REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
MALACANANG, MANILA

CORPORATE BUDGET MEMORANDUM No. 31

December 30, 2010

FOR : ALL HEADS OF GOVERNMENT-OWNED OR CONTROLLED CORPORATIONS, INCLUDING GOVERNMENT FINANCIAL INSTITUTIONS AND ALL OTHERS CONCERNED

SUBJECT : POLICY GUIDELINES AND PROCEDURES IN THE PREPARATION AND SUBMISSION OF BUDGET PROPOSAL FOR FY 2012

1.0 PURPOSE

1.1 To provide the overall policy framework and thrusts for the FY 2012 Budget;

1.2 To prescribe the guidelines and procedures in the preparation and submission of requests for budgetary assistance from the national government in FY 2012;

1.3 To prescribe the guidelines and procedures in the preparation of financial and related data to be incorporated in the Budget of Expenditures and Sources of Financing for FYs 2010-2012 and the Corporate Operating Budget (COB) for FY 2012; and

1.4 To set the schedule of budget preparation activities.

2.0 OBJECTIVES OF THE 2012 BUDGET PREPARATION

2.1 To strengthen the linkage between development planning and budgeting and increase the likelihood of accomplishing development goals by considering resource availability in the formulation of the Medium Term Philippine Development Plan (MTPDP) and the Medium Term Public Investment Program (MTPIP) for FYs 2011-2016;

2.2 To start the engagement of the Civil Society Organizations (CSOs) and other stakeholders in the budget preparation process for key Government-Owned or Controlled Corporations (GOCCs) like National Food Authority (NFA), National Housing Authority (NHA) and National Home Mortgage and Finance Corporation (NHMFC) to promote wider ownership for and monitoring of the government's key public services;

2.3 To revitalize discussions of programs and budgets at the regional level to enable the focused support to the regions' comparative advantage and needs, and to ensure complementation of the programs of national government agencies (NGAs), Local Government Units (LGUs) and GOCCs/Government Financial Institutions (GFIs); and

2.4 To enable submission of the FY 2012 budget proposal to Congress at the opening of its regular session to facilitate budget authorization.

3.0 BUDGET FRAMEWORK

3.1 The FY 2012 Budget, as the budget of the Aquino Administration for its second year, shall be guided by the President's Social Contract and its 16 areas of transformational leadership as it is being discussed and reflected in the national development goals and targets, and strategies in the MTPDP for FYs 2011-2016. The objective is to ensure that available public resources are maximized for core vital government services with the greatest beneficial impact on poverty reduction and equitable growth. The use of private-public partnerships (PPPs) is encouraged for public investment activities which are attractive to/suitable for domestic and foreign investments.

3.2 This means that the Budget as the financial translation of the program of government shall focus on 1) fighting corruption and promoting transparency, accountability and good governance, 2) accelerating poverty reduction and the empowerment of vulnerable and marginalized sectors through significant investments in basic education, public health and social protection, 3) ensuring rapid, sustained and inclusive economic growth, leveling the playing field and nurturing competitive industries, 4) building a motivated, professional, and energized bureaucracy, and 5) encouraging integrated and safe communities and the sustainable use of resources for future generations. Moreover, given the proximity of its 2015 deadline, it shall continue to fund priority services to attain the Millennium Development Goals (MDGs) and raise the spending levels for basic education, public health and welfare to more respectable levels comparable with other Asian countries, particularly in the poorer regions.

3.3 Consistent with the government's fiscal consolidation and debt reduction strategies, the FY 2012 Budget will reflect the government's strategy of expanding its revenue base and improving tax compliance, and further sharpening its sectoral and geographical expenditure focus.

3.4 It will be consistent with the medium-term fiscal program covering FYs 2010-2016 as approved by the Development Budget Coordination Committee (DBCC) and will focus on progressively reducing the budget deficit to more manageable levels from 3.9% of GDP in 2010 to 2% by 2013 to 2016. The revenue effort shall be increased from the current 15.6% of GDP to 19.6% at the end of 6 years through the implementation of administrative reforms and the enactment of new revenue measures. This will allow a government expenditure program increasing from 18.5% of GDP in 2010 to 21.6% by 2016. Accordingly, from 3.2% of GDP in 2011, the budget deficit target shall be reduced to 2.6% in 2012. Revenue collections shall be raised from 15.6% of GDP in 2011 and 16.3% of GDP in 2012 while the obligation budget shall be increased from 18.2% of GDP in 2011 to 18.9% in 2012.

