REPUBLIC OF THE PHILIPPINES
Department of Budget and Management
Malacañang, Manila

DEPARTMENT OF BUDGET AND MANAGEMENT
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CIRCULAR LETTER

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TO : **ALL HEADS OF DEPARTMENTS, AGENCIES, BUREAUS, OFFICES, COMMISSIONS, STATE UNIVERSITIES AND COLLEGES, OTHER INSTRUMENTALITIES OF THE NATIONAL GOVERNMENT AND ALL OTHERS CONCERNED**

SUBJECT : **FORWARD ESTIMATES (FEs) FOR FYs 2011 – 2013**

1.0 Purpose

This Circular Letter is being issued to inform all Departments/Agencies on the guidelines adopted by the DBM in the formulation of FEs for FYs 2011-2013.

2.0 Rationale

For the FY 2011 Budget Preparation, the DBM shall formulate the FYs 2011-2013 Forward Estimates (FEs) from January 2010 to March 2010 in time for the issuance of the FY 2011 Budget Call. The FEs shall be used to determine the magnitude of the annual costs which will be set aside to ensure continuous funding of all on-going budgetary programs and projects if the government does not change its expenditure policy and the allocable amount for fiscal headroom for the Medium Term Expenditure Framework (MTEF) period 2011-2013.

3.0 Definition of Terms

For the purpose of the formulation of FEs, the following terms shall be construed to mean as follows:

3.1 ***Budgetary Program*** - A homogeneous and recurring group of day-to-day activities of an agency necessary for the performance of its mandate i.e. General Administration and Support Services (GASS), Support to Operations (STO), and Operations.

3.2 ***Budgetary Projects*** - Agency undertakings which are to be carried out within a specific time frame. Budgetary Projects are classified as to Locally-Funded Projects (LFPs), projects funded from internally generated funds of the national government or Foreign-Assisted Projects (FAPs), projects financed wholly or partly by foreign loans and/or foreign grants.

3.3 ***Cost Overruns*** - Any increase in cost over the original project cost, which was recommended by agency concerned and approved by DBM before these were considered for funding. Cost overruns of ongoing ICC-approved programs/projects, regardless of financing, require the approval of the ICC.

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3.4 ***Economic Parameter*** - The variables expressed as index or ratios applied to a budget estimate to maintain the level of service delivery approved by the Government e.g., inflation rate or population growth used to adjust demand-driven estimates for the effect of changes in prices or demographic factors.

3.5 ***Fiscal Headroom*** - The difference between the Expenditure Program for the year as approved by the DBCC and the estimated future costs of on-going budgetary programs/ projects, which may be available to fund new and/or expanded budgetary programs/projects.

3.6 ***Forward Estimates*** - Projections or estimation of the future annual costs of on-going budgetary programs and projects. For budgetary projects, annual requirement shall be consistent with the project profile as submitted by the implementing agency.

3.7 ***Maintenance and Other Operating Expenses (MOOE), indexed items*** - Expense items which are sensitive to changes in prices and therefore are multiplied with the inflation index for the pertinent years. Examples of these items are communication, repair and maintenance, supplies and materials, utility, printing and binding, advertising, representation expenses, among others. This is applicable to specific expense items under budgetary programs, as the annual MOOE requirements for FAPs/LFPs are to be culled from the project profile.

3.8 ***Maintenance and Other Operating Expenses (MOOE), non-indexed items*** – Expense items with fixed rate under existing laws (such as rate for Extraordinary and Miscellaneous Expenses, rate for Local/Foreign Travel) or subject to existing contract (such as Rents, Professional Services, Subscription Expenses, Membership Dues and Contributions to Organization) MOOE items of FAPs/LFPs, culled from the project profile and those items that are dependent on other factors such as Supplies and Materials which vary based on the number of target beneficiaries/applicants/buying price (e.g. no. of students for the textbooks of DepEd, buying price and no. of passport applicants for DFA, no. of inmates for the subsistence allowance of BJMP and BuCor).

3.9 ***New Proposal*** - A new budgetary item or project, or a proposal to increase the level of service delivery associated with on-going budgetary programs which the agency submitted to be funded from the fiscal headroom (allocable amount).

3.10 ***Non-recurring items*** - One-time expenditure item in a given budget year (e.g. purchase of motor vehicles) or expenditure items which can be provided annually to the agency for an agreed number of years (e.g. amortization for the acquisition of land and/or building).

3.11 ***Out-year(s)*** - Refers to each of the years beyond the current budget (fiscal) year covered by forward estimates (e.g. 2010 – current budget (fiscal) year, 2011-2013 – out-years for budgetary programs while until project completion date per project profile for budgetary projects).

