FIFTEENTH CONGRESS OF THE REPUBLIC OF THE PHILLIPPINES

First Regular Session

10 JL 26 A5:18

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 C. RECTO

FIFTEENTH CONGRESS OF THE REPUBLIC OF THE PHILIPPINES

First Regular Session

10 JL 28 AD 118

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

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

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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.

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

15 16 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.

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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.

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

- Sec. 4. Definition of Terms When used in this Act, the following terms or words and phrases shall mean or be understood as follows:
 - a. Annual Budget Strategy shall have the meaning provided under Section 8.
 - b. Build-Operate-and-Transfer or BOT refers to build-operate-and-transfer arrangements or any of its variants as defined and enumerated under Section 2 of Republic Act No. 6957, as amended by Republic Act No. 7718.
 - c. Budget refers to an estimated schedule of expenditures, based on either obligations or cash concepts and sources of financing, either from revenues, borrowings or cash balance drawdowns.
 - d. Budget of Expenditure and Sources of Financing or BESF refers to a document submitted by the President in accordance with Section 22, Article VII of the Philippine Constitution. It contains the annual program of estimated expenditures accompanied by an estimate of expected sources of financing, proposed by the executive branch to the legislature for spending authority.
 - e. Consolidated Non-Financial Public Sector Debt refers to the total indebtedness, whether foreign or domestic, of the national government, local government, monitored non-financial government owned and controlled corporations, social security institutions, as well as the cost of restructuring the defunct Central Bank, except those incurred by government financing institutions.
 - f. Consolidated Public Sector Deficit refers to the combined deficit of the national government, local governments, monitored non-financial government owned and 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	1.	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	Ο.	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,

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

- p. Executive Department or branch refers to all national government agencies, including state universities and colleges and other instrumentalities, whether or not receiving funding support through the General Appropriations Act, falling under the control and supervision of the President of the Philippines.
- q. Fiscal Indicators refer to measures such as numerical ceilings, whether or not set as a percentage of the gross domestic product, as may be prescribed, for the evaluation of the fiscal position of the government.
- r. Government Financial Institutions or GFIs are GOCCS that are primarily engaged in both incurring liabilities and acquiring financial assets in the market, and any acceptance of demand, time or savings deposits.
- s. Government Owned and/or Controlled Corporations or GOCCs refer to a stock or non-stock corporation, whether performing governmental or proprietary functions, which is directly chartered by a special law, or if organized under the general corporation law is owned or controlled by the government directly or through a parent corporation or subsidiary corporation, to the extent of at least a majority of its outstanding capital stock or of its outstanding voting capital stock.
- t. Government Subsidiaries refers to those created in accordance with law where at least a majority of the outstanding capital stock or outstanding voting capital stock is owned by parent government corporations and/or other government-owned subsidiaries.
- u. Gross Domestic Product or GDP refers to the value of all goods and services produced domestically; the sum of the gross value added of all resident institutional units engaged in production, plus any taxes and minus any subsidies, on products not included in the values of their outputs.
- v. Guarantee refers to an arrangement whereby the government promises to pay the debt of another entity if certain conditions are met, such as the liability of the entity to pay.
- w. Joint Resolution refers to a formal declaration or expression from both the Senate and the House of Representatives voting separately. Like bills, joint resolutions shall embrace only one subject and must pass three readings on separate days, except when the President certifies to its urgency.
- x. Judiciary Department or branch refers to the Supreme Court, Court of Appeals, Sandiganbayan, Court of Tax Appeals, Shari'ah Appellate Court and all lower courts.

