THE BUDGETING PROCESS

1. What is government budgeting?

Government budgeting is the critical exercise of allocating revenues and borrowed funds to attain the economic and socia l goals of the country. It also entails the management of government expenditures in such a way that will create the most economic impact from the production and delivery of goods and services while supporting a healthy fiscal position.

2. Why is government budgeting important?

Government budgeting is important because it enables the government to plan and manage its financial resources to support the implementation of various programs and projects that best promote the development of the country. Through the budget, the government can prioritize and put into action its plants, programs and policies within the constraints of its financial capability as dictated by economic conditions.

3. What are the major processes involved in national government budgeting?

Budgeting for the national government involves four (4) distinct processes or phases : *budget preparation, budget authorization, budget execution* and *accountability*.

While distinctly separate, these processes overlap in the implementation during a budget year.

Budget preparation for the next budget year proceeds while government agencies are executing the budget for the current year and at the same time engaged in budget accountability and review of the past year's budget.

4. How is the annual national budget prepared?

The preparation of the annual budget involves a series of steps that begins with the determination of the overall economic targets, expenditure levels, revenue projection and the financing plan by the Development Budget Coordinating Committee (DBCC). The DBCC is an inter-agency body composed of the DBM Secretary as Chairman and the Bangko Sentral Governor, the Secretary of the Department of Finance, the Director General of the National Economic and Development Authority and a representative of the Office of the President as members. The major activities involved in the preparation of the annual national budget include the following:

a. Determination of overall economic targets, expenditure levels and budget framework by the DBCC;
b. Issuance by the DBM of the Budget Call which defines the budget framework; sets economic and fiscal targets; prescribe the priority thrusts and budget levels; and spells out the guidelines and procedures, technical instructions and the timetable for budget preparation;
c. Preparation by various government agencies of their detailed budget estimates ranking programs, projects and activities using the capital

budgeting approach and submission of the same to DBM;

d. Conduct a budget hearings were agencies are called to justify their proposed budgets before DBM technical panels;
e. Submission of the proposed expenditure program of department/agencies/special for confirmation by department/agency heads.
f. Presentation of the proposed budget levels of department/agencies/special purpose funds to the DBCC for approval.
g. Review and approval of the proposed budget by the President and the Cabinet;
h. Submission by the President of proposed budget to Congress.

To meet the Constitutional requirement for the submission of the President's budget with 30 days from the opening of each regular session of Congress, the budget preparation phase is guided by a budget calendar.

5. How does the budget become a law?

In accordance with the requirements of the Constitution, the President submits his/her proposed annual budget in the form of Budget of Expenditure and Sources of Financing (BESF) supported by details of proposed expenditures in the form of a National Expenditure Program (NEP) and the *President's Budget Message* which summarizes the budget policy thrusts and priorities for the year.

In Congress, the proposed budget goes first to the House of Representatives, which assigns the task of initial budget review to its Appropriation Committee.

The Appropriation Committee together with the other House Sub-Committee conduct hearings on the budgets of departments/agencies and scrutinize their respective programs/projects. Consequently, the amended budget proposal is presented to the House body as the General Appropriations Bill.

While budget hearings are on-going in the House of Representatives, the Senate Finance Committee, through its different subcommittees also starts to conduct its own review and scrutiny of the proposed budget and proposes amendments to the House Budget Bill to the Senate body for approval.

To thresh out differences and arrive at a common version of the General Appropriations Bill, the House and the Senate creates a Bicameral Conference Committee that finalizes the General Appropriations Bill.

6. What is the General Appropriations Act?

The General Appropriations Act (GAA) is the legislative authorization that contains the new appropriations in terms of specific amounts for salaries, wages and other personnel benefits; maintenance and other operating expenses; and capital outlays authorized to be spent for the implementation of various programs/projects and activities of all departments, bureaus and offices of the government for a given year.

7. How is the budget implemented?

Budget implementation starts with the release of funds to the agencies. To accelerate the implementation of government programs and projects and ensure the judicious use of budgeted government funds, the government adopted the Simplified Fund Release System (SFRS) beginning 1995.