4.0 GENERAL PROCEDURES

4.1 Relative to past budget preparation calendars, the FY 2012 exercise aims to provide a longer timeframe for the formulation of the agency budgets to encourage wider discussions on and assessments of existing and proposed programs and projects. For the furtherance of transparency, lump sum funds within agency proposals as a policy will not be allowed in the FY 2012 Budget. Moreover, the conduct of regional consultations on the distribution of these programs shall be revived to ensure that they support comparative regional advantages and that they complement NGA, LGU and GOCC/GFI programs and budget allocations.

4.1.1 Complementation in the programs and projects among agencies shall be observed to avoid duplication, address gaps and promote greater equity in service delivery particularly for programs and projects that have been devolved to LGUs under the Local Government Code.

4.2 Agencies are also encouraged to involve the CSOs, private sector and other stakeholders in the consultations on plans and strategies being considered in the FY 2012 budget to secure greater feedback on how the existing programs are affecting localities and communities.

4.2.1 Participatory budgeting will be strengthened through the active participation of CSOs and private sector groups in budget-related conferences at the center and in the regions, as well as through representations in government agencies such as the National Anti-Poverty Commission and the Presidential Agrarian Reform Council, among others.

4.2.2 Agencies can solicit feedback from the CSOs and other stakeholders especially on the effectiveness and efficiency of existing programs and projects. Such feedback will be

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consistent with the zero-based budgeting (ZBB) approach adopted by the Administration to evaluate major programs, weed out inappropriate and inefficient ones and expand the effective and best practice programs.

4.3 To ensure that the accomplishment of the Administration's more important goals will not be sidetracked by resource constraints, the FY 2012 budget preparation phase will prioritize sectors/purposes/expenditures within the context of the Medium Term Expenditure Framework (MTEF), the Organizational Performance Indicator Framework (OPIF), and the ZBB approach. An effective Public Expenditure Management system is an essential component of good governance, given its proven outcomes of strengthening fiscal discipline, promoting strategic resource allocation, and improving operational management.

4.3.1 MTEF

The MTEF facilitates a strategic and policy based approach to budget preparation by providing a medium-term (three years) perspective. By taking into account the future costs of approved and on-going programs as well as valid commitments under the Forward Estimates (FEs) process, the more purposive allocation of the available uncommitted funds through the Paper on Budget Strategy is made possible.

4.3.1.1 For the FY 2012 budget preparation cycle, the FEs for FYs 2012–2014 will be formulated by the Department of Budget and Management (DBM) in consultation with agencies concerned, based on the guidelines to be issued by DBM. These take off from the FY 2011 National Expenditure Program (NEP).

4.3.1.2 The allocation of the fiscal space (total obligation ceiling less aggregate level of FEs) among the priority sectors and agencies, as recommended by the DBCC and approved by the President, shall be duly communicated through agency confirmation letters.

4.3.2 OPIF

The OPIF directs resources towards results or Major Final Outputs (MFOs) and provides measures of agency performance through key quality and quantity indicators.

4.3.2.1 Agencies shall ensure the alignment of their programs, projects and activities with their MFOs.

Funding proposals shall likewise ensure consistency with stated output targets.

4.3.2.2 They shall continuously strive to achieve greater efficiency and value for money in spending government resources.

4.3.3 ZBB

The ZBB involves the periodic review/evaluation of major ongoing programs and projects with the view to determining the continuing relevance of the programs/projects, ascertaining whether program objectives are being achieved, and reviewing whether there are alternative and better ways of achieving the objectives. The purpose is to decide whether the resources for a program/project should be kept at its present level, increased, reduced or discontinued to continually raise the impact of public funds in meeting government mandates and core functions.

4.3.3.1 The FY 2012 budget preparation process will continue to employ the ZBB approach to evaluate key programs with significant funding provisions. Those identified to be irrelevant or lacking focus vis-à-vis the President's Social Contract and the MTPDP, and/or inefficient and unproductive based on audit reports, and stakeholders' assessments shall be downscaled or totally discontinued to make room for the expansion of programs that work.

