



REPUBLIC OF THE PHILIPPINES

Department of Budget and Management

Building I, General Solano Street, San Miguel, Manila



BUDGET CIRCULAR

No. 2006-1

February 1, 2006

TO : Heads of National Government Agencies (NGAs) including State Universities and Colleges (SUCs), Government-Owned and/or -Controlled Corporations (GOCCs) and Government Financial Institutions (GFIs), Chief Executives of Local Government Units (LGUs), and All Others Concerned

SUBJECT : Grant of Collective Negotiation Agreement (CNA) Incentive

1.0 Background

Section 3, Article XIII of the Constitution guarantees the right of government employees to self-organization and collective negotiations. In view thereof, the Public Sector Labor-Management Council (PSLMC) was constituted under Executive Order No. 180 dated June 1, 1987.

To recognize the joint efforts of labor and management in achieving all planned targets, programs and services approved in agency budgets at lesser cost, the grant of the CNA Incentive was authorized for rank-and-file employees of NGAs, SUCs and LGUs under PSLMC Resolution No. 04, s. 2002 dated November 14, 2002. On May 19, 2003, the same benefit was authorized for rank-and-file employees of GOCCs and GFIs under PSLMC Resolution No. 02, s. 2003, to recognize the joint efforts of labor and management in attaining more efficient and viable operations.

Subsequently, AO No. 135, "Authorizing the Grant of Collective Negotiation Agreement (CNA) Incentive to Employees in Government Agencies," issued on December 27, 2005, confirmed the grant of the CNA Incentive in strict

compliance with the said PSLMC Resolutions and provided for the rationalization of the existing CNA cash incentives.

2.0 Purpose

This Circular prescribes the policy and procedural guidelines on the grant of CNA Incentive authorized under PSLMC Resolution No. 04, s. 2003 and PSLMC Resolution No. 02, s. 2003 and confirmed under AO No. 135.

3.0 Coverage

This Circular covers the following employees whose appointments are permanent, temporary, contractual, or casual in nature, on full-time or part-time basis:

- 3.1 Rank-and-file employees who are members of employees' organizations accredited by the Civil Service Commission (CSC) in NGAs, SUCs, LGUs and GOCCs/GFIs, whether or not covered by RA No. 6758 (Compensation and Position Classification Act of 1989); and
- 3.2 Other non-managerial employees who are not members of employees' organizations accredited by the CSC but enjoy or accept benefits under the CNA, and who were assessed and have paid the corresponding agency fees pursuant to PSLMC Resolution No. 1, s. 1993.

4.0 Definition of Terms

- 4.1 The CNA Incentive shall refer to the cash incentive in whatever form provided for in CNAs and supplements thereto, which were granted pursuant to PSLMC Resolution No. 04, s. 2002 or PSLMC Resolution No. 02, s. 2003, or the rationalized cash incentive to be granted on or after the effectivity of this Circular to the government employees concerned who have contributed either in productivity or cost savings in an agency, in fulfillment of the commitments in the CNAs or supplements thereto. It excludes such other items that are negotiable, in cash or in kind, listed under Section 2, Rule XII, PSLMC Resolution No. 02, s. 2004, and non-negotiable concerns specified in PSLMC Resolution No. 04, s. 2002 and PSLMC Resolution No. 02, s. 2003.
- 4.2 Rank-and-file employees are government employees who do not fall under the following categories:
 - 4.2.1 Those who perform managerial functions;

- 4.2.2 “Coterminous employees” or those whose entrance and continuity in government service are “based on any of the following: 1) trust and confidence of the appointing authority or of the head of the organizational unit where the former is assigned; or, 2) duration of the project, or the period for which an agency or office was created;”¹ or
- 4.2.3 “Highly confidential employees” or those who occupy positions which require “high degree of trust and confidence and close intimacy with the appointing authority or immediate supervisor which ensures free and open communication without harassment or freedom from misgivings of betrayal of personal trust or confidential matters of state.”¹

5.0 Policy Guidelines

- 5.1 The CNA Incentive in the form of cash may be granted to employees covered by this Circular, if provided for in the CNAs or in the supplements thereto, executed between the representatives of management and the employees’ organization accredited by the CSC as the sole and exclusive negotiating agent for the purpose of collective negotiations with the management of an organizational unit listed in Annex “A” of PSLMC Resolution No. 01, s. 2002, and as updated.
- 5.2 The grant of the CNA Incentive may be extended to employees under items 4.2.2 and 4.2.3 hereof who contributed to agency productivity and implementation of cost-cutting measures identified in the CNAs or supplements thereto, in line with the equal protection clause of the 1987 Constitution, provided they are assessed and have paid the corresponding agency fees pursuant to PSLMC Resolution No. 1, s. 1993.
- 5.3 Such CNA Incentive shall refer to those provided in CNAs and supplements thereto which were signed on or after the effectivity of PSLMC Resolution No. 04, s. 2002 and PSLMC Resolution No. 02, s. 2003, or signed and ratified by a majority of the general membership on or after the effectivity of PSLMC Resolution No. 02, 2004, “Approving and Adopting the Amended Rules and Regulations Governing the Exercise of the Right of Government Employees to Organize.”
- 5.4 The form of the CNA Incentive shall be simplified and rationalized as follows:

¹ Section 1, Rule I, Definition of Terms, PSLMC Resolution No. 02, s. 2004.

