Department of Budget and Management 1936

REFORMING THE PHILIPPINE BUDGETING SYSTEM

towards ***economic growth*** *and* ***poverty reduction***

THE GOAL

The Duterte Administration aims to ramp up the country's economic growth rate from 7% in 2018 to 8% in 2022, pushing the country into upper-middle income status by 2022, while reducing poverty incidence from 21.6% in 2015 to 14% in 2022.

THE MEANS

To realize these goals, the government is investing massively in public infrastructure, from 5.4% of GDP in 2017 to 7.3% in 2022, and in human capital development from 8.5% of GDP in 2017 to 9.2% in 2022.

*With an expanded national budget dedicated to a clear-cut vision for national development, **every Peso must lead to the actual delivery of projects and programs.***

THE BOOST

Thus, the government, through the initiative of the Department of Budget and Management, is embarking on a campaign to transform the budgeting system from obligation-based to annual cash-based appropriations, through the Budget Reform Program (BRP).

WHAT IS ANNUAL CASH-BASED APPROPRIATIONS?

ANNUAL CASH-BASED APPROPRIATIONS limit incurring obligations and disbursing payments for goods delivered and services rendered, inspected, and accepted within the fiscal year.

In FY 2019, the national government will shift from an obligation-based budget to annual cash-based appropriations.

In annual cash-based appropriations, payments for contractual obligations delivered until the end of the fiscal year may be settled until the end of the Extended Payment Period (EPP) - the three-month period following the end of the fiscal year.

THE TIME HORIZON

The annual cash-based appropriations limits budget implementation to **just one year**. This is a logical progression from limiting the validity of the budget in 2017 and 2018 from two years to just one year.

Thus, the annual budgets of agencies should only contain the projected budget requirements of programs, activities, and projects that can be implemented and paid for within the period from January to end-December of the fiscal year.

HOW IS ANNUAL CASH-BASED BUDGETING DIFFERENT FROM OBLIGATION-BASED BUDGETING?

OBLIGATION-BASED BUDGETING	ANNUAL CASH-BASED BUDGETING

Time Horizon / Period of Implementation

OBLIGATION-BASED BUDGETING	ANNUAL CASH-BASED BUDGETING
Contracts awarded within the fiscal year can be delivered even after the end of the year.	Contracts intended to be implemented for the fiscal year should be fully delivered by the end of the fiscal year.

Obligation-based Appropriations (24 months & beyond)

Jan 1 — FY — Dec 31 / Jan 1 — FY + 1 — Dec 31 →

Cash-based Appropriations (12 months)

Jan 1 — FY — Dec 31

Period of Payment

OBLIGATION-BASED BUDGETING	ANNUAL CASH-BASED BUDGETING
Inspection, verification, and payment is done within and beyond the end of the fiscal year.	Payment is done within the fiscal year and up to a three-month Extended Payment Period (EPP) after the fiscal year for goods and services accepted by December 31 of the fiscal year.

Obligation-based Appropriations (24 months & beyond)

Jan 1 — FY — Dec 31 / Jan 1 — FY + 1 — Dec 31 →

Cash-based Appropriations (15 months)

Jan 1 — FY — Dec 31 — Mar 31

Extended Payment Period (EPP)

WHAT ABOUT PROJECTS THAT WILL REQUIRE MORE THAN ONE YEAR TO IMPLEMENT?

For projects with an implementation period of more than 12 months, agencies must obtain a **Multi-Year Obligational Authority (MYOA)** from the DBM.

A MYOA is issued for projects that will be undertaken by agencies for a period of more than one fiscal year and exceeding 12 months.

Likewise, Government-Owned and/ or -Controlled Corporations (GOCCs) that will implement multi-year projects (MYP) need to obtain an equivalent authority of multi-year support from their governing board.

Contracts with implementation periods of 12 months or less should not spill over to the next fiscal year as they cannot be covered by a MYOA.

A MYOA (or any other equivalent authority) is a commitment by the implementing agency or GOCC that the annual funding requirements for the multi-year projects shall be included in its budget proposals or corporate operating budget (COB) for the covered years, consistent with the provided implementation schedule. Subsequent budget items under a MYOA will be given priority consideration when evaluating proposals.

The MYOA should show the schedule of the annual cash requirements of the multi-year project. The annual funding requirement of the multi-year project will be appropriated annually.

In addition, in accordance with the Administrative Code, the Certificate of Availability of Funds (CAF) should be issued annually for multi-year projects, based on the approved budget in the General Appropriations Act (GAA) and allotments received for the purpose.

