

Budget Modernization Program (BMP)

Shifting to Annual Cash-Based Appropriations

Outline

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5. Multi-Year Contracts
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7. Effects on NGAs & Expectations from Contractors
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2019 Proposed National Budget

The NEP is both expansionary and revolutionary

P3.757T



ANSWER

Why is 2019 National Budget
Revolutionary?
since it is the first time
to adopt Annual Cash-
based budgeting system



ANSWER

When did the policy of a one-year ~~2017~~ obligation-based budget begin?



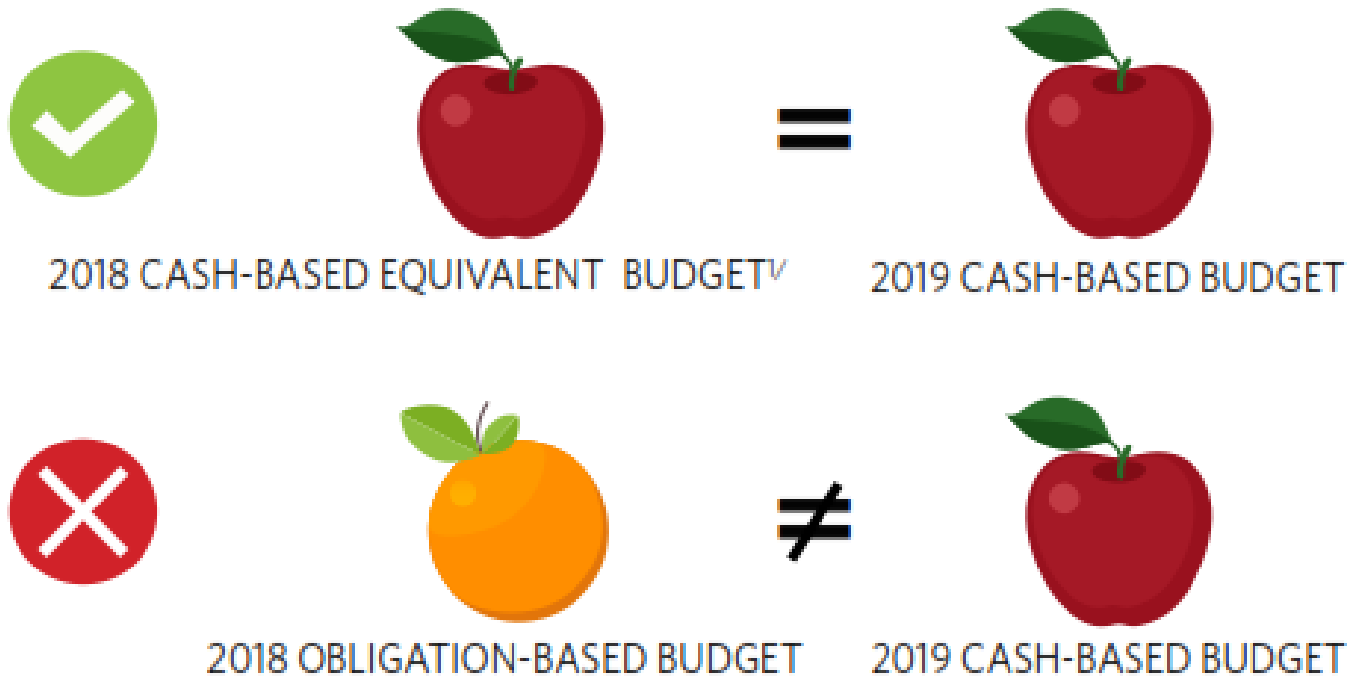
ANSWER

What do you use to compute the monthly disbursement program (MDP) net of equivalent of an obligation-based budget? prior year's accounts payables.



