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SENATE
S. B. No. 2177

RECEIVED BY: 

INTRODUCED BY HONORABLE RALPH G. RECTO

EXPLANATORY NOTE

One of the key elements of public sector management reform is the institutionalization of fiscal discipline and accountability in the public sector. This is precisely what the proposed fiscal responsibility bill intends to accomplish. The proposed bill introduces a series of reforms with far reaching implications intended to initiate the long delayed public sector reform in our country.

The bill prescribes principles of responsible fiscal management that will direct the country's macroeconomic policy settings. A legislated set of principles promotes a secure and sound political environment ripe for sustainable long-term growth. Policy guidelines on a balanced budget, reduction in financing costs, controlled borrowings, prioritization of capital investments, sound asset management, protection of fiscal gain and prudent risk management are designed not only to resuscitate the country's ailing economy but to achieve a sustainable economic growth.

To implement said principles, crucial institutional changes must be adopted. Central to this is the establishment of sustainable levels of consolidated non-financial public sector and national debt. The adoption of a formal debt policy in the form of a debt cap signals the country's sincerity in resolving our fiscal woes. The steady growth of our public debt increases the country's vulnerability to economic and financial shocks. A manageable level of public debt will help us weather financial shocks and eventually improve the fiscal position of the country.

The proposed bill offers a framework of burden sharing among the three branches of the government. Aside from the debt cap, the bill also introduces a deficit neutral measure designed to address the proliferation of unfunded laws. The concept is straight forward: no expenditure measure shall be passed and take effect without the new revenue generation or expenditure reduction measure. This measure shall foster an atmosphere of mutual respect, coordination and cooperation between the executive and legislative branches of government.

Another burden sharing feature of the proposed bill is the provision on Personal Services Cap or PS Cap. A concept introduced under the Local Government Code of 1991, a PS Cap establishes over-all limit on the personal service expenditures as a percentage of the net current or operating revenue of the national or local government, including GOCCs. In the national government, PS Cap is set at forty-five percent (45%) of net current revenue beginning 2013. The intervening years are meant to give government the time to gradually adjust on the said limit. A PS Cap, to be later determined by the DBCC shall likewise be imposed on the GOCCs. To set the parameters, the bill incorporates a set of policy guidelines in the determination of a viable

benchmark, taking into consideration the inherent peculiarity in the nature and operations of each GOCC.

Finally, the proposed bill highlights the importance of transparency and accountability on the government's fiscal operations. The transparency provisions in the bill plays a catalytic role in strengthening the effectiveness of the government's fiscal policies by making known to the public its goals, targets, and accomplishments. Likewise, transparency enhances good governance through greater accountability of public institutions directly involved in setting up the country's fiscal and monetary policies.

The bill also rationalizes the use of savings from operations of the agencies including the use of over-all savings.

In the light of the current fiscal and debt problems experienced by our country, it is but imperative that this bill be approved without delay.



RALPH G. RECTO

10 JUL 28 1978

SENATE

S. B. No. 2177

RECEIVED BY



Introduced by Senator Ralph G. Recto

AN ACT
INSTILLING FISCAL DISCIPLINE IN THE PUBLIC SECTOR BY ESTABLISHING
PRINCIPLES OF RESPONSIBLE FINANCIAL MANAGEMENT AND PROMOTING
FULL TRANSPARENCY AND ACCOUNTABILITY IN GOVERNMENT REVENUE,
EXPENDITURE AND BORROWING PROGRAMS.

Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:

TITLE I

Preliminary Provisions

Section 1. Title. - This Act shall be known as the "Fiscal Responsibility Act."

Sec. 2. Declaration of Policy - It is hereby declared a policy of the State to instill fiscal discipline in the public sector by prescribing principles of responsible financial management, establishing control mechanisms on spending, and adopting preventive measures against the erosion of its tax base. The State shall ensure overall macroeconomic stability and long-term sustainable growth through aggressive forward planning and continuous coordination between the executive and legislative branches of government. The State shall likewise strengthen the budgetary process as a planning tool and afford full transparency and accountability in all government revenue, expenditure and borrowing operations.