FREQUENTLY ASKED QUESTIONS

What will be the cost of a multi-year project?

Pursuant to Sections 5.b and 7.6 of the 2016 Revised Implementing Rules and Regulations (IRR) of Republic Act No. 9184, or the Government Procurement Act, the Approved Budget for the Contract (ABC) shall be the total project cost of a multi-year project as reflected in the MYOA.

When is the Certificate of Availability of Funds (CAF) required?

Pursuant to Presidential Decree No. 1445 (Government Auditing Code of the Philippines), the CAF is only required prior to awarding of a contract.

Consistent with Section 20.1.c(i) of the 2016 Revised IRR of RA No. 9184, either (a) the approved Annual Procurement Plan (APP) consistent with the General Appropriations Act (GAA), or (b) the indicative APP consistent with the NEP for Early Procurement, is sufficient for the purpose of commencing procurement, including undertaking pre-procurement conferences and publishing invitations to bid.

For multi-year projects, a MYOA should be secured from the DBM prior to commencing procurement activities.

For multi-year projects, when is the CAF issued?

The CAF should be issued annually based on the allotments released for the purpose.

HOW WILL UNPAID OBLIGATIONS BE SETTLED?

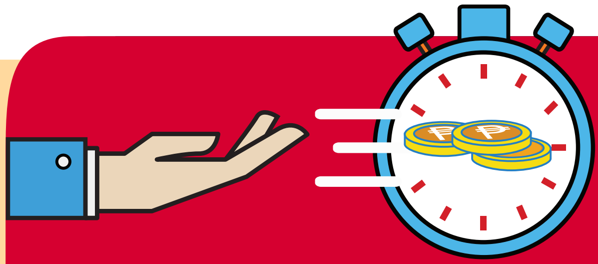
2018

Unpaid obligations (accounts payable and not-yet-due-and-demandable obligations) as of the end of Fiscal Year 2018 will be prioritized, paid, and issued Notices of Cash Allocation (NCAs), subject to validation by the DBM, even after FY 2018.

These unpaid obligations will have the first allocation from the Total Cash Budget Ceiling to determine the Fiscal Space available for items to be included in the annual cash-based General Appropriations Act.

Agencies should wind down their accounts payable and ensure prompt delivery, acceptance, and payment for the not-yet-due-and-demandable obligations.

In accordance with Section 98 of PD 1445, the Commission on Audit (COA) may revert to the unappropriated surplus of the general fund any unliquidated balance of accounts payable in the books of the national government, which has been outstanding for two years or more.



2019

From 2019 onwards, agencies have up to three months, during the Extended Payment Period (EPP), to pay their booked accounts payable by the end of the fiscal year. Payments for accounts payable during the EPP will be charged against the previous year's appropriations.

For example, the EPP of Fiscal Year 2019 is from January to March 2020. Payments of FY 2019 accounts payable (i.e., goods and services delivered and accepted by agencies) during the EPP will be charged against the FY 2019 Budget.

DEC

In an annual cash-based budget, all obligations should be delivered, inspected, and accepted by the end of the fiscal year.
There should be no booked not-yet-due-and-demandable obligations by the end of the year.

Payments done during the EPP will be part of the performance of the prior fiscal year's budget. For accounting and fiscal programming purposes, however, these will be booked in the current fiscal year's financial reports.

HOW COULD AGENCIES SUCCESSFULLY TRANSITION TO A CASH-BASED BUDGET?

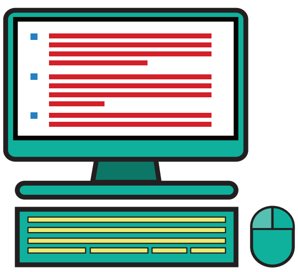
1 Plan well and early

A multi-year planning perspective is even more significant now that the time horizon of the national budget has shortened. Program managers should have a clear plan on their targets in the medium term and the necessary resources to attain these. In addition, agencies are encouraged to practice an increased discipline in managing their budgetary resources, and to carry out forward planning and risk management in proposing and implementing an annual cash-based budget. This includes plotting timelines that are based on the implementation capacity of the agency.

2 Propose projects that are ready for implementation

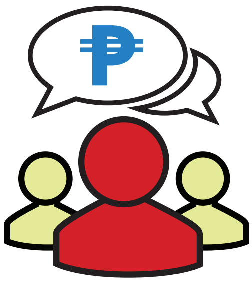
Agencies should only propose projects that are "shovel-ready" and can be fully implemented, delivered, and paid for within the fiscal year. Agencies are urged to complete preparatory works early such as conducting feasibility studies and detailed engineering, and obtaining necessary clearances from local government units and other agencies. If the project is not yet implementation-ready, the proposal should only include expenditures for these preparatory activities.

