

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

CIRCULAR LETTER

No. 2011-11

Date: Nov. 28, 2011

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 2013 - 2016

1.0 Purpose

This Circular Letter is being issued to inform all Departments/Agencies on the guidelines adopted by the DBM on the updating of the Forward Estimates (FEs) for FYs 2013 – 2014 and formulation of FEs for FYs 2015 – 2016. The updated and formulated FEs shall be the basis for the issuance of the FY 2013 Indicative Budget Ceilings which shall guide the departments/agencies in their respective budgeting and planning exercise.

2.0 Rationale

For the FY 2013 Budget Preparation, the DBM shall update the FYs 2013 – 2014 FEs and formulate FYs 2015 – 2016 FEs, from December 2011 to January 2012 in time for the issuance of the FY 2012 Indicative Budget Ceiling on the last week of January 2012. The FEs shall be used to determine the magnitude of the annual costs of all on-going budgetary programs and projects which will be set aside to ensure their continuous funding, should the government not change its expenditure policies. Moreover, the FEs shall be used to determine the allocable amount or fiscal headroom for the period 2013 – 2016 which will allow additional funding to the priority sectors or areas of expenditure.

3.0 Definition of Terms

For the purpose of this Circular Letter, 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. Key programs are those programs which are, in general, under Operations and which are the primary vehicles for delivering specific final outputs.
- 3.2 ***Budgetary Projects*** - Agency undertakings which are to be carried out within a specific time frame. Budgetary Projects are classified as Locally-Funded Projects (LFPs), if funded from internally generated funds of the National Government or Foreign-Assisted Projects (FAPs), if financed wholly or partly by foreign loans and/or foreign grants.

- 3.3 **Cost Overrun/s** - Any increase in costs over the original project costs, recommended by the agency/ies concerned and approved by DBM for funding. Cost overruns of ongoing ICC-approved programs/projects costing P500 Million and above require the approval of the ICC, regardless of financing.
- 3.4 **Economic Parameters** - The variables expressed as index or ratios applied to a budget estimate to measure the level of service delivery approved by the Government e.g., inflation rate or population growth used to adjust demand-driven budget expenditures for the effect of changes in prices or demographic factors.
- 3.5 **Fiscal Headroom** - The difference between the Total 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, the annual requirement shall be consistent with the updated project profile approved by pertinent authorities as submitted by the implementing agency.
- 3.7 **Key Result Areas (KRAs)** - The five priority areas of focus of the Aquino Social Contract with the Filipino People, as defined by Executive Order (EO) No. 43 issued on May 13, 2011.
- 3.8 **Loan/Grant Closing Date** - Refers to the end-date of the availability of loan/grant proceeds as stated in the loan/grant agreement.
- 3.9 **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. These are applicable to specific expense items under budgetary programs. However, for FAPs/LFPs, the annual maintenance requirement shall be consistent with those in the latest approved project profiles.
- 3.10 **Maintenance and Other Operating Expenses (MOOE), non-indexed items** - Expense items with fixed rates under existing laws (such as rate for Extraordinary and Miscellaneous Expenses, rate for Local/Foreign Travels) 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).
- 3.11 **New Proposal** - A new budgetary item or project, or a proposal to increase the level of service delivery of on-going budgetary programs which the agency submitted for funding from the fiscal headroom (allocable amount).
- 3.12 **Non-recurring items** - One-time expenditure items in a given budget year (e.g., purchase of motor vehicles, one-time acquisition of land and/or building).

- 3.13 ***On-going Programs and Projects*** - Refers to the budgetary programs and projects approved under the FY 2012 NEP including those approved programs and projects in the National Action Plan of each KRA cluster and those that are periodic in nature (e.g. NSCB designated statistics conducted every three or five years).
- 3.14 ***Out-year(s)*** - Refers to each of the years beyond the current budget (fiscal) year covered by forward estimates (e.g., **2012** – current budget (fiscal) year, **2013-2016** – out-years for budgetary programs and years up to project completion date per project profile for budgetary projects).
- 3.15 ***Project Completion Date*** - Refers to the date the project was physically completed.
- 3.16 ***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 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.
- 3.17 ***Public-Private Partnership (PPP) Projects*** - Build-Operate-Transfer (BOT) projects and their variants contained in the Philippine Investment Plan (PIP) and Philippine Development Plan (PDP) priorities that are undertaken by the government with the private sector to deliver public goods/services under a contractual arrangement. Associated costs of PPP Projects refer to the government's counterpart to the project (e.g. Right of Way Acquisition (ROWA), feasibility studies, and related required infrastructure access).
- 3.18 ***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 Updating and 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 in the updating and formulation.

- 4.1.1 The FEs shall cover the estimated *annual* costs of on-going budgetary programs and projects supporting the policies and key priorities contained in the Aquino Social Contract with the Filipino People as defined in E.O. No. 43 and as fleshed – out in the Philippine Development Plan, and in the updated Medium Term Expenditure Framework (MTEF) of the departments.

