BASIC CONCEPTS IN BUDGETING

1. What is a fund?

The word "fund" in government has taken several meanings or connotations. It is sometimes used to refer an appropriation which is a legislative authorization to spend or an allotment which is an authorization by the Department of Budget and Management (DBM) to obligate, or as actual cash available.

2. What basis law governs the use of government funds?

The following provision of the Philippines Constitution sets the basic rule for the use of government funds:

"Art. VI, Sec. 29. No money shall be paid by the Treasury except in pursuance of an appropriation made by law."

The aforequoted provision of the Constitution also establishes the need for all government entities to undergo the budgeting process to secure funds for use in carrying out their mandated functions, programs and activities.

3. How are government funds appropriated?

Funds for the use of government entities are appropriated or authorized following a process with the following major steps : 1) individual agencies prepare their estimates of expenditures or proposed budgets for the succeeding year and submit these estimates or proposals contained in required budget forms to the DBM following baseline figures, guidelines and timetable earlier set; 2) agencies justify details of their proposed budgets before DBM technical review panels; 3) DBM reviews and consolidates proposed budgets of all agencies for inclusion in the President's proposed budget for submission to Congress; 4) agencies explain the details of their proposed budgets in separate hearings called by the House of Representatives and the Senate for inclusion in the General Appropriation Bill; and 5) the President signs the General Appropriation Bill into law or what is known as the General Appropriations Act (GAA).

4. What is a government budget?

In general, a government budget is the financial plan of a government for a given period, usually for a fiscal year, which shows what its resources are, and how they will be generated and used over the fiscal period. The budget is the government's key instrument for promoting its socio-economic objectives.

The government budget also refers to the income, expenditures and sources of borrowings of the National Government (NG) that are used to achieve national objectives, strategies and programs.

Section 22, Article VII of the Constitution states that:

"The President shall submit to the Congress within 30 days from the opening of every regular session, as the basis of the general appropriation bill (GAB), a budget of expenditures and sources of financing including receipts from

existing and proposed revenue measures."

5. What is the expenditure program?

The expenditure program is that portion of the national budget that refers to the current operating expenditures and capital outlays necessary for the operation of the programs, projects and activities of the various government departments and agencies.

6. What is the financing program?

The financing program includes the projected revenues from both existing and new measures, the planned borrowings to finance budgetary transactions and the payment of debt principal failing due.

7. What is referred to by the term *"national government budget"*?

The National Government budget (also known simply as the budget) refers to the totality of the budgets of various departments of the national government including the NG support to Local Government Units (LGUs) and Government-Owned and Controlled Corporations (GOCCs). It is what the national government plans to spend for its programs and projects, and the sources of what it projects to have as funds, either from revenues or from borrowings with which to finance such expenditures.

8. On what is the national government budget spent?

The national budget is allocated for the implementation of various government programs and projects, the operation of government offices, payment of salaries of government employees, and payment of public debts. These expenditures are classified by expense class, sector and implementing unit of government.

9. Why does the government prepare a new budget every year?

The preparation of the government's budget every year is in accordance with the provision of the Constitution which requires the President to submit a budget of expenditure and sources of financing within 30 days from the opening of every regular session of Congress.

The yearly preparation of the budget is also in consonance with the principle which requires all government spendings to be justified anew each year. This principle ensures that government entities continuously evaluate and review the allocation of resources to project/activities for cost efficiency and effectiveness.

10. What are the sources of appropriations that make up the annual budget?

The sources of appropriations of the annual budget are: 1) new general appropriations legislated by Congress for every budget year under the General Appropriations Act (GAA); and 2) existing appropriations previously authorized by Congress. Under the Constitution, Article VI, Section 29, no money can be withdrawn from the Treasury except in pursuance of an appropriation made by law.

11. What are the existing or continuing appropriations?

Existing or continuing appropriations are those which have been previously enacted by Congress and which continue to remain valid as an appropriation authority for the expenditure of public funds. There are two type of existing appropriations :1) continuing and 2) automatic.
Continuing appropriations refer to appropriations available to support obligations for a specified purpose or project, such as multi-year construction projects which require the incurrence of obligations even beyond the budget year. Examples of continuing appropriations are those from existing laws such as : RA 8150, otherwise known as the Public Works Act of 1995; and Republic Act No. 6657 and Republic Act 8532 which set funds specifically for the Agrarian Reform Program (ARP). Currently, appropriations for capital outlays and maintenance and other operating expenses are considered as continuing appropriations but only for a period of 2 years.

Automatic appropriations, on the other hand, refer to appropriations programmed annually or for some other period prescribed by law, by virtue of outstanding legislation which does now require periodic action by Congress. Falling under this category are expenditures authorized under Presidential Decree (PD) 1967, RA 4860 and RA 245, as amended, for the servicing of domestic and foreign debts, Commonwealth Act 186 and RA 660, for the retirement and insurance premiums of government employees, PD 1177 and Executive Order 292, for net lending to government corporations, and PD 1234, for various special accounts and funds.

