocated to address the government's priority new activities, or to scale up existing activities in terms of scope, timing, number or type of beneficiaries, design or implementation method.

## **Outputs**

At the end of Tier 2, the estimates of ongoing spending agreed during Tier 1 and the agreed allocations of 'fiscal space' resources to new initiatives or expanded programs will be combined to produce the NEP for submission to Congress.

**TIER 1 (Ongoing Spending) + TIER 2 (New Policy Proposals) = TOTAL PROPOSED BUDGET**

## **Strategy**

The government prioritizes the allocation of funds to programs that are:

- a. critical to national development;
- b. consistent with Budget Priorities Framework; and
- c. to be delivered by agencies with the demonstrated capacity to implement them effectively.

Presenting baseline information, creating a link between the proposed spending's strategy and the intended outcome, and outlining clear measures of success are critical to proposing new spending in Tier 2.

## **Steps**

### *Budget Priorities Framework (BPF) and Tier 2 Budget Process Instructions (March)*

Based on the outcome of Tier 1 budget consideration and the update of the fiscal forecasts in the MTEF, DBM produces and submits the Budget Priorities Framework to Cabinet for approval. The approved Budget Priorities Framework sets out the sectors in which the government intends to increase spending and the type of new activities it will consider. It also specifies the amount of 'fiscal space' that is available for new and expanded budget proposals.

The Budget Priorities Framework provides instructions on the Tier 2 budget process. It will highlight the information required from agencies for successful budget submissions. Agencies that are not in one of the priority sectors will receive the budget appropriations that were agreed during the Tier 1 process and do not need to submit proposals for new or expanded activities or projects.

### *Preparation of Tier 2 Budget submissions (April)*

Agencies whose activities are within the priority sectors identified in the Budget Priorities Framework document will submit their Tier 2 Budget proposals to DBM by the date announced in the Budget Call through DBM's Online Submission of Budget Proposals (OSBP).

Tier 2 budget proposals should be consistent with the Agency's multi-year planning documents. Internal proposals for expansions or new funding that are developed by program managers and district managers should therefore be reviewed against the Agency's planning documents and the Budget Priorities Framework to ensure that only proposals that are aligned with these documents go

forward for review by the agency's Senior Management Committee or Executive Committee (EXCOM).

The Budget and Planning offices, led by their respective Assistant Secretary/ies and/or Undersecretary/ies, should jointly prepare options to be presented and discussed at EXCOM. The Budget and Planning offices should compile the information that will be required to be submitted to DBM. This information should be presented to EXCOM to facilitate their decision making.

The EXCOM should select the proposals that most closely reflect the administration's priorities, are 'implementation ready', and are within the parameters/guidelines for the preparation of Tier 2 proposals. The proposals should be ranked in order of importance for achieving the administration's objectives and the Agency's mandate.

Agencies often find it difficult to rank proposals in order of priority. Each of the proposals is important. The EXCOM, therefore, needs to develop a set of criteria for ranking the proposals. These should include the relevance of the proposal to the Budget Priorities Framework and the expected impacts of the proposed activity or project. The information required in the revised forms BP 202 and BP 203 provides examples of questions that could be considered when ranking proposals. A proposal for which the Agency can provide comprehensive and positive information in BP 202 (or BP 203) would have a higher ranking than a proposal for which relevant information is lacking or is not strong. Agencies should be prepared to explain how the proposals were prioritized when they are discussed with DBM.

The total value of the budget proposals presented by departments and agencies during the Tier 2 budget phase should be consistent with the amount of resources available in the 'fiscal space' for allocation to new initiatives. Therefore the total value of proposals for new or expanded funding should be within the range of the percentage increase in the total obligation ceiling approved by DBCC.