- 4.1.1.1 For budgetary programs, i.e., GASS, STO and Operations, the FEs shall consider the FY 2012 NEP allocation, changes in

economic parameters and the targeted outputs for the out-years. The FEs shall cover the estimated annual requirements for the out-years beyond the current budget (or fiscal) year i.e., 2013-2016.

- 4.1.1.2 For budgetary projects, i.e., LFP and FAPs, the FEs shall cover the annual requirements up to the approved completion date. Annual requirements shall be based on the approved project profile after considering the likely end-of year accomplishments based on reports as of September 30, 2011 and based on the allocation provided in the FY 2012 NEP. The foreign exchange rates of P43.50:\$1 (midpoint) shall be used in determining the peso equivalent of the foreign currency.

- 4.1.2 The FEs formulated last year shall be the base/starting figures for updating the FYs 2013-2014 FEs and formulating the FEs FYs 2015 - 2016.

- 4.1.3 The implications of the approved allocations for FY 2012 including the new proposals decided upon during the ERB and included in the NEP, and increase in PS requirements due to the full implementation of SSL III shall be considered in the updating/formulation of the FYs 2013-2016 FEs. Likewise, adjustments have to be made for any changes in the economic parameters used during the FEs formulation last year. For reference, the inflation rate and resulting indexation factor are provided below:

FEs Out-years	Reference		Indexation		
	Last Year		This Year	Updating	Formulation*
	Inflation (midpoint)	Indexation	Inflation (midpoint)		
				2011 base	2012 base
2011	4.0	1.00000	4.0	-	-
2012	4.0	1.04000	4.0	-	1.00000
2013	4.0	1.08160	4.0	1.00000	1.04000
2014	4.0	1.12486	4.0	1.00000	1.08160
2015	-	-	3.0	-	1.11405
2016	-	-	3.0	-	1.14747

*Also applies to new programs/projects included in the FY 2012 NEP.

- 4.1.4 For an agency which was transferred from one department to another as reflected in the FY 2012 NEP, its FEs shall be included in the recipient department.

- 4.1.5 Incremental costs of PS due to the full implementation of SSL III to pension requirements for uniformed and military personnel shall already be included in the total PS of the department/agency in coordination with OPCCB.

- 4.1.6 In the formulation of the FEs for the outyear FYs 2015 - 2016 , the following shall be considered:

- 4.1.6.1 The financial requirements corresponding to the FYs 2015 - 2016 targeted outputs per MFO/Performance Indicator of the agency;

4.1.6.2 The associated costs (government counterpart) of PPP projects approved by the ICC including the annual requirements indicated in the Multi-Year Obligational Authority (MYOA) issued as of October 31, 2011;

4.1.6.3 The annual future costs of the ideal level of service to be provided by certain agencies to its target beneficiaries, as follows, among others:

Quality of education

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

Peace and Order

- Police to citizens ratio
- Police precincts to citizens ratio
- Fire trucks to citizens ratio
- Fire precincts to citizens ratio
- Jail guards to inmates ratio

4.1.6.4 The six-month requirements to cover the winding-up activities of completing budgetary project;

4.1.6.5 Economic parameters approved by the DBCC (e.g. inflation and Forex).

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

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

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

4.1.7.3 Regularization of Personnel from completed projects;

4.1.7.4 Taxes associated with foreign grants and loans (e.g. VAT for contractors in JICA projects). However, non-cash tax obligations of agencies must be tagged and summarized for later consolidation under TEF;

4.1.7.5 Non-recurring expenses as defined under item 3.12.

4.2 Specific Guidelines

The specific guidelines present the detailed steps/requirements determining the FEs of budgetary programs and projects.

4.2.1 The target outputs of the agency per MFO/PI/Key Programs/Projects for FYs 2013-2016 shall be determined in coordination with the agency and summarized to the extent possible.

4.2.1.1 The default target outputs for the out-years shall be those reflected in the draft FY 2012 OPIF Book. Upward or

downward adjustments on the annual targets shall be based on the approved project profiles and medium-term expenditure program or similar documents provided by the agency.

- 4.2.1.2 BMBs shall refer to the targeted outputs indicated in the approved project profiles and latest performance reports to consider both the cumulative financial and physical accomplishments of the project in their analysis.

- 4.2.2 The corresponding annual financial requirements shall be identified by Program/Projects by allotment class, and shall be presented by MFOs.

- 4.2.3 Updating of the FYs 2013-2014 FEs

- 4.2.3.1 Use the FEs formulated during the FY 2012 Budget Preparation (i.e., FYs 2012-2014).

- 4.2.3.2 The 2012 FEs shall be adjusted based on the FY 2012 NEP. The FYs 2013-2014 FEs shall then be updated to account for the implications of the following changes:

- 4.2.3.2.1 Requirements due to revision in the implementation plan (i.e., schedule and targeted outputs) of programs/projects of the departments/agencies as reflected in the increased/decreased provisions in the FY 2012 NEP and the likely end-of year accomplishments based on latest accomplishment reports;

- 4.2.3.2.2 Succeeding year's requirement of new programs and projects which are included in the FY 2012 NEP;

- 4.2.3.2.3 New policy pronouncements affecting program/project implementation and MYOA issued after the deliberations of the FY 2012 budget, if any;

- 4.2.3.2.4 Increase in the PS requirements based on FY 2012 NEP, and;

- 4.2.3.2.5 Changes in economic parameters, if any.