Sec. 3. Principles of Responsible Fiscal Management - The State shall pursue its policy objectives in accordance with the following principles of responsible fiscal management:

- a. Continuously strive for a balanced budget by adopting a diminishing yearly deficit target over the medium term. Once a balanced budget or at least an acceptable budget deficit level has been achieved, maintain this level by ensuring that, on average, total operating expenses of the government do not exceed its total operating revenues.
- b. In order to decrease dependence on borrowed funds and minimize financing costs, reduce consolidated public sector debt and national government debt to sustainable levels through prudent debt management and the adoption of a comprehensive fiscal plan.

- 1 c. Borrow from domestic resources in order to limit the vulnerability of the
2 government's fiscal position to foreign exchange fluctuations, but without unduly
3 affecting adversely domestic interest rates by keeping its borrowings to a level
4 that can be absorbed by the market,
- 5 d. Promote budget flexibility by reducing non-discretionary portions of the budget such
6 as allocations for personal services and interest payments in order to channel more
7 resources to growth inducing capital investments.
- 8 e. Preserve the relative value of government assets by ensuring that the total value of
9 liabilities is congruent to any adjustment in its tax revenues and other assets. The
10 State shall not use proceeds from the sale or transfer of properties to finance
11 current or operating expenditures of the public sector.
- 12 f. To protect any fiscal gain that may be achieved and prevent backsliding, the
13 government shall continuously adopt control mechanisms on spending, pass only
14 deficit-neutral measures to prevent the erosion of the revenue or tax base, and
15 rationalize incentive mechanisms.
- 16 g. Manage prudently all fiscal risks facing the government.

17 **Sec. 4. Definition of Terms** – When used in this Act, the following terms or words and
18 phrases shall mean or be understood as follows:

- 19 a. *Annual Budget Strategy* shall have the meaning provided under Section 8.
- 20 b. *Build-Operate-and-Transfer* or *BOT* refers to build-operate-and-transfer
21 arrangements or any of its variants as defined and enumerated under Section 2 of
22 Republic Act No. 6957, as amended by Republic Act No. 7718.
- 23 c. *Budget* refers to an estimated schedule of expenditures, based on either
24 obligations or cash concepts and sources of financing, either from revenues,
25 borrowings or cash balance drawdowns.
- 26 d. *Budget of Expenditure and Sources of Financing* or *BESF* refers to a document
27 submitted by the President in accordance with Section 22, Article VII of the
28 Philippine Constitution. It contains the annual program of estimated expenditures
29 accompanied by an estimate of expected sources of financing, proposed by the
30 executive branch to the legislature for spending authority.
- 31 e. *Consolidated Non-Financial Public Sector Debt* refers to the total indebtedness,
32 whether foreign or domestic, of the national government, local government,
33 monitored non-financial government owned and controlled corporations, social
34 security institutions, as well as the cost of restructuring the defunct Central Bank,
35 except those incurred by government financing institutions.
- 36 f. *Consolidated Public Sector Deficit* refers to the combined deficit of the national
37 government, local governments, monitored non-financial government owned and
38 controlled corporations and financial institutions, social security institutions, as

1 well as the cost of restructuring the defunct Central Bank, and the financial
2 position of the present Bangko Sentral ng Pilipinas.

3 g. *Constitutional Offices* refer to the Civil Service the Commission, Commission on
4 Audit, the Commission on Elections, the Commission on Human Rights and the
5 Office of the Ombudsman.

6 h. *Contingent Liabilities* refer to either of the following:

7 i possible obligations that arise from past GOCC and BOT operations whose
8 existence will only be confirmed upon the occurrence or non-occurrence of
9 one or more uncertain future events not wholly within the control of the
10 enterprise; or

11 ii. present obligations that arise from past events but are not recognized because
12 it is not probable that an outflow of resources embodying economic benefits
13 will be required to settle the obligation or the amount of the obligation cannot
14 be measured with sufficient reliability. Examples of these are the future
15 projects of actuarial deficiencies of the government social security institutions.

16 i. *Credit Operations* refer to the act of contracting funds from financial institutions
17 whose principal plus interest and other financial charges shall be paid at a later
18 agreed upon date.

19 j. *Debt* refers to the stock of total liabilities or obligations at any given time,
20 whether of the national government or the consolidated non-financial public
21 sector, or both.

22 k. *Debt Service* refers to the sum of loan repayments, interest payments,
23 commitment fees and other charges on foreign and domestic borrowings.