4.3.3.2 The regional and stakeholder consultations for this budget preparation exercise shall also be used to secure assessments of ongoing programs/projects and their impacts, particularly at the sub national and community levels.

4.4 Thus, the FY 2012 budget preparation exercise shall aim for the following:

4.4.1 Ensure that the budget is aligned with the overall development and growth strategies, and consistent with fiscal consolidation targets, specifically through the MTEF;

4.4.2 Require agencies to focus on performance/results in allocating their budgets consistent with their respective organizational goals, with the status of MFOs and performance indicators as the basic input. Hence, it is important that the agencies continuously improve their capacities for monitoring, evaluating and reporting their financial and physical performance using agreed upon performance indicators; and,

4.4.3 Improve efficiency and effectiveness in government operations by continuously developing better options for implementing programs and projects and incorporating the implications of the following public sector reforms on their budget proposals:

4.4.3.1 The Rationalization Program under Executive Order (E.O.) No. 366 dated October 4, 2004 relative to the strategic review and restructuring of agency operations for better service delivery;

4.4.3.2 Cost recovery measures to raise revenue effort and improve service delivery;

4.4.3.3 Mandatory use of the Philippine Government Electronic Procurement System (PhilGEPS) for transparency and efficiency purposes as well as following the procurement rules under Republic Act (R.A.) No. 9184 updated as of July 2009;

4.4.3.4 Implementation of the National Guidelines for Internal Control Systems issued in October 2008, and the creation and strengthening of Management Units and Internal Audit Units under Circular Letter No. 2008-5 dated April 14, 2008;

4.4.3.5 Pursuit of ISO certification and quality management improvement programs as mandated under E.O. No. 605 dated February 23, 2007; and,

4.4.3.6 Review of major programs through ZBB to terminate/change those that have significant leakages and inefficiencies based on Commission on Audit (COA) reports, and have been allocated sizeable budgets in recent years.

4.4.4 Institute transparency and accountability measures to restore the public's trust in the government and facilitate review.

4.4.4.1 Full disaggregation of agency budgets into specific programs/activities/projects by geographic location will be enforced to enhance transparency, accountability and better implementation (i.e., no agency lumpsum without specific listing of targeted beneficiaries).

4.4.4.2 All sources of revenues being used for agency operations, whether budgetary or non-budgetary, shall be disclosed as well as contingent liabilities from projects/activities which have a strong possibility of becoming real.

4.4.4.3 Increasing public access to data/information campaigns/communication effort on the use of agency funds to facilitate appreciation and analysis for purposes of transparency as well as accountability.

4.4.4.4 Involvement of CSOs in the budget process is being pursued by the government, with the CSOs serving as watchdogs/monitors in the use of public funds.

4.4.5 Nurture more PPPs [referring to build-operate-transfer (BOT) projects with the private sector financing/constructing and/or operating projects which traditionally would be within the ambit of the public sector] and minimizing the risks associated with these projects by building the environment for solicited bids and the capacity to identify and monitor contingent liabilities.

5.0 MACROECONOMIC AND FISCAL TARGETS FOR FY 2012

The preparation of the FY 2012 budget proposal shall be based on the macroeconomic assumptions and fiscal targets that will be approved by the DBCC which shall be issued separately in January, 2011.

6.0 BUDGET FORMULATION AND RESOURCE ALLOCATION

In accordance with the budget framework and expenditure reforms contained in the preceding sections, GOCCs/GFIs shall follow the guidelines below to ensure the improved allocation of funds among competing sectors:

6.1 Regional Consultations

6.1.1 To promote the ZBB, the Regional Development Councils (RDCs) shall be used as venues for the affirmation and/or suggestions on needed improvements in GOCC/GFI programs. The presence of LGU officials as well as other private sector stakeholders in the RDCs shall be maximized by soliciting their feedbacks on the impact of GOCC/GFI programs/projects in their localities.

6.1.2 The DBM and the NEDA Regional Offices shall coordinate the conduct of RDC consultations with NGAs, GOCCs/GFIs, SUCs and LGUs in February, 2011 for the purpose of reconciling program thrusts of the agencies concerned and evaluating existing programs/projects of the agencies in the region to ensure they complement with programs and projects of the LGUs as well as have a beneficial impact on the localities.

