



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

CORPORATE BUDGET MEMORANDUM

No. 37

January 28, 2015

F O R : All Heads of Government-Owned or Controlled Corporations (GOCCs), Including Government Financial Institutions (GFIs) and All Others Concerned

SUBJECT : **BUDGET CALL FOR FY 2016**

1.0 INTRODUCTION

To sustain the growth-momentum and embed the culture for the pursuit of good governance, anti-corruption and disaster risk adaptation in the bureaucracy during this penultimate year of the Aquino Administration, the 2016 Budget will continue to be formulated along the guiding principles of the budget preparation of the Aquino Administration: focus on the 5 Key Result Areas of the Social Contract; disaggregation of lump sum funds in the agency budget; total resource budget; use of performance based approaches; provision of strategic support for Private Public Partnership projects activities; and program or horizontal/convergence budgeting.

However, in order to further reap the benefits from the Medium-term Expenditure Management Process and strengthen the strategic decision making process, a Two-Tier Budgeting Approach (2TBA) will be introduced to separate the review of ongoing and approved programs and projects from that for the new and expanded ones to allow a better focus for each type of program. To complement the 2TBA, the performance (outcome and output) indicators of agencies and MFOs will be sharpened to serve as a better basis for monitoring and evaluation (M & E) and the continued improvement of public services.

Secondly, the 2016 Budget Preparation will also aim to lessen the number and magnitude of Special Purpose Funds (SPFs) by incorporating in the agency budgets, requests which used to be presented under the SPFs, like the provisions for new positions or pensions and gratuities. This is in response to the clamor from the CSOs and other stakeholders for greater transparency/credibility of the budget and accountability in agency financial operations. Thirdly, to further the harmonization of budgeting and accounting, the use of the Unified Account Code Structure (UACS) to classify appropriations, allotments, obligations and disbursements will be strictly enforced, especially for the actual expenditures of 2014 and the location codes. Finally, in the spirit of participative budgeting and to improve the absorptive/implementation capacity of the government on the

overall, the Bottom-Up Budgeting (BUB) will be pushed to the next level through the greater involvement of the LGUs and the communities in the planning and implementation of anti-poverty and basic public projects in their localities. The Regional Development Councils (RDCs) and the private sector on the other hand, will be asked to focus on regional-wide investment planning and programming. The national agencies particularly those with devolved functions will concentrate on and enhance their steering functions and catalytic programs to engender empowerment in governance, implement meaningful devolution, and accelerate project/program execution..

2.0 PURPOSES

- 2.1 To introduce the 2TBA for the FY 2016 Budget Preparation and inform the departments/agencies/GOCCs of the procedures, schedules and guidelines to be adopted, including those for the updating of the FYs 2016-2018 Forward Estimates (FEs);
- 2.2 To prescribe the guidelines and procedures in the preparation of the FY 2016 Budget forms in accordance with the programmed rationalization of the SPFs and the enforcement of the UACS;
- 2.3 To propose a procedure to strengthen the conduct of agency consultations at the central and regional levels, those with civil society organizations (CSOs), the private sector, and the Regional Development Councils (RDCs) to secure feedback on programs and projects of departments and corporations; and
- 2.4 To provide the calendar of activities for the preparation of the FY 2016 Budget.

3.0 EXPENDITURE MANAGEMENT FRAMEWORK

- 3.1 Ongoing reforms in PEM and PFM provide the tools to strengthen the links between planning, budgeting and implementation and must be used by the agency/GOCC in developing their budget submissions. These approaches are summarized in **Annex "A."**
- 3.2 The 2TBA is an approach that will separate the evaluation of agency/GOCC proposals for on-going/existing programs/projects from new spending proposals and the expansion of on-going/existing programs/projects. The objective is to decongest and systematize the decision-making process for these two different types of programs during budget preparation, thereby simplifying it. It will also enable the better acknowledgement of the status of budget preparation and utilization for the on-going and new programs/projects of the agency/GOCC, enhancing the accountability of departments/agencies/GOCCs for the implementation of these programs/projects as targeted and lessening occurrences of issues and bottlenecks during budget execution. Unlike past years, the agency/GOCC will be involved more in the formulation of its FEs and Cabinet-approval will be sought on the FE ceilings and new

program focus. Hence, the President and the Cabinet will lead the setting of the strategic direction and distribution of the unallocated fiscal space, allowing the better assessment of trade-offs and opportunities. On the overall, the two-tier approach therefore, will make budget preparation more strategic and will strengthen fiscal discipline.