- 4.2.3.3 If the change refers to non-recurring programs, projects or expenditure items, no adjustments shall be reflected after FY 2012.

- 4.2.3.4 The 2013-2014 requirements of new programs or projects identified in Items 4.2.3.2.2 and 4.2.3.2.3 shall be determined in accordance with the applicable procedures under Item 4.2.4.1 for budgetary programs and Item 4.2.4.2 for budgetary projects.

- 4.2.3.5 The additional PS requirements for FYs 2013-2014 to cover the annualized requirements for the 3rd and 4th tranches of

SSL III, including adjustments in pensions for uniformed and military personnel shall also be determined.

4.2.4 Formulating the FYs 2015 - 2016 FEs

4.2.4.1 *Budgetary Programs*

4.2.4.1.1 Determine the component activities under each program of the agency (i.e., GASS, STO, Operations), as reflected under FORM A of the FY 2012 budget proposal that will continue until 2016.

4.2.4.1.2 In determining the financial requirements of the key programs for the outyear, the various concerns enumerated under Items 4.1.6 and 4.1.7 shall be considered.

4.2.4.1.2.1 To the extent possible, use the standard or average (at least two-years actual cost) cost per unit of output or group of outputs to arrive at the financial requirement per major program. If none, use the unit cost based on the FY 2012 NEP level with the MOOE requirements adjusted in accordance with Item 4.2.4.1.3.2

4.2.4.1.2.2 The PS requirements shall be based on the PS level in the FY 2012 Updated FEs plus the annualized requirements for the 3rd and 4th tranches of SSL III including adjustments in pensions for uniformed and military personnel, if applicable.

4.2.4.1.3 For programs not listed under Item 4.2.4.1.2, the annual requirements for FYs 2015 - 2016 shall be determined as follows:

4.2.4.1.3.1 The personal services requirements shall be equivalent to the PS level mentioned in Item 4.2.4.1.2.2.

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

4.2.4.1.3.2.1 60% or less of the MOOE requirements in the FY 2014 Updated FEs (depending on the percentage share of indexed items to the total MOOE, used during the FY 2012 FE formulation) shall be multiplied by the inflation factor for the respective year;

4.2.4.1.3.2.2 The indexed amount shall be added to the remaining amount to come-up with the total MOOE requirements.

4.2.4.1.3.3 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 by the ERB during the FY 2012 budget preparation.

4.2.4.2 *Budgetary Projects*

4.2.4.2.1 In general, the annual requirements 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.

4.2.4.2.2 The available TPC balance may be computed by deducting the cumulative obligations, the current year provision (including continuing appropriations), and the amount provided in the FY 2012 NEP from the TPC.

4.2.4.2.3 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/formal approval by the ICC.

4.2.4.2.4 The amount spent by agencies should be matched with their physical accomplishments for the same period. Any remarkable mismatch shall be one of the talking points for discussion with the agency/ies.

4.2.4.2.5 However, no FEs, shall be provided under the following circumstances:

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

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

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

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

4.2.4.2.6 The implications of the circumstances enumerated in Section 4.2.4.2.5 to the project implementation shall be elevated to the Executive Review Board (ERB) for decision/resolution. The agency concerned shall be required to provide reasons for failing to complete the project on the completion date and within the approved total project cost. Request for additional allocation shall be treated as new proposal.

4.2.4.2.7 The MOOE requirements of the project shall not be indexed to the inflation factor.

Foreign-Assisted Projects

4.2.4.2.8 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.

4.2.4.2.9 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.

4.2.4.2.10 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.


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

4.2.4.3 Special Purpose Funds, except for Assistance to Local Government Units - MMDA

4.2.4.3.1 For formula-based SPFs (e.g. IRA, Special Shares) – to the extent possible, compute the annual requirements consistent with the provisions of the law and the projected data from the source government entity;

4.2.4.3.2 For other SPFs, use the FY 2012 NEP level, unless other determinant factors (e.g., funding gap for BSGC, additional firm commitments for ICF) necessitate adjustment of the level for the out-years.

- 4.2.4.4 The annual associated costs of PPP projects included in the List of PPP Projects approved by the NEDA-ICC and requirements of contracts for Locally-Funded and Foreign-Assisted Projects covered by MYOA issued as of October 31, 2011 shall be likewise reflected in the budgets of the respective agency. Pending determination of the estimated requirements by NEDA and implementing agencies, the allocation for on-going PPP projects shall be maintained at FY 2012 NEP level. Any adjustments to the amount provided shall be decided during the Executive Review Board chargeable against the fiscal headroom for the year.
- 4.2.4.5 The annual requirement for each budgetary program and project as determined for each corresponding year until 2016 for budgetary programs and until project completion for budgetary projects may be compared with the FY 2012 NEP level to reassess total funding level taking into consideration the increase/decrease in the corresponding outputs of the agency.
- 5.0** The DBM shall coordinate with departments/agencies in the updating and 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.


FLORENCIO B. ABAD
Secretary