Agencies participating in BuB who have received funding for a project through the BUB process must ensure that the funded projects are not included in the Tier 2 submissions. The BuB funded projects should follow the guidelines jointly issued by DBM, Department of the Interior and Local Government (DILG), Department of Social Welfare and Development (DSWD) and National Anti-Poverty Commission (NAPC). The allocation for approved BuB projects shall be included in the total budget of the respective department or Agency.

The list of ranked priority budget proposals will be provided to the Secretary of the Department or Agency for final approval.

#### *Preparation of budget submissions*

Once the list of proposals for new or expanded projects or activities is approved by EXCOM, the Planning and Budget offices can finalize the material required for their Tier 2 submissions.

For the purpose of the two tier budget process, BP Forms 202 and 203 have been revised to include the information required by DBM to understand the proposals for new or expanded activities and projects. BP 202 is used for proposals related to program activities and locally-funded projects. BP 203 seeks the same information for Foreign-Assisted Projects (FAPs), plus the additional financial profile information required for FAPs. These forms will help DBM and the budget review committees to understand the purpose of the proposal, its contribution to the government's budget priorities,

the readiness of the proposal for implementation, and, therefore, its likelihood of success. Guidelines for completing the forms are provided in Annex A.

Agencies that choose to submit large numbers of proposals will find completion of the forms onerous. By focusing on a ranked and reduced number of proposals, it will be much easier to respond to the questions. Adequate responses to the issues raised in the forms are of paramount importance in achieving success for Tier 2 Budget submissions.

Once the list of Tier 2 budget proposals has been selected and ranked, and the information on each proposal has been compiled, the Agency will submit the required information to DBM through the OSBP System in electronic format.

*Tier 2 Technical Budget Hearing (April-May)*

The Agency will be contacted by DBM to attend a Tier 2 Technical Budget Hearing. A DBM Undersecretary, an Assistant Secretary, and the Director and staff from the responsible BMB will represent DBM. Representatives from NEDA may also be in attendance.

The Agency should present an overview of its Strategic Plan for the next three years and how it is aligned with the PDP and the BPF. The Agency will then explain its Operational Plan, and then present its proposals for new or expanded budget funded activity, beginning with the highest priority item in the list. The Agency should present information on the expected benefits of the proposal and how they relate to the Administration's Budget Priorities as well as demonstrate, through information on budget utilization rates, that the Agency has the capacity to implement the proposal effectively.

In order to receive additional budget funding for a new or expanded activity or project, there must be a solid link to one or more of the priorities outlined in the BPF. If there is no clear link, the proposal is unlikely to be approved. The Agency should also be able to provide evidence such as detailed plans, agreements with other levels of government, and risk mitigation plans to help DBM/NEDA officials determine the readiness of the project to proceed in a timely fashion. Given the limited fiscal space, it is DBM/NEDA's responsibility to ensure to the best of their ability that the resources assigned to an Agency will not be wasted. The responses to the questions on monitoring and evaluation are also critical. Adequate monitoring and evaluation will help the Agency to identify any difficulty in implementation and ensure that the Agency will be able to intercede quickly to rectify the problem.

The Agency will also need to demonstrate that it has the capacity to implement the proposal effectively. For each proposal to expand an existing activity, the Agency will need to discuss the last three years of budget history for that PAP. For each proposed new activity, the Agency should discuss their total utilization rate and what this indicates for the new proposal based on total Agency spending history. In both cases, attention should be paid to the utilization rate for each allotment class. The Agency will need to satisfy any DBM concern about its ability to spend the additional budget if it is approved.

The discussion and evidence provided at the Technical Budget Hearing will provide DBM officials with an understanding of the Agency's proposals that they will then present to the next level of budget review.

### **Tier 2 with PREXC**

Under the PREXC system, all proposals for new or expanded activities or projects will be considered within the context of the relevant Agency Program or Sub-program. The information provided in the submission will include an explanation of how the proposal will support the achievement of the objectives of the Program, together with information on existing funding levels and previous performance of the Program.