24 l. *Deficit* refers to the shortfall or deficiency of revenues over expenditures of the
25 government classified into:

26 i. Budgetary deficit, which is the deficiency of total revenues over expenditures
27 excluding debt repayments and payments of non-budgetary accounts.

28 ii. Financial deficit, which is the deficiency of total receipts over the sum of
29 current and capital expenditures.

30 m. *Development Budget and Coordinating Committee* or *DBCC* refers to the
31 committee created under Executive Order No. 232, s. 1970, as amended.

32 n. *Discretionary Fund* refers to lump-sum appropriations for general purposes
33 whose specific allocation shall be determined by an authorized public official or
34 entity.

35 o. *Economic Enterprises* refer to income generating establishments created by local
36 governments for the purpose of improving production and delivery of basic goods
37 and services for a specific market or client group, such as public markets,

1 slaughter houses, cemeteries, sports, cultural and recreation centers, parking lots,
2 ice plants, hospitals, and special and tertiary schools.

3 p. *Executive Department or branch* refers to all national government agencies,
4 including state universities and colleges and other instrumentalities, whether or
5 not receiving funding support through the General Appropriations Act, falling
6 under the control and supervision of the President of the Philippines.

7 q. *Fiscal Indicators* refer to measures such as numerical ceilings, whether or not set
8 as a percentage of the gross domestic product, as may be prescribed, for the
9 evaluation of the fiscal position of the government.

10 r. *Government Financial Institutions* or *GFI*s are GOCCS that are primarily
11 engaged in both incurring liabilities and acquiring financial assets in the market,
12 and any acceptance of demand, time or savings deposits.

13 s. *Government Owned and/or Controlled Corporations* or *GOCC*s refer to a stock or
14 non-stock corporation, whether performing governmental or proprietary
15 functions, which is directly chartered by a special law, or if organized under the
16 general corporation law is owned or controlled by the government directly or
17 through a parent corporation or subsidiary corporation, to the extent of at least a
18 majority of its outstanding capital stock or of its outstanding voting capital stock.

19 t. *Government Subsidiaries* refers to those created in accordance with law where at
20 least a majority of the outstanding capital stock or outstanding voting capital stock
21 is owned by parent government corporations and/or other government-owned
22 subsidiaries.

23 u. *Gross Domestic Product* or *GDP* refers to the value of all goods and services
24 produced domestically; the sum of the gross value added of all resident
25 institutional units engaged in production, plus any taxes and minus any subsidies,
26 on products not included in the values of their outputs.

27 v. *Guarantee* refers to an arrangement whereby the government promises to pay the
28 debt of another entity if certain conditions are met, such as the liability of the
29 entity to pay.

30 w. *Joint Resolution* refers to a formal declaration or expression from both the Senate
31 and the House of Representatives voting separately. Like bills, joint resolutions
32 shall embrace only one subject and must pass three readings on separate days,
33 except when the President certifies to its urgency.

34 x. *Judiciary Department or branch* refers to the Supreme Court, Court of Appeals,
35 Sandiganbayan, Court of Tax Appeals, Shari'ah Appellate Court and all lower
36 courts.

- 1 y. *Internal Revenue Allotment* or *IRA* refers to the share of local governments in the
2 national internal revenue taxes as prescribed under Sections 284 and 285 of
3 Republic Act No. 7160, or the Local Government Code.
- 4 z. *Legislative Department or branch* refers to the Senate and House of
5 Representatives.
- 6 aa. *Medium Term Fiscal Accord or MTFAs* shall have the meaning provided under
7 Section 5.
- 8 bb. *National Government* refers to the executive, legislative and judiciary branches of
9 the government, including the constitutional offices.
- 10 cc. *National Government Debt* refers to all security issuances and loans of the
11 national government, excluding assumed liabilities from the Philippine National
12 Bank and the Development Bank of the Philippines, as well as promissory notes
13 issued to the different international financial institutions and loans under the
14 Consolidated Borrowings Program.
- 15 dd. *Net lending* refers to advances by the national government for the servicing of
16 government guaranteed corporate debt during the year, net of repayments and
17 such advances, including loans, outlays or proceeds from program loans relet to
18 GOCCs.
- 19 ee. *Net current revenue* refers to the sum of all tax and non-tax collections less the
20 following:
- 21 i. Proceeds from privatization and recovery of ill-gotten wealth;
22 ii. Internal Revenue Allotment;
23 iii. Interest payments on national government debt; and
24 iv. Net lending to government corporations.
- 25 ff. *Other Government Corporate Entities* or *OGCEs* refer to those who by judicial
26 decree are considered GOCCs, including those which by legal definition are
27 treated as such, as well as private corporations acquired by the government either
28 by voluntary transfer or sequestration.
- 29 gg. *Personnel Expenditures* shall have the meaning provided under Section 26.
- 30 hh. *Public sector entity* refers to an individual office, agency, bureau, or court, as may
31 be appropriate, falling under the executive, legislative, and judicial branches of
32 government, including constitutional offices.
- 33 ii. *Public utilities* refer to revenue raising undertakings created by local governments
34 for the purpose of providing a basic need or service to the general public which
35 otherwise cannot be provided adequately by the private sector, such as water and
36 sewerage services, garbage collection and disposal, telephone system, electric and
37 power services, public transport and terminal station services.