3.2.1 Under Tier 1, the budgetary requirements for on-going/existing programs/projects of departments/agencies shall be determined through the FEs process in February (see Annex B). Departments/agencies/GOCCs shall be required to provide the specific updates and assumptions underlying their respective FEs by P/A/P consistent with the guidelines and procedures prescribed in this CBM.

3.2.2 Under Tier 2, departments/agencies/GOCCs shall submit their new spending proposals in April and May based on the spending areas and strategies which will be identified in the Budget Priorities Framework (BPF) approved by the President and issued in mid-March. **(A separate budget forum shall be conducted in the second half of March on this process).** These proposals shall undergo thorough deliberation in terms of relevance, impact, implementation readiness, and sustainability in the DBM and the DBCC.

3.2.3 The approved budgetary requirements for both on-going/existing programs/projects and new spending proposals under Tier I and Tier II, respectively, shall form the total budget of departments/agencies/GOCCs that will be submitted to the Congress for authorization.

3.3 Slow budget utilization and significant underspending afflicted the 2014 budget execution. While a large portion of it was due to the confluence of specific events, such as the need to refocus activities for the Yolanda rehabilitation effort, the Supreme Court rulings on the PDAF and DAP expenditures and weather disturbances, still the more significant part of problem was attributable to weak budget planning and program preparation (e.g delays in procurement, poor coordination with implementors, etc). It is in this context that shift to the 2TBA is also more appropriate given that it strengthens the oversight system.

3.3.1 Complementing the 2TBA, the different Clusters and the Investment Coordination Committee have begun to require member agencies and corporations to develop rolling pipeline investment programs such as the Three Year Rolling Infrastructure Program (TRIP) and the Pipeline of Public Private Partnership (PPP) Projects to rebuild the capacity of agencies and government corporations for sector planning and program development. Departments and agencies are strongly encouraged to establish and/or strengthen this continuous cycle of assessment, planning, execution, monitoring and evaluation to set up learning

organizations able to continuously provide new and improved services to its clients.

3.3.2 For projects needing to be further developed before they can be proposed in the budget, funds can be requested for feasibility studies, detailed design and engineering works, pre-construction activities, land acquisition and monitoring. These requests should be supported by preliminary project plans and concepts and other evidences of project merit which can justify the need for these processes and enable better costed and more "implementation-ready" projects coming into the national budget. This will minimize the delays, and the need for realignments and the identification of savings resulting from poorly and inadequately prepared programs and projects.

3.3.3 The greater thrust towards the spatial prioritization of the major programs of the Administration given the spatial feature of anti-poverty and climate change programs, has also thrusts the agency regional offices into the necessity of capacitating LGUs and communities through the provision of technical assistance and supporting coordination and incentives, to be able to take on the responsibility and implementation of devolved activities. In this context, the role of the central offices is to act as national authorities, able to catalyze, set service standards, assess quality and fill the gaps from the results of sub-national and local implementation as well as that from attached agencies and government corporations. Department secretaries are encouraged to strengthen their oversight over attached agencies and corporations using mechanisms at their disposal like the Performance Based Incentive System and Bonuses.

3.4 A well-functioning M and E system provides evidence-based information on the efficiency or cost-effectiveness of the resources allocated or focused on the set of priorities selected by government in the following ways:

3.4.1 Monitoring involves establishing of indicators of efficiency, effectiveness and impact, setting up their corresponding indicators, and continuous process of collecting, recording and analyzing data to inform manager and stakeholders of the ongoing development initiative, their progress and achieved results and resources allocated to the development initiatives.