12. Are all appropriations supported by resources and allocable during the budget year?

No, only programmed appropriations are supported by corresponding resources, that is, they already have definite funding sources and are readily implementable. Unprogrammed appropriatons are not yet supported by corresponding resources and are nevertheless included by Congress in the General Appropriations Act. These are called standby appropriations which authorize additional agency expenditures for priority programs and projects in excess of the original budget only but only when revenue collections exceed the resource targets assumed in the budget or when additional foreign project loan proceeds are realized.

13. What is the "one-fund" concept?

The "one-fund" concept is the policy enunciated through PD 1177 which requires that all income and revenues of the government must accrue to the General Fund and thus can be freely allocated to fund programs and projects of government as prioritized.

14. Why is the "one-fund" concept important?

The "one-fund" concept is a fiscal management policy requiring that as much as possible, all revenues and other receipts of the government must enter the General Fund and their utilization and disbursement subject to the budgeting process. The one-fund concept is significant in that it serves as an avenue through which fiscal authorities may properly allocate scarce government resources in accordance with the priorities in the over-all program of economic development.

It likewise provides a mechanism to control drawdowns on pooled resources. Regularly, the level of funds disbursed are monitored against the level of revenues generated. This way, we are able to stick to the targeted level of disbursement for a given period and avoid incurring a deficit. It also alerts us of possible revenue shortfalls.

15. What is a balanced budget? What happens when the budget is not balanced?

In the context of government budgeting, a budget is said to be balanced when revenues match expenditures or disbursements.

When expenditures exceed revenues, the government incurs a deficit which may result in the following situations:

- The government borrows money either from foreign sources or from the domestic capital market which increases the debt stock of the NG and its debt servicing requirements;
- The government borrows money from the Bangko Sentral ng Pilipinas; or,
- The government withdraws funds from its cash balances in the Treasur

16. What has been the government's fiscal policy?

Historically, national government expenditures have always exceeded total revenues resulting in annual budget deficits. Thus, the national government had to resort to borrowing to cover said deficits which resulted in the ballooning of foreign and domestic debts. However, in 1994, the government broke the deficit trend by posting a budget surplus of P16 billion through an aggressive privatization and revenue generation program and a prudent expenditure program. Since then, the government has been exerting efforts to maintain the surplus budget policy.

17. Why is surplus budgeting necessary?

The surplus budget policy is important to encourage economic growth. The less the government borrow from the public, the lesser the pressure on interest and inflation rates and the more funds are made available in the financial market. Such funds may be used by businessmen to build factories, hire workers, buy equipment and open more employment opportunities. By keeping more funds in the hands of the private sector rather than competing for credit, the government helps make financing available for families who want to own homes, buy cars, or support their children's education. The government also needs to generate a budget surplus to repay the huge debt it has accumulated over the years. The reduction of the national budget debt will correspondingly lessen government's requirements for interest and principal payments. This becomes important particularly during periods of rising interest rates and unstable exchange rates.

18. What is the total resource budget concept and its significance?

Total resource budgeting is a concept adopted by the present budgeting system which requires the preparation of the national government within the framework of the total impact of all government entities on the national economy. Under this concept, the National Government (NG) budget is considered as only one component of the entire public sector resources. Government-Owned and Controlled Corporations (GOCCs) and Local Government Units (LGUs) are also considered as substantial contributors to total public resources.

GOCCs and LGUs are therefore required to prepare their budget consistent in form and timing with that of the NG to facilitate comprehensive evaluation of the overall budget.

In total resource budgeting, the energies and capabilities of all public entities are harnessed in drawing up the optimal package of goods and services that can be sustained by available resources.

19. What is the consolidated public sector fiscal position?

The consolidated public sector fiscal position (CPSFP) refers to the net deficit or surplus calculated after summing-up the budget balances of all government entities, namely the national government, the non-financial government corporations (usually includes only the 14 major GOCCs), government financial institutions, local government units, the social security institutions, the Oil Price Stabilization Fund, the Bangko Sentral ng Pilipinas, and the Central Bank-Board of Liquidators.

Through the CPSFP, the government is able to assure itself that all public resources are mobilized and used in magnitudes that are consistent with overall macroeconomic targets and the government's economic priorities.

20. What is the planning-programming-budgeting system (PPBS)?

The planning-programming-budgeting system (PPBS) is a concept that stresses the importance of establishing a strong linkage between planning and budgeting. It emanates from the policy of the government to formulate and implement a national budget that is an instrument of national development, reflective of national objectives, strategies and plans.
Under the PPBS concept, the budget is anchored on the degree by which the accomplishment of economic plans and the attainment of target contained in the Medium-Term Philippine Development Plan (MTPDP) and the Medium-Term Public Investment Program (MTPIP) are supported.