1 If no MTFA shall have been agreed upon within the prescribed period, then the MTFA
2 for the preceding congressional term shall be deemed reenacted and shall remain in force and
3 effect until the MTFA is passed.

4
5 Chapter II
6 Annual Budget Strategy
7

8 **Sec. 8. Definition** - The Annual Budget Strategy is an agreement between the executive
9 and legislative branches of government on the macro-economic policies and fiscal targets sought
10 to be achieved as well as financial strategies to be implemented during one fiscal year. It shall
11 be consistent with the MTFA and include, among others, revenue forecasts calculated in
12 accordance with Section 18.

13 **Sec. 9. Preparation** - Together with the submission of the Budget of Expenditures and
14 Sources of Financing as mandated under Section 22, Article VII of the Philippine Constitution,
15 the President shall likewise submit to Congress the proposed Annual Budget Strategy for the
16 ensuing fiscal year.

17 Within one hundred and twenty (120) days from its submission or upon the enactment of
18 the General Appropriations Act (GAA), whichever comes earlier, the Executive Department and
19 Congress shall agree on the Annual Budget Strategy to be implemented for the succeeding fiscal
20 year through a Joint Resolution to be signed by the Senate President, the Speaker of the House of
21 Representatives, and the President of the Philippines, which shall have the force and effect of a
22 law.

23 In the event that Congress passes the GAA without approving the Annual Budget
24 Strategy, the Annual Budget Strategy submitted by the President shall likewise be deemed
25 approved. If Congress fails to pass the GAA for the ensuing fiscal year and the GAA for the
26 preceding fiscal year shall be deemed reenacted under Section 25 (7), Article VI of the
27 Constitution, then the Annual Budget Strategy approved in the preceding year shall likewise be
28 deemed reenacted, unless Congress and the Executive Department deem it fit to pass an Annual
29 Budget Strategy in order to provide guidelines for the implementation of the reenacted budget.

30 **Sec. 10. General Appropriations Act** - The GAA must be consistent with the MTFA and
31 based on the Annual Budget Strategy

32 The GAA shall likewise be accompanied by a regionalized allocation of expenditures
33 including those for the autonomous regions that may be derived from budgets of regular agencies
34 with nationwide projects.

35
36 TITLE III
37 Debt Cap
38

1 **Sec. 11. Coverage** – The provisions under this Title shall apply to all public sector
2 entities, including national and local governments, as well as GOCCs, but excluding Government
3 Financial Institutions, since their indebtedness form part of the consolidated non-financial public
4 sector debt.

5 **Sec. 12. Debt Cap** - To ensure overall macroeconomic stability and long-term
6 sustainable growth, the following debt targets are hereby established.

7
8 By the end of 2014, the national government shall endeavor to gradually reduce
9 consolidated non-financial public sector debt to below 60% of GDP. The government shall
10 likewise endeavor to reduce national government debt to 40% of GDP.

11 After 2014, or when the debt targets have been achieved, whichever occurs later, the
12 national government shall maintain the same at a sustainable level taking into account the
13 prevailing economic condition as well as changes in the underlying assumptions that may affect
14 the fiscal position of the country. Thereafter, the medium-term and annual deficit targets for
15 consolidated non-financial public sector and national government debt shall be embodied in the
16 MTFAs and Annual Budget Strategy, respectively, and shall be intended to facilitate the steady
17 reduction of debt over a six-year period.