1	у.	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 MTFA 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 relent 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	ìi.	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.
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1	jj.	Tax breaks refer to any of the following: amnesty, subsidy, presumed credit,
2		exemptions, changes in tax rate or tax base which results in reduction of taxes or
3		contributions, and other beneficial treatments.
4	kk.	Voluntary Transfer refers to the transfer of current or capital resources to other
5		branches, agencies, offices, local governments, and other instrumentalities in the
6		form of cooperation, aid or financial assistance, sourced from any discretionary
7		fund.
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9		TITLE II
10		Fiscal Planning and Accord
11		Chapter 1
12		Medium Term Fiscal Accord
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14	Sec. 5	. Definition - The Medium Term Fiscal Accord (MTFA) is an agreement between
15	the executive	and legislative branches of government on the fiscal targets sought to be
16	accomplished	over a period of three (3) years. It shall contain the agreed upon fiscal indicators
17	and their unde	erlying assumptions, including the following:
18	a. de	ficit targets, quantified as a percentage of GDP;
19	b. rev	venue and tax targets, quantified as a percentage of GDP;
20	c. exp	penditure targets, measured as a percentage of GDP;
21	d. fin	ancing strategy to be adopted;
22	e. nev	w revenue measures to be enacted in order to correct an identified weakness in the
23		tax structure or to promote an economic or social objective;
24	f. nev	w expenditure measures to be implemented; and
25	g. ado	ditional measures to accomplish fiscal targets and sustain reforms.
26	Sec. 6.	Term - Each MTFA shall be valid for a period of three (3) years starting from the
27	second to the	third year of a congressional term and the first year of the succeeding congressional
28	term.	·
29	Sec. 7.	Preparation - At the start of every congressional term, the President, through the
30	Development	Budget Coordinating Committee (DBCC), shall prepare the proposed MTFA and
31	submit it to Co	ongress, through the Chairmen of the Committee on Appropriations, on Economic
32	Affairs and o	n Ways and Means of the House of Representatives and the Chairmen of the
33	Committee or	Finance, on Economic Affairs, and on Ways and Means of the Senate, within
34	thirty (30) day	s from the opening of the regular session.
35	Within	one hundred and eighty (180) days from its submission, the Executive
36	Department as	nd Congress shall agree on the terms and content of the MTFA through a Joint
37	Resolution to	be signed by the Senate President, the Speaker of the House of Representatives,
38	and the Preside	ent of the Philippines, which shall have the force and effect of a law.

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.
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5	Chapter II
6	Annual Budget Strategy
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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.
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36	. TITLE III
37	Debt Cap

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

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

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

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

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

- Sec. 13. Debt Restructuring Should the consolidated non-financial public sector and national government debt exceed their respective annual limits, the DBCC must identify the public sector entity or entities who contributed most to such violation. The identified public sector entity or entities must then reduce their indebtedness in order that the established limits will be met within one year from the end of the twelve-month period.
- Sec. 14. Sanctions As long as the debt targets have not been achieved, the public sector entity or entities identified by the DBCC to have contributed the most to such violation shall:
 - a. be prohibited from contracting internal or external borrowing operations, including revenue anticipations, except for the refinancing or amortization of the debt; and
 - b. restrict funding commitments.

- Sec. 15. Additional Sanctions Once the period for bringing the debt target within the limit has expired, and as long as the excess persists, the public sector entity or entities identified by the DBCC to have contributed the most to such violation shall be prohibited from:
 - a. receiving voluntary transfers; and
 - b. qualifying as a beneficiary of a foreign-assisted project.
- Sec. 16. Excusable Breach The deficit targets provided herein may be temporarily breached when the same is absolutely necessary to counter catastrophic emergencies of national proportion as may be declared by the President. The presidential certification must specify the urgency and necessity of such breach, the period of time within which the government should offset the breach, as well as measures to cushion the effects of said breach to the national economy.
- Sec. 17. *Debt Monitoring* The Debt and Risk Management Office, created under the DOF, shall supervise the borrowing operations of the national government. It shall likewise monitor and evaluate compliance by any public sector entity concerned with the specified targets under this chapter.

The DOF must submit to Congress, on a quarterly basis, a report on the consolidated non-financial public sector and national government debt. In the event that the quarterly report of the DOF discloses the possibility of exceeding the limits set forth herein, the DOF in coordination with the public sector entity concerned shall impose measures to prevent the eventual violation of the debt cap.

22 TITLE IV

23 National Government

25 Chapter 1

26 Compliance with Fiscal Targets

Sec. 18. Annual Revenue Forecast - The revenue forecast, as embodied in the Annual Budget Strategy, must consider historical data, taking into account the effects of changes in legislation, price index variations, economic growth or any other relevant factor. It must be accompanied by a statement of revenue evolution in the last three years, a projection for the next two years, and the calculation methodology and premises adopted. Revenue forecasts may only be revised due to technical error or omission.

