



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

CIRCULAR LETTER

No. 2011-2
January 5, 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 2012 – 2014

1.0 Purpose

This Circular Letter is being issued to inform all Departments/Agencies on the guidelines adopted by DBM in the formulation of Forward Estimates (FEs) for FYs 2012-2014. The formulated FEs shall be the basis for the issuance of the FY 2012 Indicative Budget Ceilings which shall guide the departments/agencies in their respective budgeting and planning exercise.

2.0 Rationale

For the FY 2012 Budget Preparation, the DBM shall formulate the FYs 2012-2014 FEs from December 2010 to January 2011 in time for the issuance of the FY 2012 Indicative Budget Ceiling on the last week of January 2011. 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 if the government does not change its expenditure policies. Moreover, the FEs shall be used to determine the allocable amount or fiscal headroom for the Medium Term Expenditure Framework (MTEF) period 2012-2016 which will in turn provide for additional funding to the priority sectors or areas of expenditure.

3.0 Definition of Terms

For the purpose of this BPG, 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. Major programs are those programs which are in general under Operations 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 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.
- 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, one-time 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. **2011** - current budget (fiscal) year, **2012-2014** - out-years for budgetary programs and years up to 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 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 **Public-Private Partnership (PPP) Projects** – Build-Operate-Transfer (BOT) projects and its variants based on MTPIP and MTPDP priorities that are undertaken by the government with the private sector to deliver public goods/services under a contractual arrangement. Associated cost of PPP Projects refers to the government's counterpart to the project (e.g. Right of Way Acquisition (ROWA), feasibility studies, and related required infrastructure access).
- 3.14 **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 in the formulation.

4.1.1 The FEs shall cover the estimated *annual* cost of on-going budgetary programs and projects as reflected in the FY 2011 National Expenditure Program (NEP).

4.1.2 For budgetary programs i.e., GASS, STO and Operations, the FEs shall be based on the FY 2011 NEP and shall consider the reasonable level of targeted outputs for the out-years that is consistent with the 2011-2016 MTPDP, if the agency has these or follows the historical annual growth of outputs for the past five (5) years. The FEs shall cover the estimated annual requirements for the three out-years beyond the current budget (or fiscal) year i.e., 2012-2014. The inflation rate of 4 percent (midpoint) from 2012-2014 as approved by the DBCC shall be adopted using the following indexation factor:

2012-	1.040000
2013-	1.081600
2014-	1.124864

4.1.3 For budgetary projects i.e., LFP and FAPs, the FEs shall cover the annual requirements up to the approved completion date. Annual requirement shall be based on the approved project profile after considering the preliminary financial and physical accomplishment report as of December 15, 2010. The foreign exchange rates of P43.50:\$1 (midpoint) shall be used in determining the peso equivalent of the foreign currency.

4.1.4 For the formulation of the FEs, the following shall be considered:

- 4.1.4.1 The financial requirements corresponding to the targeted outputs per MFO/Performance Indicator of the agency. Latest MFOs/PIs are reflected in the FY 2011 OPIF Book;
- 4.1.4.2 The associated costs of PPP projects in general and those with Multi-Year Obligational Authority (MYOA) as of December 15, 2010;
- 4.1.4.3 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

- 4.1.4.4 The six-months requirement to cover the winding-up activities of completing budgetary project;
- 4.1.4.5 Ensuing year requirement of a newly-created office, initial requirement of which was charged against appropriate lump-sum fund or for maintenance of newly-completed projects (e.g. construction of police stations, acquisition of fire trucks)
- 4.1.4.6 The personal services requirement computed based on the 2010 Personal Services Itemization and Plantilla of Personnel (PSIPOP) generated as of December 15, 2010 from the GMIS. The budgetary implications of any compensation adjustments (i.e. SSL III 3rd tranche), after the cut-off date, shall be integrated simultaneously by OPCCB into the annual PS requirements of departments/agencies; and,
- 4.1.4.7 Changes in 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 Personnel from completed projects;

4.1.5.4 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;

4.1.5.5 Non-recurring expenses as defined under item 3.10.

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 for FYs 2012-2014 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 FY 2011 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.

4.2.2 The corresponding annual financial requirements shall be reflected by Program/Activities/Projects (P/A/Ps) by allotment class.

4.2.3 BUDGETARY PROGRAMS

4.2.3.1 Based on the FY 2011 NEP, analyze all the programs of the agency, including their component activities as reflected under FORM A of the FY 2011 budget proposal and determine those that are on-going after 2011.

4.2.3.2 List down the major programs under each budgetary program, if possible, and reflect their corresponding FY 2011 financial requirements.

4.2.3.2.1 In determining the financial requirements of the major programs for FYs 2012-2014, the various concerns enumerated items under Items 4.1.4 and 4.1.5 shall be considered.

4.2.3.2.2 To the extent possible, use the standard or average (at least two-years) 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 2011 level with the MOOE requirements adjusted in accordance with item 4.2.3.3.2.

4.2.3.3 For programs not listed under Item 4.2.3.2, the annual requirements for FYs 2012-2014 shall be determined as follows:

4.2.3.3.1 The personal services requirement shall be computed based on the 2010 Personal Services Itemization and Plantilla of Personnel (PSIPOP) generated as of December 15, 2010 from GMIS, which shall include the following:

4.2.3.3.1.1 The lump-sum amount for wages and compensation of casual and contractual personnel;

4.2.3.3.1.2 The amounts of other associated PS cost.

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

4.2.3.3.2.1 60% or less of the MOOE requirements in the FY 2011 NEP (depending on the percentage share of indexed items to the total MOOE, used during the FY 2011 FE formulation) shall be multiplied by the inflation factor for the respective year;

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

4.2.3.3.3 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 Executive Review Board during the FY 2011 budget preparation.

4.2.4 BUDGETARY PROJECTS

4.2.4.1 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.

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

4.2.4.3 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 by the ICC.

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

mismatch shall be one of the talking points for discussion with the agency.

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

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

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

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

4.2.4.5.4 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.

4.2.4.6 The implications of the circumstances enumerated in Section 4.2.4.5 to the project implementation shall be elevated to the Executive Review Board for decision/resolution.

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

Foreign-Assisted Projects

4.2.4.8 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.

4.2.4.9 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.

4.2.4.10 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.

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

4.2.5 Special Purpose Funds, except for Assistance to Local Government Units – MMDA, PRRC and MDF:

4.2.5.1 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;

4.2.5.2 For other SPFs, use the FY 2011 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.

4.2.6 The annual associated cost of PPP included in the List of PPPs approved by the NEDA-ICC and requirements of contracts covered by MYOA issued as of December 15, 2010 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 PPP shall be maintained at 2011 NEP level. Any adjustments to the amount provided shall be decided during the Executive Review Board chargeable against the fiscal headroom for the year.


4.2.7 The annual requirement for each budgetary program and project as determined for each corresponding year until 2014 for budgetary programs and until project completion for budgetary projects.

4.2.7.1 The financial requirements for all budgetary programs and projects of department/agency for FYs 2012-2014 shall be attributed by MFOs either directly or by assigning weights corresponding to their contribution in delivering outputs per MFO based on the FY 2011 assigned weight per MFO.

4.2.7.2 The resulting figures may be compared with the FY 2011 NEP level to reassess total funding level taking into consideration the increase/decrease in the corresponding outputs of the agency.

4.0 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.

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


FLORENCIO B. ABAD
Secretary