18 In the event that the national government anticipates a fall in the nominal GDP, or upon
19 the occurrence of other events, which are due to extraneous factors beyond its control, the
20 President is hereby authorized, upon the recommendation of the DBCC, and subject to
21 consultation with the presiding officers of both Houses of Congress and the Chairmen of the
22 Committee on Appropriations, on Economic Affairs and on Ways and Means of the House of
23 Representatives and the Chairmen of the Committee on Finance, on Economic Affairs, and on
24 Ways and Means of the Senate, to make the necessary adjustments on the applicable debt target.

25 **Sec. 13. Debt Restructuring** - Should the consolidated non-financial public sector and
26 national government debt exceed their respective annual limits, the DBCC must identify the
27 public sector entity or entities who contributed most to such violation. The identified public
28 sector entity or entities must then reduce their indebtedness in order that the established limits
29 will be met within one year from the end of the twelve-month period.

30 **Sec. 14. Sanctions** - As long as the debt targets have not been achieved, the public
31 sector entity or entities identified by the DBCC to have contributed the most to such violation
32 shall:

- 33 a. be prohibited from contracting internal or external borrowing operations,
34 including revenue anticipations, except for the refinancing or amortization of the
35 debt; and
- 36 b. restrict funding commitments.

1 and evasion and the number and amounts of judicial suits for the collection of outstanding tax
2 debts.

3 **Sec. 20. *Compliance with Fiscal Targets*** - If at the end of three (3) months, the DBCC
4 shall conclude that the revenue inflow for the next quarter will not meet the quarterly revenue
5 targets indicated in the Annual Budget Strategy, all branches of the national government,
6 including constitutional offices, must at their own initiative, and in the required amounts as may
7 be determined by the DBCC, individually take measures within the next thirty (30) days to
8 restrict commitments and financial operations as reflected in the GAA.

9 Should the forecasted revenues be re-established, as determined by the DBCC, the
10 appropriations for which funding commitments were restricted must be replenished in proportion
11 to the reductions previously made.

12 Chapter 2

13 Deficit-Neutral Measures

14
15
16 **Sec. 21. *Fiscal Incentives*** - The granting or broadening of tax incentives or benefits
17 resulting in tax breaks shall in no case be in an amount equal to or lower than their respective
18 collection costs. It must also be consistent with the provisions of the Annual Budget Strategy.

19 Prior to the deliberation of any such measure, the legislative or executive branch, as the
20 case may be, must ensure that the proposed measure is accompanied by a report prepared by the
21 Department of Finance (DOF) assessing its budgetary and financial impact for the next three (3)
22 years.

23 **Sec. 22. *Conditions Precedent*** - The effectivity of an executive or legislative measure
24 granting or broadening tax incentives or benefits resulting in tax breaks shall be conditioned on
25 the issuance by the DOF of a certification that said measure complies with the requirements of
26 the preceding section and at least one of the following:

- 27 a. DOF certification specifying that the tax breaks have been considered in the revenue
28 estimate reflected in the Annual Budget Strategy; or
29 b. Imposition and implementation of countervailing mechanisms, through revenue
30 generation programs, such as tax rate raises, expansion of tax base, or increase in, or
31 creation of, taxes or contributions.

32 **Sec. 23. *Expenditure Bills*** - Except for debt service and cost of living adjustments for
33 government employees, all increases in national government expenditures especially those
34 mandating the creation of recurrent expenditures must be offset by a permanent increase in
35 revenue or permanent reduction in other expenditures.

36 Hence, for all bills proposing an increase in public expenditures, the Department of
37 Budget and Management (DBM) is required to submit to Congress a position paper providing

1 among other information the estimates of the budgetary and financial impact for the next three
2 (3) years.

3 **Sec. 24. *Unfunded Laws*** - All laws with budgetary implications that are passed without
4 identified supporting revenue measures nor identified expenditure reduction shall be considered
5 harmful to public finances and may remain unfunded.

6 The effectivity of existing legal provisions whose mandates remain unfunded, whether
7 partially or in full, shall be suspended until the requirements of first paragraph of Sections 23
8 shall have been complied with. For this purpose, the Committee on Oversight of the House of
9 Representatives together with its counterpart in the Senate, in coordination with the DBM, shall
10 prepare a list of existing legal provisions that remain unfunded as of the effectivity of this Act.