Sec. 19. Quarterly Revenue Targets - Within thirty (30) days from the passage or reenactment of a Joint Resolution adopting the Annual Budget Strategy, estimated revenues reflected in the Annual Budget Strategy must be broken down by the DBCC into quarterly collection targets, including, if applicable, a separate description of measures to combat tax fraud

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

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

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

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Chapter 2 **Deficit-Neutral Measures**

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

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

- Sec. 22. Conditions Precedent The effectivity of an executive or legislative measure granting or broadening tax incentives or benefits resulting in tax breaks shall be conditioned on the issuance by the DOF of a certification that said measure complies with the requirements of the preceding section and at least one of the following:
 - a. DOF certification specifying that the tax breaks have been considered in the revenue estimate reflected in the Annual Budget Strategy; or
 - b. Imposition and implementation of countervailing mechanisms, through revenue generation programs, such as tax rate raises, expansion of tax base, or increase in, or creation of, taxes or contributions.
- Sec. 23. Expenditure Bills Except for debt service and cost of living adjustments for government employees, all increases in national government expenditures especially those mandating the creation of recurrent expenditures must be offset by a permanent increase in revenue or permanent reduction in other expenditures.

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

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

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

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

12 Chapter 3

Personnel Expenditures

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

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

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

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

- Sec. 27. Personnel Cap Distribution The overall limits for the national government set in the preceding section shall be shared as follows:
 - a. Executive ninety-four percent (94%);
 - b. Legislative one percent (1%);
 - c. Judiciary three percent (3%); and
 - d. Constitutional Offices two percent (2%).

The foregoing limits, pegged as a percentage of the overall limit, shall be further broken down among the different courts, bureaus, offices, and other agencies under each branch or constitutional office in proportion to their average personnel expenditure, expressed as a percentage of net current expenditure, incurred in the three fiscal years preceding the effectivity of this Act.

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

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

- Sec. 29. Sanctions If total personnel expenditures exceed ten percent (10%) of the prescribed limit, the branch or constitutional office which exceeded the limit, as well as the courts, agencies, or offices under said violating branch or constitutional office, shall be prohibited from:
 - a. granting any increase, adjustment or correction of remuneration for any reason, other than those arising from law or any final and executory judicial decision;
 - b. creating a position, job, or function;

- c. increasing the number of personnel in its plantilla;
- d. implementing any career path changes if this implies an increase in personnel expenditures;
- e. offering public employment positions, admitting or hiring personnel for any reason, except when the replacement results from retirement or death of public servants in the education, health, and security areas; and
- f. contracting overtime work, unless overtime is compensated through time/days off work in lieu of overtime pay in accordance with guidelines jointly issued by the DBM and the Civil Service Commission.

In addition, the following measures may be adopted:

- a. abolition of positions and functions; and
- b. temporary reduction in working hours, if wages may be adapted to the new work schedule.
- Sec. 30. Remedy Period Without prejudice to the measures in the preceding section, if total personnel expenditures exceed the limits set in Sections 27 and 28, the excess percentage must be eliminated in the two subsequent four-month periods, with at least one-third of such excess being eliminated in the first four-month period.
- Sec. 31. Additional Sanctions If the reduction is not completed within the remedy period, and until such time as the excess continues, the branch or constitutional office which exceeded the limit, as well as the courts, agencies or offices under said violating branch or constitutional office, shall be prohibited from:
 - a. receiving voluntary transfers; and
- b. qualifying as a beneficiary of a foreign-assisted project, except those aimed at reducing personnel expenditures.