3 Early procurement must be the rule



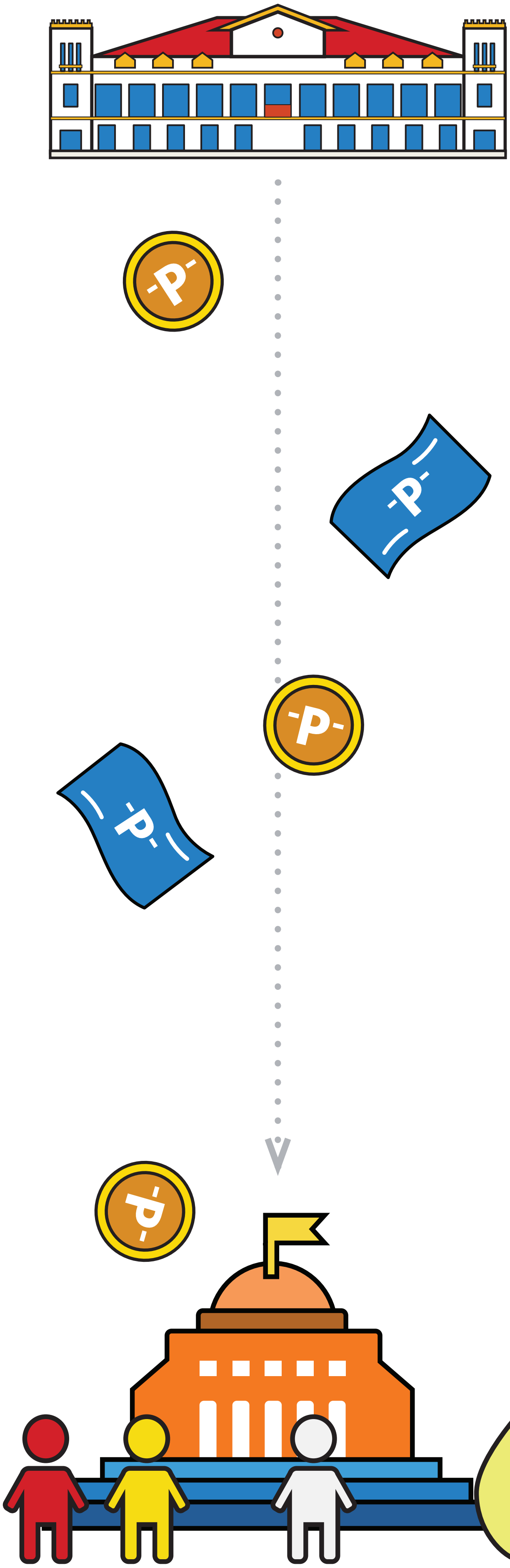
In order to deliver a 12-month contract within the fiscal year, agencies should prepare budget proposals with a clear intent to conduct Early Procurement after the Executive has submitted the National Expenditure Program (NEP) to Congress. This way, 12-month contracts can be awarded within January of the fiscal year.

4 Formulate a procurement strategy



Shifting from an obligation-based budget to an annual cash-based budget requires the re-engineering of processes like procurement and payment. Thus, agencies should formulate a procurement strategy for every category of goods and services that they plan to procure. This also entails properly scoping the market and assessing the requirements of end-users as early as the period of preparation of budget proposals. This ensures that failure of bidding is minimized.

HOW ARE NG TRANSFERS TO GOCCs AND LGUs DONE IN AN ANNUAL CASH-BASED BUDGET?

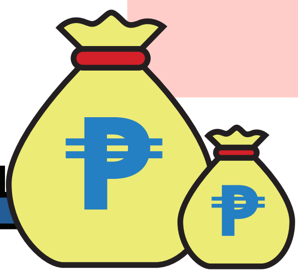


In an annual cash-based budget, budgetary support to GOCCs should be disbursed within the fiscal year. Likewise, program/project transfers to Local Government Units (LGUs) from agencies, such as the Department of Health's Health Facilities Enhancement Program (HFEP) and the Department of Agriculture's Farm-to-Market Road (FMR) projects, should be disbursed within the fiscal year.