3.4.2 Evaluation deals on the questions or criteria of relevance of the development initiatives, and their effectiveness in attaining their objectives, their efficiency in producing the outputs; their impact, both positive and negative, direct or indirect, intended or unintended, and the sustainability of these benefits, financially and environmentally, even beyond the life of the initiatives. It must provide useful information on the experience, making it possible to integrate lessons for future decision-making.

- 3.4.3 A results-based M&E System will illustrate the results chain of inputs, activities, outputs, outcomes and impacts and will be introduced by phase towards full integration into the PFM system. The process of integration will cover five (5) areas, namely, assessment and planning for results, budgeting for results, budget execution for results, and monitoring and evaluation of results. However, to be able to implement the results-based management, oversight and implementing agencies will be provided with capacity-building and technical support together with a decision support system.
- 3.4.4 As part of the “assessment and planning and budgeting for results” phase, each new program and project proposed for funding will be supported not only by project profile but also complemented with a credible M&E plan and robust baseline information or statistics, without which, budget allocation proposals will not be entertained. Proposals for program and project expansion (with increases in the budget allocation), will not be approved if they do not have a credible M&E plans and clear baseline information or statistics. DBM Form 703-F2 requests these information on new and expanded program/project proposals, aside from more information on the intended objectives or outcomes for the proposals. This form will be distinguished from that of DBM Forms Nos. 708 and 709 which will reflect more detailed information for on-going locally-funded and foreign-assisted projects, respectively.
- 3.4.5 With regards to “budget execution for results,” the conduct of M & E sessions at least on a quarterly level within and between the agencies/GOCCs and DBM have also been found to be beneficial to engender a venue for identifying and jointly resolving program bottlenecks to be able to meet performance targets.
- 3.4 To promote the transparent and detailed disclosure of all proposed government spending, lump sum appropriations in the agency budgets will be minimized and special purpose funds (SPFs) in the Proposed National Budget will be limited to: (i) the National Disaster Risk Reduction and Management Fund (NDRRMF); (ii) the Contingent Fund (CF); (iii) Statutory Shares of LGUs; and (iv) other SPFs not falling under any of the preceding purposes and the details of which could not be determined during the budget preparation stage.
- 3.4.1 Hence, the totality of funding requirements of an agency shall be reflected under the agency budget which shall serve as a hard budget ceiling for the year. The agency must therefore plan well their budget proposals for ongoing programs and projects as well as for new and expanded ones, taking care to submit well-costed and well-justified proposals which also reflect their implementation capacities. There have been numerous instance every year, where an agency/GOCC proposal cannot be approved because of the lack of supporting documentation. For this reason, budget officers

shall formulate these budget proposals with the agency planners and operations personnel to come up with better informed and well-specified spending proposals.

- 3.4.2 The disaggregation of all remaining lump sum amounts in the agency budget (e.g., component projects, intended beneficiaries, location) to enhance the credibility of the GAA and enable it to function as a budget release document. The **no lump sum policy** will continue to be enforced for the 2016 budget. The detailed project components and geographic locations up to provincial level (up to city and municipality for selected agencies) of agency/GOCC proposals will have to be specified.
- 3.5 The Unified Accounts Code Structure (UACS) - a government-wide harmonized budgetary, treasury and accounting code classification that was introduced in the FY 2014 Budget. The UACS was enhanced through COA-DBM-DOF Joint Circular 2014-1 to include the Fund Cluster, Sector Outcome, and Horizontal Programs segments. The Sector Outcome utilizes the international standard Classifications of the Functions of Government (COFOG), which allows for tracking of the budget to sectors according to the nature of the P/A/Ps. The submission of the FY 2016 Budget shall utilize the enhanced UACS codes and will also require the use of the existing UACS Location Code (regional and provincial) to improve reporting of geographical financial information.
- 3.6 As mentioned above, the complementation of national government/GOCC and LGU programs within the region to harness the region's comparative advantage in response to its needs. The RDCs, CSOs, LGUs and other stakeholders shall be consulted on the proposed strategies of the agency/GOCC for new and expanded programs and projects in the specific provinces, cities and municipalities. The agency is encouraged to provide technical assistance and coordination to these stakeholders sessions. The recommendation of RDCs shall be focused on programs and projects which have region-wide impact.
 - 3.6.1 The geographic focus of the 2015 Budget (both ongoing and new programs and projects) shall continue to be followed to maximize employment generation and poverty reduction in the provinces with the most number of poor families, those with the highest incidence and those with multiple climate and geo hazard vulnerabilities. Guidelines to be issued separately in the BPF.
 - 3.6.2 To optimize its strategic role and membership, the RDCs shall be used as a venue for identifying and confirming strategic regionwide or inter-provincial interventions in the form of new programs and projects. LGU-and-CSO assessed programs and projects benefiting provinces, cities, districts and municipalities shall be incorporated in agency/GOCC budgets.