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Chapter 4

Treatment of Savings

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

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

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

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

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

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

Chapter 5

Creation of National Entities

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Sec. 36. Scrap and Build Policy - The national government may not create or form new agencies, bureaus, offices, including GOCCs and state universities and colleges unless existing
agencies, bureaus, offices, GOCCs and state universities of substantially the same size in terms
of manpower and budget resources have been abolished.
Sec. 37. Conditions Precedent – The effectivity of any law creating or forming new
agencies, bureaus, offices including GOCCs and state universities and colleges shall be
conditioned on the compliance of the requirements prescribed in Sections 23 and 24 of this Act.
TITLE V
Government Owned and Controlled Corporations
Chapter 1
Government Guarantees
Sec. 38. Coverage - For clarity, the provisions of this Title shall apply to all GOCCs,
GFIs, OGCEs and government subsidiaries. As such, the term "government owned and
controlled corporations" or "GOCC" shall include GFIs, OGCEs and Government Subsidiaries.
Sec. 39. Repeal of Automatic Guarantees - All provisions of law, presidential decree,
or executive order requiring the State to guarantee payment, both of the principal and interest, of
loans, bonds, debentures, collateral, notes, or other forms of indebtedness, as well as the
fulfillment of any other obligation incurred by GOCCs, are hereby repealed.
The guarantee referred to herein pertains to all kinds of government guarantee, whether
the same be express or implied, solidary or subsidiary, automatic or subject to approval or the
performance of such other acts.
Sec. 40. Grant of Guarantee - In cases where government guarantee is determined to
be necessary in order to protect the greater interest of the State, or where the economic benefits
of its issuance outweighs the financial drawback, the President may, upon favorable
recommendation of the DOF and payment of a guarantee fee, grant government guarantee to
GOCCs or assume its liabilities. The amount of the guarantee fee to be collected shall be
determined by the DOF and based on its assessment of the financial risks involved.
Sec. 41. Disclosure of Government Guarantees - As far as practicable and consistent
with the principle of full disclosure, the DOF shall report, on a quarterly basis, all contingent
liabilities, created by way of guarantees, including claims and commitments by the national
government for and in behalf of government corporations, with a statement of its budgetary and
financial implications.
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Chapter 2

Creation of Subsidiaries

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Sec. 42. Scrap and Build Policy - GOCCs may only create or form new corporations or subsidiaries upon the abolition of substantially similar corporations or subsidiaries in terms of manpower and budget resources.

The validity and existence of any corporation or subsidiary hereafter formed or created shall be conditioned on the issuance by the DBM of a certification that all the requirements prescribed in this section shall have been complied with.

Government Corporate Performance

Chapter 3

Sec. 43. Performance Agreement - To improve government corporate performance, every member of the board of directors or trustees appointed by the President shall execute a performance agreement with the DOF.

The performance agreement shall prescribe, among others, the responsibilities, expectations, performance targets and review, remuneration, grounds for termination including removal from office for failure to accomplish the prescribed targets, and other terms and conditions of the officer's appointment.

Chapter 4

Personnel Expenditures

- Sec. 44. Salary Increase All increases in salaries, per diems, allowances, or other fringe benefits granted by the corporation's governing board shall only take effect after the expiration of the full term of all the directors and trustees approving such increase,.
- Sec. 45. Increases in Salaries, Allowances, Honoraria, and Other Fringe Benefits -All increases in salaries, allowances, honoraria, and other fringe benefits that may be granted by the governing boards to the employees of GOCCs, including those that are presently or may hereafter be exempted by law from the Salary Standardization Law, shall be subject to the approval of the President, upon recommendation of the DBM.
- Sec. 46. Corporate Personnel Cap A personnel cap shall be imposed on total personnel expenditures of each GOCC as a percentage of its net operating revenue. Within six (6) months from the effectivity of this Act, the DBCC shall fix the applicable personnel cap for each GOCC in accordance with the following policy guidelines:

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 s	hall periodically review the personnel cap imposed and shall make the necessary
14	adjustments a	s may be justified under the circumstances.
15	Sec. 4	7. Compliance and Sanctions - Sections 25, 28 to 31, under Chapter 3, Title IV
16	of this Act ar	e hereby adopted for the GOCCs for the purpose of determining compliance with,
17	and imposition	n of sanctions to enforce the personnel cap prescribed in the preceding section.
18		
19		Chapter 5
20		Additional Sanctions
21		
22	Sec. 48	8. Additional Sanctions for GOCCs - In addition to those prescribed above,
23	the DOF is he	ereby authorized to impose the following sanctions on GOCCs and officers who
24	have not comp	olied with the requirements prescribed under this Act:
25		sign an independent financial comptroller;
26	b. pro	phibit the issuance of any national government guarantee, whether direct or
27		lirect; and
28	c. rec	commend 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	9. Efficient Remittance – All local governments shall exercise responsible fiscal
36		by timely and efficiently remitting to the relevant national government agency or
37	corporation th	
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all tax collections that accrue to the national government;

- 1 b. national government share in taxes, fees, and charges collected by local 2 governments: 3
 - any taxes withheld in accordance with law or rules and regulations; C.
 - d. statutory contributions, including its counterpart contribution as employer, to the Home Development Mutual Fund (Pag-IBIG), Philippine Health Insurance Corporation, Government Service Insurance System and other government agency or corporations; and
 - amortization payments of salary, policy and other loans incurred by its employees e. to the Government Service Insurance System or other GOCCs.