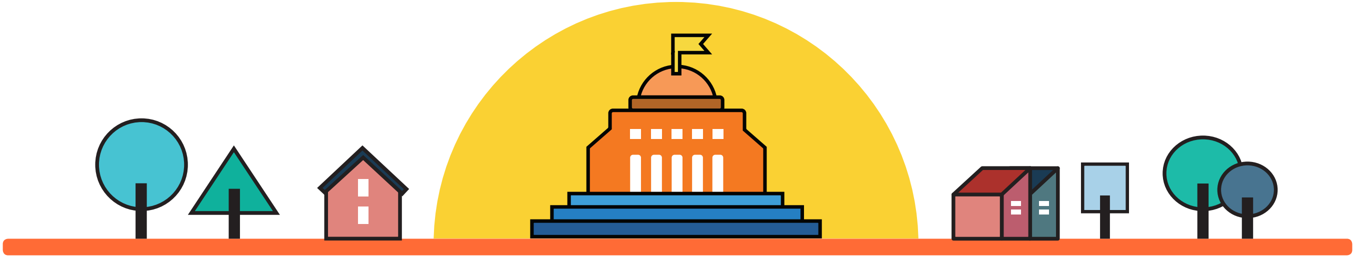
For transfers of financial assistance and other support to LGUs (in the Local Government Support Fund), LGUs have until the end of the following fiscal year to utilize the transfer.

Similar to budgets of the national government, any unspent appropriations after the end of the validity period will lapse. Unexpended balances of funds transferred to GOCCs and LGUs will revert to the National Treasury.

On the other hand, the Internal Revenue Allotment and the Special Shares of LGUs from the Proceeds of National Taxes and Fees will have no such limitation. These statutory shares will be valid until fully expended as these are their lawful shares in the NG revenue collections.



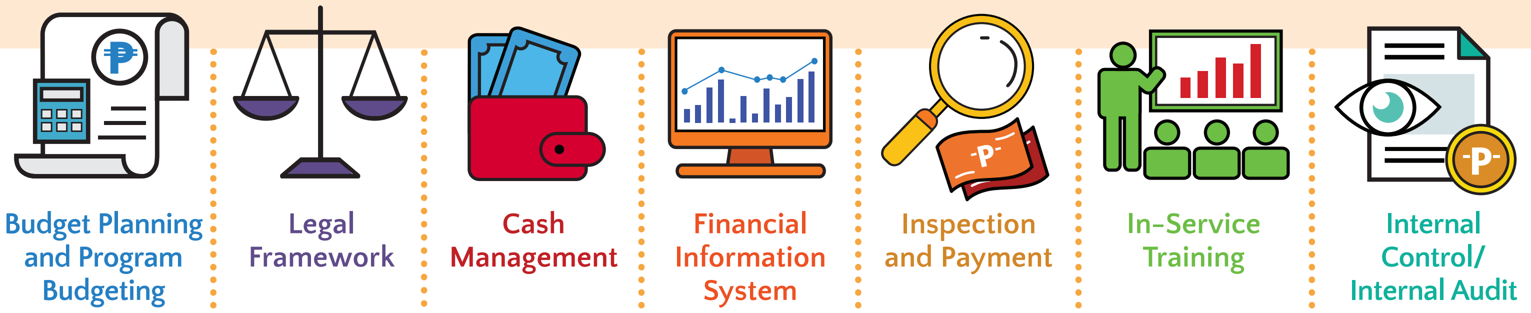
HOW DO AGENCIES BENEFIT FROM THE SHIFT FROM OBLIGATION-BASED TO ANNUAL CASH-BASED APPROPRIATIONS?



- Once implementation schedules have aligned to the new shorter time horizon, agencies' program managers will only need to focus on implementing the current year's budget.
- Transaction with contractors and suppliers will be smoother and more transparent as the latter can easily obtain information on what is appropriated for them in the budget.
- Agencies' administrative load as well as the accounting for the use of funds will substantially decrease and be simplified.
- Agencies will find that non-compliance by contractors and suppliers in contract agreements are lessened.

WHAT IS DBM DOING TO FACILITATE THE SHIFT TO ANNUAL CASH-BASED APPROPRIATIONS?

The Budget Reform Program (BRP) has formed the following inter-agency Task Teams:



These TASK TEAMS are looking into re-engineering existing policies and procedures to ensure that the government can smoothly and successfully shift to an annual cash-based budget.

For example, the Cash Management Task Team has rolled out several reforms such as the comprehensive release of Notices of Cash Allocation (NCA) with quarterly lapsing and first-day crediting, the shortening of the validity of MDS checks from six to three months, and the continuing push for the adoption of checkless payments.

Meanwhile, the Inspection and Payment Task Team is working on reviewing the documentary requirements for the payment of contractual obligations of the government.