11 *Chapter 3*

12 *Personnel Expenditures*

13
14
15 **Sec. 25. *Definition*** - For the purpose of this Chapter, total personnel expenditure is
16 defined as the sum of expenditures incurred for wages and salaries, fixed and variable benefits or
17 allowances, subsidies, pensions, including any additional payments, bonuses, overtime and
18 fringe benefits of any kind, as well as social security charges and contributions withheld by and
19 on behalf of the social security agencies for permanent, temporary, casual, contractual employees
20 and retirees, including elective officials.

21 It shall likewise include personnel expenditures incurred as a result of final and executory
22 judicial decisions.

23 **Sec. 26. *Personnel Cap*** - Consistent with the principles of responsible fiscal
24 management, total personnel expenditures of the national government shall not exceed forty-five
25 percent (45%) of net current revenues starting 2014.

26 By the end of 2014, the national government shall continually maintain and manage its
27 total personnel expenditure at an optimum level, which shall in no case exceed forty-five percent
28 (45%) of its net current revenues. For this purpose, the Annual Budget Strategy shall specify the
29 optimum level of total personnel expenditures for the succeeding years.

30 **Sec. 27. *Personnel Cap Distribution*** - The overall limits for the national government
31 set in the preceding section shall be shared as follows:

- 32 a. Executive – ninety-four percent (94%);
- 33 b. Legislative - one percent (1%);
- 34 c. Judiciary - three percent (3%); and
- 35 d. Constitutional Offices – two percent (2%).

36 The foregoing limits, pegged as a percentage of the overall limit, shall be further broken
37 down among the different courts, bureaus, offices, and other agencies under each branch or
38 constitutional office in proportion to their average personnel expenditure, expressed as a

1 percentage of net current expenditure, incurred in the three fiscal years preceding the effectivity
2 of this Act.

3 **Sec. 28. *Determination of Compliance*** - Total personnel expenditures must be
4 determined on an annual basis, by adding expenditures incurred in the base month with those
5 incurred in the preceding eleven months.

6 Compliance with the limits established in the preceding sections shall be evaluated at the
7 end of each four-month period.

8 **Sec. 29. *Sanctions*** - If total personnel expenditures exceed ten percent (10%) of the
9 prescribed limit, the branch or constitutional office which exceeded the limit, as well as the
10 courts, agencies, or offices under said violating branch or constitutional office, shall be
11 prohibited from:

- 12 a. granting any increase, adjustment or correction of remuneration for any reason, other
13 than those arising from law or any final and executory judicial decision;
- 14 b. creating a position, job, or function;
- 15 c. increasing the number of personnel in its plantilla;
- 16 d. implementing any career path changes if this implies an increase in personnel
17 expenditures;
- 18 e. offering public employment positions, admitting or hiring personnel for any reason,
19 except when the replacement results from retirement or death of public servants in the
20 education, health, and security areas; and
- 21 f. contracting overtime work, unless overtime is compensated through time/days off
22 work in lieu of overtime pay in accordance with guidelines jointly issued by the DBM
23 and the Civil Service Commission.

24 In addition, the following measures may be adopted:

- 25 a. abolition of positions and functions; and
- 26 b. temporary reduction in working hours, if wages may be adapted to the new work
27 schedule.

28 **Sec. 30. *Remedy Period*** - Without prejudice to the measures in the preceding section, if
29 total personnel expenditures exceed the limits set in Sections 27 and 28, the excess percentage
30 must be eliminated in the two subsequent four-month periods, with at least one-third of such
31 excess being eliminated in the first four-month period.

32 **Sec. 31. *Additional Sanctions*** - If the reduction is not completed within the remedy
33 period, and until such time as the excess continues, the branch or constitutional office which
34 exceeded the limit, as well as the courts, agencies or offices under said violating branch or
35 constitutional office, shall be prohibited from:

- 36 a. receiving voluntary transfers; and
- 37 b. qualifying as a beneficiary of a foreign-assisted project, except those aimed at
38 reducing personnel expenditures.