2019 Proposed National Budget

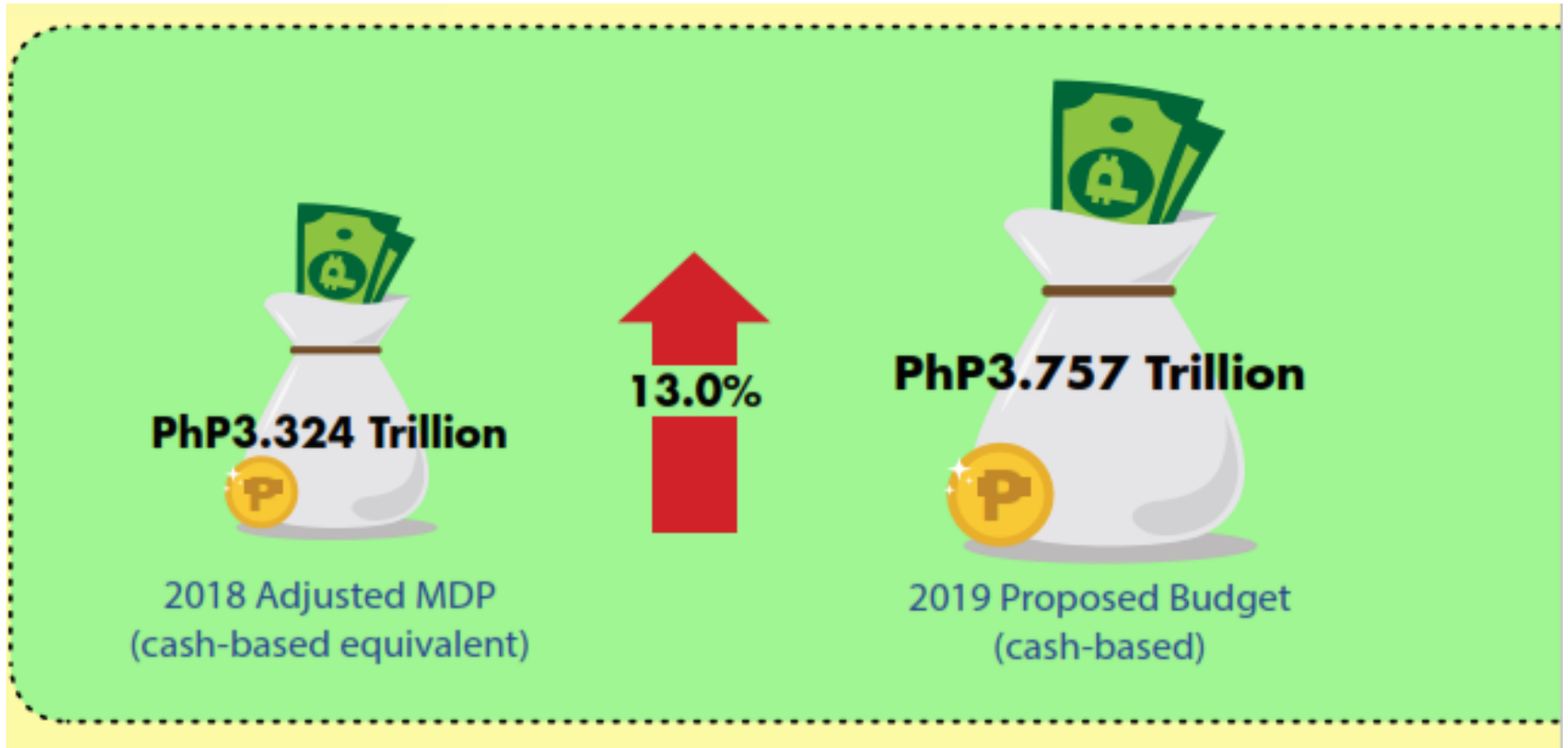
The NEP is both expansionary and revolutionary



[∇] The cash-based equivalent of the 2018 obligation-based budget is derived from the Monthly Disbursement Program (MDP) submitted by agencies and removing the prior years' payments for accounts payable from these. This leaves the cash disbursements estimated to be made by the agency for the current year's budget.

2019 Proposed National Budget

The NEP is both expansionary and revolutionary



Objective of the BRP

Supporting the expansionary fiscal policy of government

Medium-term Goals:

1. Economic Growth of 7-8% per year
2. Poverty Reduction from 21.6% to 14% by 2022

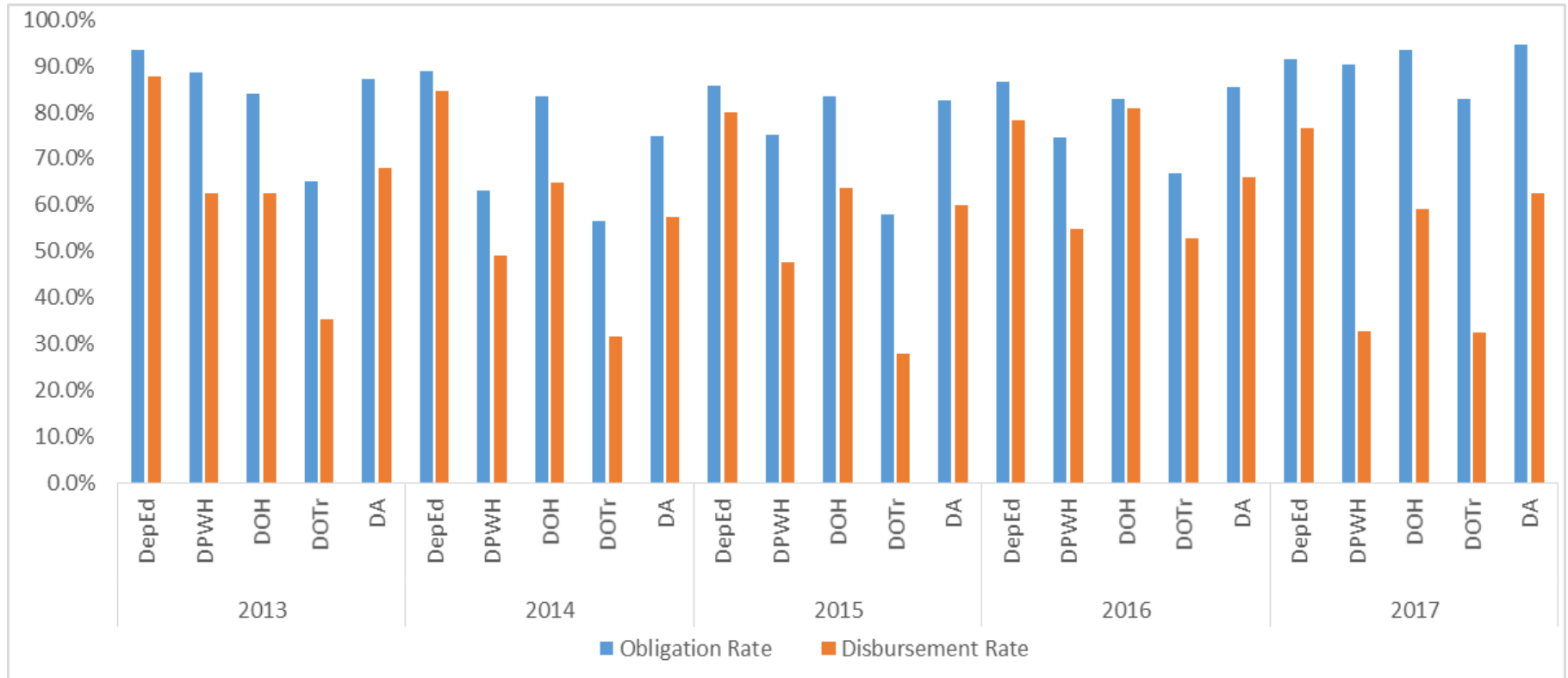
Infrastructure Spending	Social Sector Spending
5.4% of GDP in 2017	8.5% of GDP in 2017
7.3% of GDP in 2022	9.2% of GDP in 2022
P8.4 Trillion in 6 years	P10.33 Trillion in 6 years

Fully execute the Budget to deliver goods and services that promote Growth and reduce Poverty



The Principle of Annuality

A credible budget is fully executed on an annual basis



Obligation Rate:
ratio of obligations to appropriations

Disbursement Rate:
ratio of disbursements to appropriations



Annual Cash-Based Appropriations

Shifting to a one-year implementation horizon

Limits incurring obligations, and disbursing payments to goods delivered and services rendered and inspected, within the fiscal year.

Payments of these obligations should be settled within the fiscal year of the budget.



ANSWER

FALSE. Government will still incur obligations in a cash-based budget. The only difference is when those obligations should be delivered and paid.



Obligation-based vs. Cash-based

When can goods and services be delivered and rendered?

Obligation-based Appropriations – 24 months & beyond



- In an **obligation-based budget**, contracts awarded before the end of the FY can be delivered even after the FY; government has a running balance of not-yet-due-and-demandable obligations (NYDDO)

Cash-based Appropriations – 12 months



- In a **cash-based budget**, 12-month contracts should be fully delivered by the end of the FY.