### **DBM Role**

#### Preparation and Tabling of the National Expenditure Program

The rest of the Budget Process revolves around final approvals of the Tier 2 Budget Proposals.

To ensure appropriate review and appraisal of spending proposals several processes have been established.

- Major project proposals costing more than PhP 1 billion are reviewed by the ICC.
- Proposals costing more than P300 million but less than PhP 1 billion and those PhP 1 billion and above which need not pass the ICC will be reviewed by a joint oversight committee, the Sub-Committee on Program and Project Appraisal (SCPPA), which is composed of Undersecretaries and Assistant Secretaries from DBM, NEDA, DoF.. Agency proposals are presented to the SCPPA by the responsible DBM Budget Bureau. It is important to note that the Budget Bureaus use the results of the Tier 2 Technical Budget Hearing discussions, as well as other evidence presented by agencies in budget submission forms, and their own observations on the Agency's performance, to present the proposals to the sub-committee.
- Proposals costing less than PhP 300 million are reviewed by DBM through the Budget Technical Hearing and ERB processes.

All proposals are then submitted to the ERB. The ERB is composed of the DBM Secretary, Undersecretaries, and Assistant Secretaries. DBM Budget Bureaus present evidence on the Agency proposals and the ERB may suggest adjustments to the amounts of funding proposed by the Agency.

Once the decisions of ERB in relation to Agency proposals are finalized, the total proposed budget is presented to the DBCC by the Secretary of DBM. The Committee is chaired by the Secretary of DBM. Once the budget is approved by DBCC, it is presented to the President and the full Cabinet for consideration and final approval. After the President's approval, agencies are informed of their respective total budgets for the fiscal year.

The NEP is then prepared and printed, together with the Budget of Expenditures and Sources of Financing (BESF), Staffing Summary, and President's Budget Message. The NEP combines the outcomes of Tier 1 and Tier 2 processes into a consolidated budget proposal for the following fiscal year. In the third week of July, and within 30 days of the State of the Nation Address (SONA), the President tables the President's Budget, including the NEP, before Congress.

### **Key issues**

Agencies that submit a large number of proposals that represent a significant increase in their ongoing budget will be wasting effort and time. It is unlikely that the government will accept that the Agency has the capacity to increase its activities to this extent in a single year. Agencies should therefore submit only the highest priority, 'implementation ready', proposals, which in total, represent a reasonable increase in the Agency budget above the ongoing funding agreed in Tier 1. Provided these proposals align with the Budget Priorities Framework, and DBM is confident the Agency could successfully spend the new resources, the Agency would have a reasonable likelihood of having its proposals approved.

Proposals that have not been included in the budget submission for the current year may be included in the Agency's multi-year plans for possible submission in future budgets. Sharing information on these multi-year plans with the relevant DBM BMB may increase the likelihood of future submissions being successful.

## **Congressional Consideration of the Budget Proposal**

### **Purpose**

Congress provides its input to the budget process during Congressional budget hearings. Congress controls the "power of the purse" so, like other oversight agencies, is looking to ensure value for money when approving appropriations.

### **Outputs**

Proposals in the NEP are reviewed by Congress and formally approved in the form of the GAA. Once this is passed by Congress, the budget is ready to be implemented at the start of the fiscal year.

### **Steps**

#### *Congressional Budget Hearings*

After the tabling of the NEP, agencies will be called to appear before the House Appropriations Committee (in August, September and October) and then before the Senate Finance Committee (late October and November) to defend their NEP-approved Budgets. The first presentation to the Committees is made by DBCC on the principles underlying the budget proposal. During the Committee Hearings, agencies will be questioned on their requests for ongoing and increased funding. The Two Tiered Budget Process will provide Agencies with the basis for justifying their budget requests. The introduction of PREXC in future budgets will mean that proposed budgets will be more reflective of the Agency's priorities, so they will already have the evidence to justify the appropriation request.