3.12 ***Project Profile*** - Form submitted by agencies implementing FAPs or LFPs which contains pertinent facts about the project e.g. the project's name, project description/objectives, project component to be undertaken and approved allocation, cost structure by expense class, implementation period

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and total project cost (TPC). The funding source for FAPs (name of the lending institution/donor agency financing the project) and the original currency and peso equivalent of the TPC are likewise provided in the form. For LFPs and FAPs, the form is submitted prior to the initial release of funds on the first year of project implementation, and if there are approved revisions (total project cost, loan cancellation, etc.) either by DBM or ICC.

3.13 ***Total Project Cost*** – original project cost per project profile. For FAPs, original project cost shall be consistent with the foreign currency amount as reflected in the approved loan/grant document, including the GOP counterpart. Original project cost for LFPs (costing P500M and above) shall be consistent with the amount approved by the ICC.

4.0 Guidelines in the Formulation of Forward Estimates

4.1 General Guidelines

The general guidelines define the coverage of the FEs including the considerations and exclusions of certain conditions/items therein.

4.1.1 The FEs shall cover the estimated annual cost of on-going budgetary programs and projects as reflected in the FY 2010 National Expenditure Program (NEP) based on existing policies.

4.1.2 For budgetary programs, the FEs shall consider the agency's actual financial and physical performance in FYs 2007-2009 as reflected in the submitted Budget Accountability Reports and OPIF books. It shall cover the estimated annual requirements for the three (3) out-years beyond the current budget year.

4.1.3 For budgetary projects, the FEs shall cover the annual requirements up to the approved completion date. The annual requirements shall be based on the approved project profile after considering the financial and physical accomplishment report as of December 31, 2009.

4.1.4 Likewise, the following shall also be considered in the formulation of the FEs:

4.1.4.1 The annual future costs of the ideal level of service to be provided by the government to its citizen, as follows, among others:

Quality of Education

- to pupil ratio
- Textbooks/Workbooks to students ratio
- Classrooms to students ratio

Peace and Order

- Police to citizens ratio
- Jailguards to inmates ratio
- Firetrucks to citizens ratio

4.1.4.2 The six-months requirement to cover the winding-up activities of completing budgetary project;

4.1.4.3 Approved re-fleeting of motor vehicles;

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4.1.4.4 Replacement of unserviceable/obsolete equipment (i.e., computer, depending on its expected useful life);

4.1.4.5 Ensuing year requirement of a newly-created office, initial requirement of which was charged against appropriate lump-sum fund; and

4.1.4.6 Economic parameters approved by the DBCC (e.g. inflation and forex).

4.1.5 The following items, on the other hand, shall be excluded in the formulation of FEs:

4.1.5.1 Increase in TPC of FAPs and LFPs (costing P500M and above) without ICC approval;

4.1.5.2 Increase in TPC of LFPs (costing below P500M) not validated by DBM;

4.1.5.3 Regularization of completed projects;

4.1.5.4 Taxes arising from foreign grants and loans, but disclosures shall be made for TEF estimation;

4.1.5.5 New re-fleeting of motor vehicles; and

4.1.5.6 Non-recurring expenses.

4.2 Specific Guidelines

The specific guidelines present the detailed steps/requirements in coming up with the FEs of budgetary programs and projects.

4.2.1 The FEs formulation shall be done by Program/Activities/Projects (P/A/Ps).

4.2.2 The allotments issued to departments/agencies per P/A/Ps for FYs 2007 to 2009 shall be matched with the corresponding obligations including the realignments made during the year to establish the absorptive capacity of the agency.

4.2.3 Establish the historical physical data and compare annual physical outputs. The 2007-2008 actual physical performance shall be based on the 2009 and 2010 OPIF book respectively. For 2009, the actual physical performance shall be evaluated using various accountability documents used in the APR.

4.2.3.1 In analyzing the trend of the physical performance of agency, the effect of completed new projects and other non-recurring items should be taken into consideration.

4.2.3.2 After the reasonable trend of the physical output has been established, identify the P/A/Ps that contributed to the delivery of said outputs to see the consistency of the outputs with the obligations made.

4.2.4 BUDGETARY PROGRAMS

4.2.4.1 Determine the actual obligations for each program and activity for FYs 2007-2009.

4.2.4.2 Identify and exclude from the FYs 2007-2009 actual obligations the non-recurring expenditure items, such as, but not limited to the following:

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4.2.4.2.1 Equipment Outlay;
4.2.4.2.2 Motor Vehicles;
4.2.4.2.3 Retirement Gratuity and Terminal Leave Benefits;
4.2.4.2.4 Performance Bonus/Productivity Enhancement Incentive;
4.2.4.2.5 Monetization of leave credits;
4.2.4.2.6 Charges against SPFs (except item 4.1.4.5);
4.2.4.2.7 Election related expenses, if no election is scheduled; and
4.2.4.2.8 Other similar/related items.