Obligation-based vs. Cash-based

When can obligations be paid?

Obligation-based Appropriations – 24 months & beyond



- In an **obligation-based budget**, inspection, verification, and payment can be done even after the FY; government has a running balance of due-and-demandable accounts payables (DDAP)

Cash-based Appropriations – 15 months



- In a **cash-based budget**, payment can only be done within a 15-month period; contracts delivered at the end of the FY can be paid during the 3-month EPP

ANSWER

OR FALSE

FALSE. No implementation
Schools and SUCs may
can be done during the
implement their 2019 budget
up to March 2020. Provide
Extended Payment Period?



Time Horizon of Funds Provided to GOCCs & LGUs

Fund downloads from the NG should be disbursed within the FY

- Download of funds shall be done within the FY
- Period of Disbursements:
 - Budgetary Support to GOCCs – until the end of the FY
 - Funds provided to LGUs:

Program Funds from NGAs	Until end of the FY
Financial assistance & other support to LGUs (LGSF)	Until end of the following FY
Internal Revenue Allotment (IRA)	Until fully spent
Special Shares from Proceeds of National Taxes & Fees	

Treatment of Transferred Funds

Only payments will be considered as disbursements

All funds transferred between or among Government Agencies shall not be considered disbursed until the transferred amount has been paid for goods delivered and services rendered.



ANSWER

will be constructing a building in the Central Department decided to implement this project through a MOA with the DPWH. The funds were unappropriated surplus of the General Fund transferred to DPWH on November 2020. Unfortunately, the DPWH was not able to award the contract before the end of the year. What happens to the funds transferred to DPWH?



Multi-Year Contracts (MYCs)

Multi-year projects should be covered by the annual budget

- MYC has an implementation period exceeding 12 months
- Even under an annual cash-based budget, agencies may enter into MYCs
- Agencies should secure a Multi-Year Contracting Authority (MYCA) before commencing procurement activities for MYCs
- GOCCs should secure an equivalent authority from its governing board
- MYCA should be secured for specific components of FAPs, when necessary

Multi-Year Contracts (MYCs)

Multi-year projects should be covered by the annual budget

- MYCA should accurately show the schedule of the annual cash requirements of the MYP
- MYPs' annual cash requirements should be included in the agency budget proposals and consequently, the GAA, annually
- Certificate of Availability of Funds (CAF) should be issued annually for MYPs based on the budget for the purpose
- Contracts with implementation periods that are 12 months or shorter should not spill-over to the next FY



ANSWER

What is the basis for the Approved Budget for the Contract (ABC) for a multi-year project – (a) the GAA, (b) the CAF, (c) the MYCA, or (d) the SARO?



ANSWER

Constructing a new
existing PhP 16B.

PhP 1B

The project will be implemented over 4 years. The obligations are limited to the first year's implementation appropriations. PhP. 1B While the remaining PhP. 15B is divided equally among the latter three years. How much will be reported as annual cash requirements by the end of the first year?



Research & Scientific Projects

The use of the MYCA for single-year projects

- Proposed amendment to the Senate Version of the Budget Reform Bill:

A MYCA or an equivalent authority may likewise be issued for Single-year Projects that are either research or scientific in nature, and by design necessitates implementation covering two (2) fiscal years.



Issuance of a “Zero CAF”

For MYPs with no funding requirements in a given year

In case of Multi-year Projects with no funding requirement on any given year, the CAF shall be the certification of the chief accountant that no fund is needed for the year as indicated in the approved MYCA.



ANSWER

The Navy is procuring engine of the BRP s Fairbanks-Morse custom built and the parts are made-to-order. According to the suppliers in the United States, it will take them 18 months to manufacture and ship the spare parts for the engine, costing PhP 450 million. The spare parts will be paid one time, upon delivery.

How much is the CAF for this contract in 2019?