- 5.4.1 All existing cash incentives in the CNAs in the form of allowances and benefits, such as staple food allowance, rice subsidy, grocery allowance, inflation allowance, relocation allowance, SONA bonus, bonuses other than the year-end benefit authorized under RA No. 6686, as amended by RA No. 8441, etc., shall be consolidated into a single cash incentive, and shall be referred to and collectively paid as the CNA Incentive.
- 5.4.2 Existing cash incentives in the CNAs which are already provided under existing laws, administrative orders, or with Presidential approval, or under the CSC-approved Program on Awards and Incentives for Service Excellence (PRAISE) established under CSC Memorandum (MC) No. 01, s. 2001, shall not be part of the CNA Incentive to preclude double compensation which is prohibited under the Constitution, and as payments thereof are subject to separate authority and pertinent conditions.
- 5.4.3 Henceforth, all CNAs and supplements thereto shall only provide for the CNA Incentive as the cash incentive.
- 5.5 The grant of the CNA Incentive in whatever form of cash benefit pursuant to CNAs and supplements thereto, which were signed and ratified on or after the effectivity of PSLMC Resolution No. 04, s. 2002, and PSLMC Resolution No. 02, s. 2003, and before the effectivity of this Circular, which were granted in strict compliance with said PSLMC Resolutions, are thus confirmed as valid CNA Incentives.
- 5.6 The amount/rate of the individual CNA Incentive:
 - 5.6.1 Shall not be pre-determined in the CNAs or in the supplements thereto since it is dependent on savings generated from cost-cutting measures and systems improvement, and also from improvement of productivity and income in GOCCs and GFIs;
 - 5.6.2 Shall not be given upon signing and ratification of the CNAs or supplements thereto, as this gives the CNA Incentive the character of the CNA Signing Bonus which the Supreme Court has ruled against for not being a truly reasonable compensation (Social Security System vs. Commission on Audit, 384 SCRA 548, July 11, 2002);
 - 5.6.3 May vary every year during the term of the CNA, at rates depending on the savings generated after the signing and ratification of the CNA; and

- 5.6.4 May be higher for employees in offices or organizational units which contributed more in cost savings, productivity, profitability, or a combination thereof, as the case may be.
- 5.7 The CNA Incentive for the year shall be paid as a one-time benefit after the end of the year, provided that the planned programs/activities/projects have been implemented and completed in accordance with the performance targets for the year.

6.0 Procedural Guidelines

- 6.1 An Employees' Organization - Management Consultative Committee or a similar body composed of designated representatives from the management and the accredited employees' organization shall review the agency's financial records and report of operations at the end of the fiscal year, and shall arrive at a consensus on the following items:
- 6.1.1 The guidelines/criteria to be followed in the grant of the CNA Incentive;
- 6.1.2 The total amount of unencumbered savings at the end of the year which were realized out of cost-cutting measures identified in the CNAs and supplements thereto, and which were the results of the joint efforts of labor and management;
- 6.1.3 The apportioned amounts of such savings shall cover the following items:

“Fifty percent (50%) for CNA Incentive

Thirty percent (30%) for improvement of working conditions and other programs and/or to be added as part of the CNA Incentive, as may be agreed upon in the CNA

Twenty percent (20%) to be reverted to the General Fund for the national government agencies or to the General Fund of the constitutional commissions, state universities and colleges, and local government units concerned, as the case may be;² or for GOCCs and GFIs, the twenty percent (20%) is to be retained and “to be used for the operations of the agency to include

² Section 5, PSLMC Resolution No. 04, s. 2002.

among others, purchase of equipment critical to the operations and productivity improvement programs”³

- 6.1.4 The individual amount of the CNA Incentive to be granted to the employees concerned based on the established guidelines/criteria.

Such agreements shall be incorporated in a written resolution to be signed by the representatives of both parties and noted by the agency head. This resolution shall serve as basis for accounting and auditing purposes.

- 6.2 The Employees’ Organization - Management Consultative Committee or similar body in GOCCs and GFIs shall determine if the employees concerned are entitled to the CNA Incentive based on compliance with the following conditions, pursuant to Section 2, PSLMC Resolution No. 02, s. 2003:

- “a) Actual operating income at least meets the targeted operating income in the Corporate Operating Budget (COB) approved by the Department of Budget and Management (DBM)/Office of the President for the year. For GOCCs/GFIs, which by the nature of their functions consistently incur operating losses, the current year’s operating loss should have been minimized or reduced compared to or at most equal that of prior year’s level;
- b) Actual operating expenses are less than the DBM-approved level of operating expenses in the COB as to generate sufficient source of funds for the payment of CNA Incentive; and
- c) For income generating GOCCs/GFIs, dividends amounting to at least 50% of their annual earnings have been remitted to the National Treasury in accordance with the provisions of Republic Act No. 7656 dated November 9, 1993.”