In contrast to the previous system of releasing funds based on individual agency requests, the SFRS is a policy-driven system which standardized the release of funds across agencies which are similarly situated in line with specific policy initiatives of the government.

Following the SFRS, the agency budget matrix (ABM) is prepared by the DBM in consultation with the agencies at the beginning of each budget year, upon approval of the annual General Appropriations Act. The ABM is a disaggregation of all the programmed appropriations for each agency into various expenditure categories. As such, the ABM serves as a blueprint which provides the basis for determining the timing, composition and magnitude of the release of the budget.

Based on updated resources and economic development thrusts and consistent with the cash budget program, the Allotment Release Program (ARP) which prescribes the guidelines in the prioritization of fund releases is prepared.

The ARP serves as basis for the issuance of either a General Allotment Release Order (GARO) or a Special Allotment Release Order (SARO), as the case maybe, to authorize agencies to incur obligations.

Subsequently, the DBM releases the Notice of Cash Allocation (NCA) on a monthly or quarterly basis. The NCA specifies the maximum amount of withdrawal that an agency can make from a government bank for the period indicated. The Bureau of the Treasury (BTr), replenishes daily the government servicing banks with funds equivalent to the amount of negotiated checks presented to the government servicing banks by implementing agencies.

The release of NCAs by the DBM is based on: 1) the financial requirements of agencies as indicated in their ABMs, cash plans and reports such as the Summary List of Checks Issued (SLCI); and 2) the cash budget program of government and updates on projected resources.

Agencies utilize the released NCAs following the "Common Fund" concept. Under this concept of fund release, agencies are given a maximum flexibility in the use of their cash allocations provided that the authorized allotment for a specific purpose is not exceeded. Project implementation is thus made faster.

8. Why are adjustments made on the budget program?

Adjustments are made on the budget even during implementation primarily because of the following:

- *Enactment of new laws* - Within the fiscal year, new legislations with corresponding identified new revenue sources are passed which necessitate adjustments in the budget program.
- *Adjustments in macroeconomic parameters* - The macroeconomic targets considered in the budget are periodically reviewed and updated to reflect the impact of recent developments in the projected performance of the national economy and on the set fiscal program for the year. The relevant indicators affecting the budget aggregates include the following: the Gross National Product (GNP), inflation rate, interest rate, foreign exchange rate, oil prices, and the level of imports. Thus, a sensitivity measure on the

impact of these parameters on the budget will determine whether recent macroeconomic developments have a negative or favorable effect on the budget.

- *Change in resources availabilities* - Budget adjustments are undertaken when additional resources becomes available such as new grants, proceeds from newly negotiated loans and grants. Corresponding budget adjustments are also made when resources generation falls below the targets.

9. What mechanism ensure that funds have been properly allocated and spent?

Cognizant of the fact that no propitious results can be obtained, even with maximum funding, if agency efficiency is low and funds are wastefully spent, systems and procedures are set in place to monitor and evaluate the performance and cost effectiveness of agencies. These activities are subsumed within the fourth and the last phase of the budget process-the budget accountability phase. At the agency level, budget accountability takes the form of management's review of actual performance or work accomplishment in relation to the work targets of the agency vis-à-vis the financial resources made available.

Also, detailed examinations of each agency's book of accounts are undertaken by a resident representative of the Commission on Audit (COA) to ensure that all expenses have been disbursed in accordance with accounting regulations and the purpose(s) for which the funds have been authorized.

10. Is the role of the DBM in the budgeting process limited to national government agencies?

No, the role of the DBM in the budgeting process is not limited to national government agencies. It coordinates all three levels of government-national government department/agencies, government-owned and controlled corporations (GOCCs) and local government units (LGUs) - in the preparation, execution and control of expenditures of their corresponding components entities.

The DBM reviews the corporate operating budgets of GOCCs and ensures the proper allocation of cash. The DBM likewise formulates and recommends the budget policy covering the allowable deficit and the criteria for the determination of the appropriate subsidy and equity of GOCCs.

For LGUs, the DBM reviews the annual and supplemental budgets of provinces, and highly urbanized cities and manages the proper allocation and release of the Internal Revenue Allotment (IRA) of LGUs and their share in the utilization of national wealth.