4.0 MACROECONOMIC ASSUMPTIONS, BUDGET AGGREGATES AND FISCAL SPACE

The Macroeconomic assumptions, budget aggregates and fiscal space shall be covered by a separate circular.

5.0 DEPARTMENT/AGENCY/GOCC BUDGET CEILINGS

5.1 Under the two-tier budgeting approach, the cabinet approved FEs shall be the department/agency/GOCC hard budget ceilings for on-going programs/projects (Tier 1) which may be increased from the fiscal space to fund the major expansion¹ and new development programs/projects (Tier 2) in accordance with the BPF.

5.2 The hard budget ceilings for on-going programs/projects (Tier 1) shall be issued in March 2015 to the departments/agencies/GOCCs to meet the April 27, 2015 deadline on the submission by the departments/agencies/GOCCs of the details of the Cabinet-approved FY 2016 ceilings and new spending budget proposals..

5.3 The policies and guidelines adopted by DBM related to the FEs is attached as **Annex "B"** of this CBM.

6.0 SPECIFIC GUIDELINES AND BUDGET PREPARATION FORMS

In support of the strategies/policies, the technical guidelines and computational processes are presented in detail in the following annexes:

6.1 Annex C - Specific Guidelines

6.2 Annex D - Budget Preparation Forms

6.3 Annex E – Matrix of Priority Programs and Participating Agencies

6.4 Annex F – Summary of CSOs Feedback on GOCCs On-going Programs and Projects

6.5 Annex G - Budget Preparation Calendar

7.0 SUBMISSION REQUIREMENTS AND TIMETABLE

7.1 GOCCs shall accomplish/submit the pertinent Budget Preparation (BP) forms containing FYs 2013 to 2016 required data/information.

7.2 GOCCs shall submit to DBM four (4) hard copies of the Board-approved budget proposals, together with the Board Resolution approving the same, and the following additional information:

¹ Refers to scaling up of activities in terms of policy change not previously approved such as scope, beneficiaries, and design or implementation.

- Outcomes and Outputs (Targets) using Performance-Informed Budget Structure;
 - Program/Project Implementation Strategies for FY 2016;
 - FY 2014 Actual Accomplishment;
 - FY 2014 Annual Report; and
 - Inventory of equipment as required under NBC Nos. 438, 446 and 446-A
- 7.3 Energy Corporations whose budgets are required to be submitted to Congress under Republic Act 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 2016 NEP.
- 7.4 The FY 2015 portion/column of the FY 2016 Budget Proposal under this Budget Memorandum shall already be considered as the GOCC COB of the said year which shall observe the guidelines prescribed under Corporate Budget Circular No. 20 dated April 27, 2005.
- 7.5 Amounts indicated in the FY 2013 column of the prescribed Forms should be consistent with the available Annual COA Audited Financial Statements.
- 7.6 DBM will not schedule the Technical Budget Hearing (TBH) until the GOCC complies with the submission.
- 7.7 All GOCCs shall submit their 2016 budget proposals and supporting forms/documents directly to the Budget and Management Bureau-F (BMB-F), 4th Floor, DBM Boncodin Hall, General Solano St., San Miguel, Manila.


FLORENCIO B. ABAD
Secretary