The following are the definitions of the terms aforestated, pursuant to Section 4, PSLMC Resolution No. 02, s. 2003:

- “a) Corporate Operating Budget – refers to the budget of a government-owned and/or -controlled corporation/government financial institution consisting of estimates of revenues, expenditures and borrowings. This is prepared prior to the beginning of the fiscal year and recommended by the governing

³ Section 6 c), PSLMC Resolution No. 02, s. 2003.

board of the corporation for consideration and final approval of the President through the DBM.

- b) Actual operating income – refers to gross income/revenues generated from the exercise of the corporation's regular functions as mandated by law. This excludes revenues not recurring in nature, such as interest income, proceeds from the sale of scrap and/or obsolete equipment, materials and/or real estate assets, which sale is not the main function of the corporation.
- c) Actual operating expenses – refer to all expenses incurred by the corporation in the conduct of its regular functions. This excludes non-cash items like allowance for bad debts, depreciation/depletion expense, losses from foreign exchange and similar expenses.
- d) Operating loss – refers to the excess of actual operating expenses over actual operating income/revenue."

The computation of savings for the CNA Incentive in GOCCs and GFIs is illustrated in Annex "A."

7.0 Funding Source

- 7.1 The CNA Incentive shall be sourced solely from savings from released Maintenance and Other Operating Expenses (MOOE) allotments for the year under review, still valid for obligation during the year of payment of the CNA, subject to the following conditions:
 - 7.1.1 Such savings were generated out of the cost-cutting measures identified in the CNAs and supplements thereto;
 - 7.1.2 Such savings shall be reckoned from the date of signing of the CNA and supplements thereto;
 - 7.1.3 Such savings shall be net of the priorities in the use thereof such as augmentation of amounts set aside for compensation, bonus, retirement gratuity, terminal leave benefits, old-age pension of veterans and other personnel benefits authorized by law and in special and general provisions of the annual General Appropriations Act, as well as other MOOE items found to be deficient. Augmentation shall be limited to the actual amount of deficiencies incurred; and

7.1.4 The basic rule that augmentation can be done only if there is deficiency in specific expenditure items, should be strictly observed.

7.2 National government agencies may use any free portion of their respective cash allocation for payment of the CNA Incentive or, if necessary, may request the release of cash allocation from the Department of Budget and Management (DBM).

7.3 GOCCs/GFIs and LGUs may pay the CNA Incentive from savings in their respective approved corporate operating budgets or local budgets.

7.4 NGAs shall submit to DBM a report on the utilization of savings for the payment of the CNA Incentive.

8.0 Responsibility of the Agency Head

The Agency Head shall be held personally liable for any payment of the CNA Incentive not in accordance with the provisions of this Circular. This is without prejudice to the refund to the agency of any excess/undue payment to the employee concerned.

9.0 Saving Clause

Cases not covered by this Circular shall be referred to the DBM for resolution.

10.0 Effectivity

This Circular shall take effect immediately.



ROMULO L. NERI
Secretary

Illustration

GOCC A, which meets the conditions in item 6.2 of this Circular, may grant the CNA Incentive as illustrated below and in Annex "A" of PSLMC Resolution No. 02, s. 2003:

Compliance with item 6.2.a) and 6.2.b)

Particulars (In Thousand Pesos)	Per Approved COB (Projection)	As Audited (Actual)	Variance
Operating income	150,000	150,000	0
Less: Operating Expenses	<u>(120,000) a/</u>	<u>(100,000) a/</u>	<u>20,000 b/</u>
Net Operating Income	<u>30,000</u>	<u>50,000</u>	<u>20,000</u>

Compliance with item 6.2.c)
(In Thousand Pesos)

I. Revenues:		
Operating income		150,000
Non-operating income		10,000
Total income		<u>160,000</u>
II. Expenses:		
Operating Expenses		
Personal Services	30,000	40,000 *
MOOE	40,000	46,000 **
Equipment Outlay	30,000	30,000
Sub-total, Operating Expenses	<u>100,000 a/</u>	<u>116,000</u>
Non-Operating Expenses:		
Non-Cash Expenses		5,000
Others		5,000
Sub-total, Non-Operating Expenses		<u>10,000</u>
Total Expenses		<u>126,000</u>
III. Net Profit Before Income Tax		34,000
IV. Income Tax		8,000
V. Net Profit After Income Tax		<u>26,000</u>
Dividend Payable to the National Government (50%)		<u>13,000</u>

Notes:

* Including payment of the CNA Incentive in the amount of P10 Million, net of P4 million to be retained by the GOCC/GFI

** Including amount used for improvement of working conditions which as an alternative may also be used for CNA incentive

a/ Excluding payment of CNA Incentive

b/ Amount to be used for CNA Incentive Distribution: (In thousand pesos)	20,000
Fifty percent (50%) CNA Incentive	10,000
Thirty percent (30%) for improvement of working conditions and/or to be added as part of the CNA Incentive	6,000
Twenty percent (20%) to be retained by the GOCC/GFI	<u>4,000</u>
Total	<u>20,000</u>