As part of the presentation to Congress committees, agencies should discuss their expected results and planned expenditures at the program level for the upcoming budget year. This information will help the members of Congress better understand what agencies are planning to achieve and how individual PAPs appropriated by Congress will contribute to achieving those expected results. Agencies should also review their previous fiscal year's financial and physical performance, outlining their utilization rates, and highlighting any difficulties either of a temporary nature or more systemic. Solutions that are being implemented should be discussed to give the Congress confidence that Agency utilization rates will improve.

Agencies should also explain how they have prioritized their proposals for new or expanded initiatives to align with the Budget Priorities Framework. The evidence utilized for the Tier 2 budget review process, augmented by the outcomes of discussions with DBM, should be used to support Agency proposals in Congressional Budget Hearings.

Following the House and Senate reviews, a Bicameral Committee reviews proposed amendments and agrees on the final content of the Budget for approval of both houses. The budget is then presented to the President for review and signature.

Where Congress has introduced new measures or provisions in the approved budget, the President may issue a full veto or partial veto on the implementation of the provision if it is counter to legal requirements or the Administrations accounting policies or economic objectives.

### **DBM role**

Once the budget is signed by the President it comes into effect. DBM commences implementation of the budget through the GAA-RD at the start of the fiscal year.

### **Key issues**

Agencies are expected to be accountable for the defense of their individual budget proposals. If a particular proposal put forward by the Agency was not included in the final NEP presented by DBM, it will be because i) it is not a high priority of the Administration as set out in its development plan and budget priorities, or ii) the Agency was not able to provide sufficient evidence and justification for the project, or iii) because the Agency has not demonstrated that it has the capacity to implement the activity.

Agencies should have a good understanding of who are the members of both the House and Senate Committees, and whether there are any particular issues they have an interest in, or whether there are regional issues that could be raised at Budget Hearings. Given that Budget Hearings are one of the only times that agencies and Members of Congress actually meet, issues may come up that are not directly related to budget proposals.

## **TWO TIER BUDGET APPROACH - BUDGET PREPARATION TIMELINE**

The timetable set out below highlights the main steps in implementing the Two Tier Budget preparation process.

### **Agency Planning and Preparation August to December, Budget year minus 2<sup>1</sup>**

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<sup>1</sup> As an example, for the 2017 Budget this calendar would start in August 2015

Month	Activity	Strategy
August	Preparation or Updating of Strategic Plans	Each Agency should review its Strategic Plan prior to developing its budget proposals. The Plan should be updated with new information from the update to the PDP and other changes affecting the Agency such as new government policies or changes in the operating environment.
September	Submit potential projects to NEDA for the TRIP	After the review of the Strategic Plan, review the Agency projects included NEDA's TRIP, and if necessary, submit proposed additional projects.
	Review and update the Operational Plan	After the Agency Strategic Plan has been updated, the Operational Plan of the Agency should be reviewed. The completed updated Operational Plan will be the basis for the Agency's Tier 1 Budget submissions and for any proposals in Tier 2.
October - December	Assessment of ongoing Activities and Projects	In the 4 <sup>th</sup> quarter of the current fiscal year, agencies assess the progress of spending in the current year and review the status of unobligated funds. This information will be used in preparing the Tier 1 FEs for the next three budget years.
	Amendments to Performance Budget Structures	Agencies should also review their PIB structures and propose changes, if required. Changes could take the form of the merger of existing programs, creation of new programs or sub-programs from existing budgeted programs, or the modification of the performance measurement framework. All changes must be discussed with and approved by DBM. Changes to UACS codes to reflect program changes should be advised as soon as possible

**Tier 1 Budget Submission Process**  
**January to March, Budget year minus 1<sup>2</sup>**

Month	Activity	Strategy
January	Tier 1 Budget Forum	DBM will issue the annual Budget Call Memorandum and hold Budget Fora shortly afterwards to update planning and budgeting officials on the latest changes to the Budget Process.
	Agency Tier 1 preparation and initial submission. Calculation of Agency Forward Estimates	At this stage, Agencies will compile information on the financial resource requirements and performance of continuing PAPs for the upcoming fiscal year. Based on this information, the Forward Estimates for ongoing PAPs will be calculated. (See below for more details on the calculation of Forward Estimates.)