1
2 Chapter 4
3 Treatment of Savings
4
5

6 **Sec. 32. Reversion of Savings.** As a general rule, savings from appropriations of the
7 departments/agencies shall be reverted to the unappropriated surplus at the end of the fiscal year
8 in order to restrict expenditures and to maintain or attain the desired level of budget deficit.

9 **Sec. 33. Authority to Use Savings.** Notwithstanding the provisions of Section 32, the
10 President of the Philippines, the Senate President, the Speaker of the House of Representatives,
11 the Chief Justice of the Supreme Court, the Heads of Constitutional Commissions, enjoying
12 fiscal autonomy, and the Ombudsman are hereby authorized to augment any item in their
13 respective budgets under the General Appropriations Act (GAA).

14 For departments/agencies not enumerated in the preceding paragraph, the use of savings
15 shall be computed and released not earlier than June 30 and December 31 of the pertinent Fiscal
16 Year. A full report shall be submitted to Congress on the use of savings indicating the
17 department/agency, the program/projects which generated savings and those which will be
18 augmented, the amount of savings and justifications.

19 **Sec. 34. Meaning of Savings and Augmentation.** Savings refer to portions or balances
20 of any programmed appropriations free from any obligation or encumbrance which are (i) still
21 available after the completion or final discontinuance or abandonment of the work, activity or
22 purpose for which the appropriation is authorized; (ii) from appropriations balances arising from
23 unpaid compensation and related costs pertaining to vacant positions and leaves of absences
24 without pay; and (iii) from appropriations balances realized from the implementation of
25 measures resulting in improved systems and efficiencies and thus enables an agency to meet and
26 deliver the required or planned targets, programs and services approved in the GAA at a lesser
27 cost.

28 Augmentation implies the existence of a program, activity, or project with an
29 appropriation, which upon implementation, or subsequent evaluation of needed resources, is
30 determined to be deficient. In no case shall a non-existent program, activity, or project, be
31 funded by augmentation from savings.

32 **Sec. 35. Priority in the Use of Savings.** In the use of savings priority shall be given to
33 the augmentation of the personnel benefits authorized by law and the funding of laws that have
34 not yet complied with the requirements of Section 23.

35
36 Chapter 5
37 Creation of National Entities
38

- 1 a. Definition of net operating revenue shall exclude remittances of fees, charges or
2 premiums, or any payments made, which are mandated by law or rules and
3 regulations to be so remitted or paid;
- 4 b. Taking into consideration the peculiarities of each GOCC, a different personnel
5 cap may be imposed per GOCC, or cluster of GOCCs; Provided that, the
6 clustering of GOCCs must capture, as much as possible, the homogeneity among
7 GOCCs in terms of their mandate, core and secondary functions, historical data
8 on operations income or losses, subsidy received from the national government,
9 and exemption from the Salary Standardization Law.
- 10 c. Personnel cap must be comparable to applicable benchmarks in the private sector.
- 11 d. The personnel cap to be imposed may consider the targets and schedule of any
12 rationalization program to be implemented by the national government.

13 The DBCC shall periodically review the personnel cap imposed and shall make the necessary
14 adjustments as may be justified under the circumstances.

15 **Sec. 47. Compliance and Sanctions** – Sections 25, 28 to 31, under Chapter 3, Title IV
16 of this Act are hereby adopted for the GOCCs for the purpose of determining compliance with,
17 and imposition of sanctions to enforce the personnel cap prescribed in the preceding section.

18
19 **Chapter 5**

20 **Additional Sanctions**

21
22 **Sec. 48. Additional Sanctions for GOCCs** - In addition to those prescribed above,
23 the DOF is hereby authorized to impose the following sanctions on GOCCs and officers who
24 have not complied with the requirements prescribed under this Act:

- 25 a. assign an independent financial comptroller;
- 26 b. prohibit the issuance of any national government guarantee, whether direct or
27 indirect; and
- 28 c. recommend to the President a revamp of the governing board or management.

29 **TITLE VI**

30 **Local Governments**

31
32 **Chapter 1**

33 **National Remittances**

34
35 **Sec. 49. Efficient Remittance** – All local governments shall exercise responsible fiscal
36 management by timely and efficiently remitting to the relevant national government agency or
37 corporation the following:

- 38 a. all tax collections that accrue to the national government;

1 **TITLE IX**

2 **Final Provisions**

3
4 **Sec. 67. *Implementing Rules and Regulations*** - Within sixty (60) days from effectivity
5 of this act, the DBM and DOF shall promulgate the necessary rules and regulations for the
6 proper implementation of the provisions of this Act.