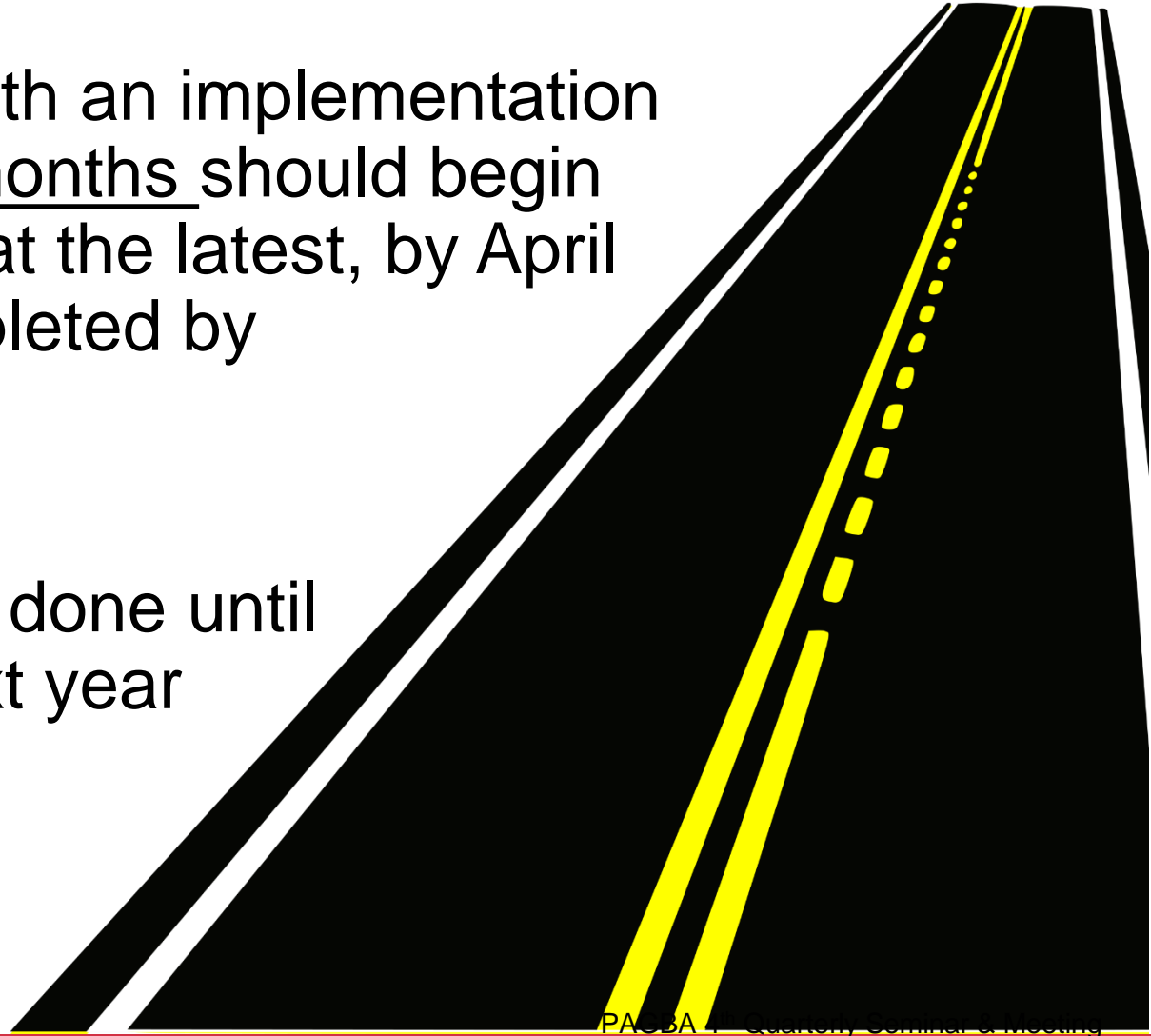
ZERO



Example: 8-Month Road Project

Single-year projects should end on or before December

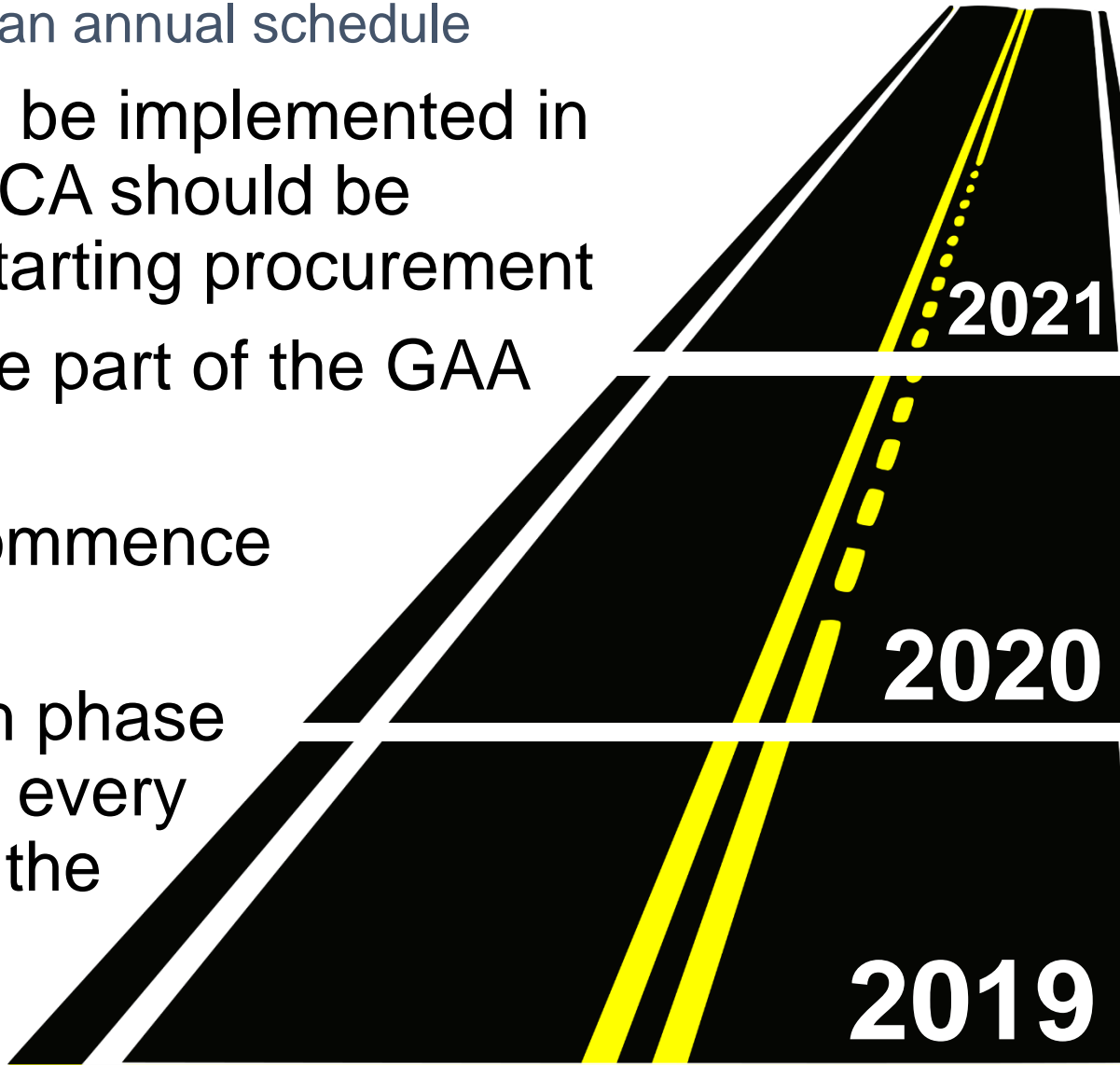
- A road project with an implementation period of eight months should begin implementation at the latest, by April so that it is completed by December
- Payment can be done until March of the next year during the EPP



Example: 3-Year Road Project

MYCs should stick to an annual schedule

- If the project is to be implemented in 36 months, a MYCA should be secured before starting procurement
- The project will be part of the GAA for three years
- Project should commence on January 2019
- Payment for each phase should be settled every year, inclusive of the EPP



Clarifying Common Misconceptions

Procurement strategy & existing budgeting rules ease the transition

1. That it converts all projects into one-year contracts
2. That all projects should be converted into multi-year contracts so that these are “protected” by a MYOA

SOLUTION: Choose the proper procurement strategy for the project



Clarifying Common Misconceptions

Procurement strategy & existing budgeting rules ease the transition

3. That delayed projects that were not finished within the year will require rebidding

SOLUTION 1: Inclusion in the succeeding year's NEP

SOLUTION 2: Using the Transitory SPF

CLARIFICATION: The NDRRMF and QRF shall also be used for obligation and payment of Spill-over Projects approved or funded from the NDRRMF or QRF of the immediately preceding Fiscal Year.