4.2.4.3 Analyze the FY 2010 on-going programs of the agency and determine those that are in the nature of projects and categorize and evaluate the same as LFP or FAP using the guidelines enumerated under Section 4.2.5.

4.2.4.4 The annual requirements for FYs 2011-2013 shall be determined as follows:

4.2.4.4.1 The personal services requirement shall be equivalent to the amount generated from the GMIS as of June 30, 2009.

4.2.4.4.1.1 The budgetary implications of any compensation adjustments (i.e. SSL III 1st tranche), after the cut-off date, shall be integrated simultaneously into the annual PS requirements of departments/agencies.

4.2.4.4.2 For MOOE, the annual requirements shall be computed as follows:

4.2.4.4.2.1 For the indexed items, the average cost for the last three (3) years (2007-2009) multiplied by the inflation factor for the respective year;

4.2.4.4.2.2 For the non-indexed MOOE (contract-based), the annual requirements of which shall be based on the amount stipulated in the contract and other similar documents unless there is a provision for the increase;

4.2.4.4.2.3 For other non-indexed MOOE (with fixed rate or those depending on other factors) e.g. EME, supplies and materials for DFA, subsistence allowance of BuCor and BJMP the estimated annual costs shall be based on the fixed rates provided

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under existing laws or determining factors and shall be compared to the amount provided under the FY 2010 NEP.

4.2.4.4.3 The requirements for recurring items and other adjustments, if any, shall be reflected in the respective years, provided those succeeding years' requirements have been approved during the FY 2010 budget preparation; and

4.2.4.5 The resulting figure for FY 2011 may be compared with the FY 2010 NEP level. (Note: Any necessary adjustments on the FY 2010 Budget shall be done during the preparation of the FY 2010 ABM)

4.2.5 BUDGETARY PROJECTS

4.2.5.1 In general, the annual requirement of budgetary projects shall be culled from the approved project profiles i.e., within specified time frame (from the start date to completion date) and within the available TPC balance. This profile already includes the annual requirement of approved cost overruns, if any.

4.2.5.2 The available TPC balance may be arrived at by deducting the cumulative obligations and current year provision (including continuing appropriations) from the TPC.

4.2.5.3 Any change in the TPC and/or in the implementation period of ongoing ICC-approved projects (e.g. project extension) shall only be made when there is a written approval/notation by the ICC.

4.2.5.4 The amount spent by agencies should be matched with their physical accomplishments for the same period.

4.2.5.5 However, no FE, shall be provided under the following circumstances:

4.2.5.5.1 In case, the agency has fully utilized the TPC earlier than schedule but failed to finish the project.

4.2.5.5.2 In case, the agency failed to finish the project as per completion date even if the TPC has not been fully utilized.

4.2.5.5.3 In case, all the project components have been completed even if the TPC has not been fully utilized.

4.2.5.5.4 In case, the amount released/spent is not matched with corresponding accomplishment and no clear direction on catch-up plan was provided by the agency.

4.2.5.6 The MOOE requirements shall not be indexed to the inflation factor.

Foreign-Assisted Projects

4.2.5.7 The TPC both for Loan Proceeds and Peso Counterpart shall be maintained/expressed in original foreign currency (e.g., US Dollars, US $) and its peso equivalent.

4.2.5.8 In determining the available TPC balance, the annual obligations incurred shall be converted from peso to foreign currency using the forex rate (e.g. peso to dollar) on the year the obligation was incurred.

4.2.5.9 Increase in cost of a project component which is chargeable against the contingency/unallocated amount of the TPC shall not be considered as cost overrun.

4.2.5.10 The approved financing mix (or GOP-LP ratio) shall be maintained.

Locally-Funded Projects

4.2.5.11 Locally-funded projects that are in the nature of regular activities of the agency shall be evaluated as program using the guidelines enumerated in Section 4.2.4 (The result of this evaluation shall be used as inputs to the future P/A/P restructuring of the agency.)

5.0 The DBM shall coordinate with departments/agencies in the formulation of the forward estimates particularly for some technical information relative to their existing P/A/Ps.

6.0 Any clarification regarding this circular may be coordinated directly with the concerned bureaus of this Department.

ROLANDO G. ANDAYA, JR.
Secretary