<sup>2</sup> For example, for the 2017 Budget, this phase would begin in January 2016.

February to March	Tier 1 Technical Budget Hearing for Ongoing Budgets	Agencies will meet with members of the relevant DBM Budget Bureau at the Technical Budget Hearing to review their budgets for ongoing activities and to consider the reasons for underspending in any program or project.
	Final confirmation of the Approved Tier 1 Ongoing Budget, Forward Estimates and Budget Priorities Framework	Confirmed ongoing budgets are to be used to calculate the fiscal space available for new activities. The Budget Priorities Framework is approved by Cabinet and President.

**Tier 2 Budget Submission Process**

**April to June, Budget year minus 1**

Month	Activity	Strategy
April to May	Tier 2 Budget Fora	DBM may organize Tier 2 Budget Fora to give the latest update on the government’s Budget Priorities Framework.
	Agencies prepare Tier 2 submissions.	Agencies prepare and get approval from the EXCOM and Secretary for their proposals for new and expanded activities and projects. Individual proposals will be ranked from the most important to the least important and will be accompanied by a completed BP Form 202 or 203 to explain the background to the request for funds and its relationship with Agency planning and priorities. Tier 2 proposals are submitted online through OSBP.
May	Technical Budget Hearings for Tier 2 New or Expanded activities and projects	Agencies will meet with DBM Officials, BMB Directors and DBM Assistant Secretaries and Undersecretaries to discuss the proposals submitted by the Agency. Once the analysis is complete, DBM tentatively awards the requested new resources beginning with priority 1 and continuing until the share of the budget for new or expanded requests per Agency is reached. If at the end of the Tier 2 process resources are still available, DBM can go back through the remaining Tier 2 proposals looking for the ones with the most potential to be implemented successfully.
June	Final Budget Review, confirmation of Agency budget levels, and preparation of the NEP.	Once the Tier 2 process is finished, proposed Agency budgets are reviewed first by the SCPPA, a subcommittee of the DBCC with membership from DBM, NEDA and DoF, then by the DBM ERB Committee, and finally by DBCC. Once finalized, the Budget is presented to Cabinet where Secretaries can make a case for amendments and then to the President for approval. Agencies are then informed of their final budget levels and the NEP is prepared and presented to the President

**Congressional Consideration of the Budget Proposal**

**July to December, Budget Year minus 1**

Month	Activity	Strategy
July	The NEP is Tabled in Congress	Shortly after the SONA is presented, the NEP is tabled in Congress.
August to December	Congressional Budget Hearings	Agencies appear before the Appropriations Committee of the House and the Senate Finance Committee to defend the proposed Agency budget.
	Finalization of the GAA	A Bicameral Committee of the House and the Senate reviews the NEP proposed Budget and the amendments from both the House and the Senate and agree on the final content of the Budget. The GAA is presented to both houses for approval.
	President signs the Budget	After review the President signs the Budget. The GAA-RD process allows Agencies to commence implementation of budgeted activities and projects on the first day of the fiscal year.

## ANNEX A: GUIDELINES FOR COMPLETING BP FORMS 202 AND 203

BP Form 202 (for program activities and locally funded projects) and BP Form 203 (for Foreign-Assisted Projects) are the most important inputs for the Tier 2 budget discussions. Their purpose is to provide information on the policy justification for the proposed spending. Agencies should begin compiling the information required for the forms during their budget planning phase. Proposals for which adequate information in response to the questions in the forms is not available should not be submitted in the budget.