6.1.3 The GOCCs/GFIs shall present their budget allocations for the subject region to the RDCs to secure feedback on the impact of their programs/activities/projects (p/a/ps) in the different provinces and localities in the region. The RDC feedback shall be utilized for needed adjustments of the regional distribution of p/a/ps. The GOCCs/GFIs shall submit a consolidated report to DBM and RDCs together with their implications on the budget proposal following the form prescribed under Table I.

6.1.4 The GOCCs/GFIs are enjoined to provide RDCs and DBM with feedback on RDC recommendations on p/a/ps which are to be incorporated in the budget submission to DBM. Together with DBM, they shall also inform the pertinent RDC of these p/a/ps which are finally submitted for approval.

6.2 Consultations with CSOs, Private Sector and Other Stakeholders

6.2.1 Similarly, consultations shall be undertaken with partner and interested CSOs and other stakeholders at the central and regional levels in February, 2011 to facilitate assessments and evaluations of existing programs and projects of GOCCs. For the FY 2012 budget preparation, these consultations shall be piloted in 3 GOCCs namely, NFA, NHA and NHMFC. The following principles of CSO engagement which were agreed upon by DBM with CSOs under the Budget Advocacy Group can be used to guide the consultations:

6.2.1.1 Transparency – provide all parties as well as the general public, timely access to relevant and verified information/data subject to the limits set by law;

6.2.1.2 Accountability – abide by the policies, standards and guidelines of engagement that may be agreed upon and fulfill commitments;

6.2.1.3 Integrity – adhere to moral and professional standards in fulfilling commitments;

6.2.1.4 Partnership – cooperate and share responsibilities to ensure the objectives of the engagement are achieved;

6.2.1.5 Consultation and mutual empowerment – enhance knowledge sharing and continuing dialogue;

6.2.1.6 Respect for internal processes – understand and abide by limitations of the stakeholders with respect to the nature of the information to be disclosed and the extent of involvement based on institutional/legally imposed limitations;

6.2.1.7 Sustainability – ensure continuing engagement by instituting progressive policies and operational mechanisms that will promote an environment of mutual trust; and

6.2.1.8 National interest – uphold the national welfare above the interest of organizations or individuals.

6.2.2 A report shall be given to DBM containing the feedback of the CSOs and the other stakeholders on the existing p/a/ps following the form prescribed under Table I.

6.3 Performance-Based Budgeting

6.3.1 GOCC/GFI budgets shall be formulated to ensure attainment of its mandate. Moreover, the targeted MFOs and outcomes of programs and projects should be clearly specified, measurable and reflective of the levels of performance which the GOCC/GFI head commits to achieve thru the efficient and effective use of corporate resources.

6.4 Total Resource Budgeting

6.4.1 GOCCs/GFIs shall fully reflect in the budget proposal all sources of funds such as corporate income, borrowings, other corporate funds, trust funds, special account in the general fund and budgetary support from the national government.

6.4.2 All funding requirements of the GOCCs/GFIs including contingent liabilities arising from BOT projects and similar sizeable liabilities due from previous years' suppliers contracts and other multi-year obligations or multi-year agency projects must be identified in the budget submissions.

6.4.3 GOCCs/GFIs should also consider in their investment decisions all available resources within a specific area or locality, to the extent feasible. Hence, programs to be undertaken shall be consistent with the development plan of said area such that the resources from all stakeholders, namely: national agencies, local governments, congressional allocations and private initiatives will complement each other.

6.4.3.1 In the allocation of their budget, GOCCs/GFIs shall undertake consultation with their major stakeholders to ensure that their concerns and priorities are addressed in their budget proposals.

6.5 Financial independence of GOCCs/GFIs

6.5.1 Measures to enhance corporate revenue generation and improve operational efficiency, including privatization of certain GOCC/GFI operations and assets, should be undertaken. GOCCs/GFIs are encouraged to supplement available resources, through other means, such as external financing, PPPs (BOT schemes and variant arrangements), sale/lease of assets, etc., before requesting budgetary support from the national government.