Clarifying Common Misconceptions

Procurement strategy & existing budgeting rules ease the transition

4. That NGAs in the education sector should be exempted because the academic year is different from the fiscal year

CLARIFICATION:

Instruction in National Budget Call for FY 2019:

Agencies belonging to the education sector shall submit budget proposals covering only those activities to be implemented within the Calendar Year (CY) 2019 (January to December 2019 only), i.e., not the requirements for the whole Academic Year (June 2018 to March 2019).



Clarifying Common Misconceptions

Procurement strategy & existing budgeting rules ease the transition

5. That contracts unfinished by the end of 2018 will no longer be honored upon the start of the new budgeting system

CLARIFICATION: All obligations incurred before the start of FY 2019 will be honored and shall be issued NCAs for, provided that they are (a) delivered according to specifications and (b) accepted by the agency

These NCAs shall not be counted against their 2019 appropriations



2019 NEP: A Streamlined Budget

FY 2019 budget aims to efficiently achieve growth targets

- Agencies can only do so much in a year.
- Continuing budgets had to be eliminated to increase focus on accountability and faster delivery of public services.
- Agency budgets are limited to projects which are better planned and are implementation-ready, removing those which will be ready for budgeting in 2020 and onwards.
- Increasing the precision on differentiating between what can be done in FY 2019 from what can be done in subsequent years.

Effects on Government Agencies

A cash—based budget shall increase the efficiency of gov't operations

1. Planning will be improved and done earlier
2. More pre-work (e.g. feasibility studies, detailed engineering designs) will be done ahead of time
3. Only implementation-ready projects will be included in the budget
4. Increase in Early Procurement activities before the start of the fiscal year
5. Majority of contracts will be awarded on the First Quarter of the fiscal year



Effects on Government Agencies

A cash—based budget shall increase the efficiency of gov't operations

6. Pre-implementation issues such as ROWA shall be settled before civil works construction
7. Better and tighter contract management
8. Faster processing of payments
9. Contractual obligations shall be honored



Expectations from Contractors

Successful implementation requires better partnerships

1. Participate in Early Procurement
2. Deliver on-schedule and on-specs
3. Bill on-time and according to the agreed upon schedule



Transition in FY 2018

FY 2018 will still be obligation-based

- Obligations may still be incurred until end-2018
- All unpaid obligations as of end-2018 will be paid and issued NCAs subject to validation by DBM even after FY 2018
- Agencies should (a) conduct an inventory of all unpaid obligations and (b) ensure prompt delivery and payment for these



ANSWER

VH has a PhP 451M

Davao City Bypass Construction Project, the contract was awarded in October 2018. If only 5M pesos were disbursed for this project, how much is the Special Budget Request (SBR) for a SARO for this project in 2019?

Transition in FY 2018

FY 2018 will still be obligation-based

- Agencies are recommended to implement the FY 2018 budget as if it is a cash-based budget:
 - Ensure that contracts are awarded as soon as possible
 - Strengthen project management to reduce slippages
 - Streamline requirements for billing
 - Settle accounts payables promptly
 - Brief contractors on the implications of the shift



Transition in FY 2019

A modified version of the system will be implemented

- In FY 2019, all allotments may only be obligated until the end of the fiscal year.
- Implementation of infrastructure capital outlays and disbursement of funds for the purpose shall be authorized until the end of June 2020.
- But funds under PS, MOOE, FINEX, and non-infrastructure CO may only be disbursed within the fiscal year.



FY 2019: Modern and Open Budget for Discipline, Accountability, & Service Delivery

- The shift enforces the original intent of the appropriation law - for the budget, as it was planned and legislated, to be fully executed within the year.
- This shift is expected to quicken program delivery, and improve planning capacities in government as target outputs become more clearly linked to the appropriated budget.
- This shift will increase implementation capacity by making sure that agencies focus on executing the budget of the current FY and not the prior years.



References

Senate Bill No. 1761:

http://senate.gov.ph/lis/bill_res.aspx?congress=17&q=SBN-1761

Primers on Annual Cash-based Budgeting:

<http://bit.ly/cashbasedbudget>

<http://bit.ly/cashbasedbudget2>

For more information:

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