7 **Sec. 68. *Separability of Provisions*** - If for any reason, any portion or provision of this
8 Act or the application thereof shall be declared invalid or unconstitutional, the validity of other
9 parts or provisions not affected thereby shall continue to be in full force and effect.

10 **Sec. 69. *Repealing Provision*** - The following laws, presidential decrees, executive
11 orders, corporate charters and other issuances or parts thereof, contrary to or inconsistent with
12 the provisions of this Act are hereby repealed or modified accordingly:

- 13 a. Section 21, Republic Act 1161 as amended by R.A. 8282 (Social Security Act
14 of 1954);
- 15 b. Section 14, Republic Act 4850 (An Act Creating the Laguna Lake
16 Development Authority);
- 17 c. Section 17, Republic Act 6234 (Creation of Metropolitan Waterworks and
18 Sewerage System);
- 19 d. Section 1, Republic Act 6395 (An Act Revising the Charter of National Power
20 Corporation);
- 21 e. Section 13, Republic Act 6958 (Charter of the Mactan-Cebu-International
22 Airport Authority);
- 23 f. Section 12, Republic Act 7354 (Postal Service Act of 1992);
- 24 g. Section 19, Republic Act 7393 (Quedan and Rural Credit Corporation Act);
- 25 h. Section 58, Republic Act 7875 (National Health Insurance Act of 1995);
- 26 i. Section 1, Republic Act 8291 (The Government Service Insurance System Act
27 of 1997);
- 28 j. Section 1, Republic Act 8282 (Social Security Act of 1997);
- 29 k. Section 18, Republic Act 8763 (Home Guaranty Corporation Act of 2000);
- 30 l. Section 2, Presidential Decree 179 (An Act Creating the Cultural Center of the
31 Philippines);
- 32 m. Section 8, Presidential Decree 346 (Amending the Charter of Philippine
33 Aerospace Development Corporation);
- 34 n. Section 8, Presidential Decree No. 425 (Amending Certain Sections of R.A.
35 No. 6234);
- 36 o. Section 3, Presidential Decree 552 (Amending certain Sections of R.A. No.
37 3601, creating the National Irrigation Administration);

- 1 p. Section 12, Presidential Decree 564 (Revising the Charter of the Philippine
2 Tourism Authority);
- 3 q. Section 1, Presidential Decree 572 (Amending the Charter of the Philippine
4 National Oil Company);
- 5 r. Section 11, Presidential Decree 690 (An Act Creating the Southern
6 Philippines Development Administration);
- 7 s. Section 4, Presidential Decree 741 (Amending R.A. No. 4156, creating
8 Philippine National Railways);
- 9 t. Section 14, Presidential Decree 757 (An Act Creating the National Housing
10 Authority);
- 11 u. Section 36, Presidential Decree 768 (An Act Declaring a National Policy
12 Favoring Local Operations and Control of Water Systems);
- 13 v. Section 13, Presidential Decree 857 (Promulgation of Port Administration
14 and Operation Functions in the Philippines);
- 15 w. Section 9, Presidential Decree 1080 (Revision of P.D. No. 550 creating the
16 Philippine Foreign Loan Guarantee Corporation);
- 17 x. Section 7, Presidential Decree 1267 (Creation of the National Home
18 Mortgage Finance Corporation);
- 19 y. Section 12, Presidential Decree 1648 (Reorganization of the National
20 Development Company);
- 21 z. Section 12, Presidential Decree 1703 (Amending Presidential Decree 690);
- 22 aa. Section 11, Presidential Decree 1770 (Reconstituting the National Grains
23 Authority);
- 24 bb. Section 1, Presidential Decree 1846 (Further Amending the Charter of the
25 National Development Company);
- 26 cc. Section 7, Executive Order 603 (Creating a Light Rail Transit Authority); and
- 27 dd. Section 16, Executive Order 903 (Revision of EO 778, creating the Manila
28 International Airport Authority)

29 **Sec. 70. Effectivity Clause** - This Act shall take effect fifteen (15) days after its
30 publication in a newspaper of general circulation.