6.6 Alignment of corporate programs to government priorities

6.6.1 GOCCs/GFIs shall implement their core mandates towards the attainment of the President's Social Contract and its 16 areas of transformational leadership, MTPDP and MTPIP for FYs 2011-2016 and MDGs. Budgetary support to GOCCs/GFIs shall be channeled to strategic ongoing programs and completing projects aimed at enhancing productivity and social equity in the country.

6.7 Resource Optimization

GOCCs/GFIs are encouraged to maximize their budget and undertake innovative ways to enhance their revenue possibilities through the following:

6.7.1 Cost Recovery Measures and Revenue Generation/ Enhancement

6.7.1.1 GOCCs/GFIs should strive to fully recover the cost of services being rendered by them thru users fees.

6.7.1.2 GOCCs/GFIs are encouraged to identify/ implement programs with the potential to generate revenues. In cases where revenues are already being generated for services rendered, measures such as the improvement of the quality of service delivery and reduction in the cost of production should be adopted to further increase revenues.

6.7.2 Focused Resource Utilization

6.7.2.1 GOCCs/GFIs shall refrain from undertaking activities and programs which NGAs, LGUs or other government corporations are mandated by law to perform. Complementation in the identification and implementation of the programs and projects among agencies shall be observed to avoid duplication, maximize benefits and promote greater efficiency in service delivery.

6.7.2.2 A strategic review of GOCC/GFI operations shall be undertaken to rationalize and accommodate the requirements of new loan or grant assisted projects within the GOCC/GFI budget. This review should include, as part of the objective, the use of organic structures and staff within the GOCCs/GFIs and the use of corporate funds as GOP counterpart for foreign assisted projects.

6.7.2.3 The Rationalization Plan formulated and approved under E.O. No. 366 dated October 4, 2004 shall provide the overall framework for a more focused utilization of resources vis-à-vis the core mandate of the corporation.

6.8 Gender and Development (GAD)

6.8.1 A GAD Plan shall be formulated outlining how agencies intend to include the priorities set in the Framework Plan for Women. GAD issues and concerns shall be considered in preparing the budget of the agency consistent with the provisions of DBM, NEDA and NCRFW Joint Circular No. 2004-1.

7.0 SUBMISSION REQUIREMENTS AND TIMETABLE

7.1 All the budget forms prescribed under Annex A shall be accomplished by all GOCCs/GFIs in accordance with the general guidelines above mentioned and specific guidelines indicated in each form.

7.2 Energy corporations whose budgets are required to be submitted to Congress under R.A. No. 7638 (An Act Creating the Department of Energy, Rationalizing the Organization and Functions of Government Agencies Related to Energy, and for Other Purposes) shall likewise use the herein prescribed forms in submitting their operating budgets as part of the FY 2012 NEP.

7.3 The FY 2012 proposal portion/column of the FY 2012 Budget Proposal under this Budget Memorandum shall already be considered as the GOCC/GFI COB of the said year which shall observe the guidelines prescribed under Corporate Budget Circular No. 20 dated April 27, 2005. The GOCC/GFI may submit a revised or supplemental FY 2012 COB in case of a modified national government support under the General Appropriations Act or availability of additional funds in accordance with this Memorandum.

7.4 Amounts indicated in the FY 2010 column and previous years of the prescribed Forms should be consistent with the available Annual COA Audited Financial Statements.

7.5 The GOCCs'/GFIs' budget proposals shall include the following:

a) Approval of the Governing Board through a duly certified Board Resolution;

b) Letter of endorsement by the head of GOCC/GFI;

c) Highlights of the following:

- Thrust/Priorities;
- Outputs; and,
- System of Delivery (i.e., explicitly explaining "how" the p/a/ps shall be implemented to achieve targeted outputs/outcome);

d) Five (5) complete sets of properly accomplished Budget Forms; and,

e) Five (5) copies each of the FY 2009 and FY 2010 Accomplishment/ Annual Reports.

7.6 The budget proposals shall be submitted to the Budget and Management Bureau – F, 4th Floor, DBM Building II, General Solano Street, San Miguel, Manila on or before April 8, 2011.

8.0 BUDGET PREPARATION CALENDAR

GOCCs/GFIs are enjoined to adhere to the budget preparation calendar contained in Annex B.

FLORENCIO B. ABAD
Secretary