Comprehensive and clear narrative responses to the issues raised will demonstrate that the proposal has been thoroughly considered and reviewed by the Agency and will provide the information required by DBCC to assess the potential benefits and likely success of the activity.

The specific layout and content of the forms may change from time to time to accommodate the requirements of budget review committees for additional information. The main issues that must be addressed when completing the forms are outline below.

### Key information required in BP 202 or 203

#### How will the activity/project contribute to the priorities and goals of the Budget Priorities Framework and Department/Agency objectives and mandates?

This is the key description for a proposal to be successful. There must be a clear link between new or expanded proposals and the government's priorities as listed in the BPF. The work done in preparation for Tier 2 Submissions linking the Strategic Plan, Operational Plan, and the BPF will help agencies describe the links between the three. Also, PREXC requires that PAPs must align to a Program so the PREXC-associated performance information will support agencies in outlining how the new or expanded proposal will support the program outcomes.

#### What specific problem will the program/project address?

Agencies should explain the need for additional resources to improve the performance of a program or to address a problem in current government service delivery. It will be important to highlight the gaps or challenges that will be addressed and how they will be addressed.

#### What will the proposal do to achieve its objective?

What kind of output or service will the new or expanded PAP provide? (e.g., provision of farm implements, provision of training, a direct service to a citizen, a regulation, etc.?)

#### What is the expected outcome? What is the expected impact on the community?

Detailed information should be provided on how the new or expanded PAP will affect its targeted community and how many people will directly benefit from an investment of this sort. It is important to note how the affected audience, beneficiaries, or location are linked to the Budget Priorities Framework.

Issues to be covered in this section may include:

- How many people will benefit?
- Where are they located? Are these areas in the geographical focus of the 2017 budget?
- How will households in these areas be assisted?

- Are these areas with high unemployment or underemployment as identified by the National Statistical Coordination Board (NSCB) and/or Department of Labor and Employment (DOLE)? How will sustainable jobs be created?
- Are these areas where climate change vulnerability assessments have been done by the Department/Agency or by Department of Science and Technology (DOST) or Department of Environment and Natural Resources (DENR)? How does the proposal consider climate change adaptation or mitigation?

Each of these questions refers directly to a government policy priority. If any of them are not relevant to the proposal, this should be clearly explained.

*What steps have been taken or need to be taken to make the program/ project “implementation ready”?*

The submission should demonstrate the readiness of the Agency to proceed with the project. For example, have all permits been obtained from national or local governments, are rights of way secured, has the procurement plan been developed? What is the Agency’s success rate for timely procurement? Can DBM be confident that the Agency will procure the required goods or services in a timely manner?

*What risks are foreseen during implementation and what can be done to manage the risks?*

What are the risks of this project not proceeding or being delayed? Potential risks might include, for example, adverse weather conditions, problems acquiring permits or Right of Way approvals, or security issues. Has the Agency thought about what the risks could be and has a mitigation plan to correct or minimize those risks been developed?

*Monitoring and Evaluation (M&E) Plan*

The proposal should describe the monitoring and evaluation strategy intended for this program/project.

- How will the project be monitored to ensure timely and quality implementation? Who will be responsible? Is there a project plan with timelines and milestones? If milestones slip, what action will the Agency take?
- What is the frequency of intended program/project evaluation (e.g., every two years, every three years, project mid-term & project end)? Does the Agency has a performance management framework for both output and outcomes and is there a plan and responsible manager for collecting and analyzing the data? Is the Agency prepared to make mid-course corrections if it becomes evident that the program is not meeting its intended outcomes?

*Economic and Financial Feasibility Analysis*

Has the proposal undergone economic and financial review analysis by the Department/Agency? If yes, please attach the project viability indicators, i.e., Economic Internal Rate of Return (EIRR) and Financial Internal Rate of Return (FIRR) and findings.

*Financial Details*

The proposal should include estimates of the cost of implementing the proposal in the Budget year and over the Forward Estimates. For project proposals, the total cost should also be shown.