Local governments shall immediately settle all outstanding loans and indebtedness due to GOCCs.

Sec. 50. Restructuring of Obligations - In case any local government fails to remit or pay the required amounts within thirty (30) days from the time such tax collection, contribution, or loan should have been remitted or paid, it shall enter into an agreement with the national government agency or GOCC to settle its obligations. The parties may agree, among others, to restructure the local government's obligation and prepare an amortization schedule based on its capacity to pay.

Sec. 51. Authority to Withhold - In case no agreement to restructure obligations is reached within sixty (60) days from start of negotiations, or if an agreement is reached but the local government still fails to remit or pay in accordance with the revised amortization schedule, the national government shall be authorized to deduct the unremitted or unpaid amount, as may be determined by the concerned national government agency or GOCC upon consultation with the local government, from the defaulting local government's internal revenue allotment (IRA) as well as its special share from other forms of taxes and revenue.

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26 Chapter 2 Personnel Expenditures 27

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Sec. 52. Personnel Cap. - The personnel cap imposed on local governments pursuant to Section 325 (a) of Republic Act No. 7160 or the Local Government Code shall be strictly adhered to.

A personnel cap shall likewise be imposed on all public utilities and economic enterprises owned by the local government at such limits imposed on GOCCs with similar mandates as may be determined by the DBCC under Section 44, Chapter 4, Title V of this Act.

Sec. 53. Compliance. - Local governments as well as public utilities and economic enterprises already in compliance with the personnel cap shall maintain their personnel expenditures within said cap, or reduce it, to achieve its optimum level.

1	However, those with personnel expenditures greater than said cap shall reduce such
2	excess by the following percentages:
3	a. 25 percent by 2013;
4	b. 50 percent by 2014;
5	c. 75 percent by 2015;
6	d. 100 percent by 2016.
7	By the end of 2016, the local governments as well as public utilities and economic
8	enterprises shall maintain such level or reduce it to achieve the most cost-effective personnel
9	expenditure.
10	Sec. 54. Sanctions If total personnel expenditures exceed the prescribed limit, or if the
11	required reduction on personnel expenditures prescribed in Section 53 is not followed, the
12	violating local government, public utility, and economic enterprise, in addition to the sanctions
13	prescribed by the Local Government Code, shall be prohibited from performing and adopting the
14	acts and measures enumerated under Section 29, Chapter 3, Title IV of this Act.
15	
16	Chapter 3
17	Additional Sanctions
18	
19	Sec. 55. Additional Sanctions for Local Governments - In addition to those prescribed
20	above, the violating local government, public utility or economic enterprise which have not
21	complied with the requirements prescribed under this Act, shall be prohibited, during the period
22	of its violation, from:
23	 a. receiving voluntary transfers;
24	b. qualifying as a beneficiary in any foreign assisted project; and
25	c. obtaining any direct or indirect guarantee from the national government.
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27	TITLE VII
28	Voluntary Transfers
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30	Sec. 56. Definition - Voluntary transfer is defined as the transfer of current or capital
31	resources to other branches, agencies, offices, local governments, and other instrumentalities in
32	the form of cooperation, aid or financial assistance, sourced from any discretionary fund.
33	Sec. 57. Requisites - In addition to those that may be established in the GAA, the
34	requirements for voluntary transfers shall include:
35	a existence of a specific budget allocation;
36	b. proof by the beneficiary that:
37	i. the project, activity, or program to be funded is covered by the project menu
38	prepared by the DBM;

2	government, and that previously received funds have been duly accounted for;
3	iii. it has complied with procurement procedures prescribed by Republic Act No.
4	9184; and
5	iv. it is in compliance with the limits set for consolidated non-financial public
6	sector and national government debt, as well as those for total personnel
7	expenditures.
8	Sec. 58. Disclosure of Voluntary Transfers - All beneficiaries of voluntary transfers
9	shall report and disclose to the DBM the details and outcomes of the program, project or activity
10	being funded by the voluntary transfers. The DBM shall widely disseminate these information
11	through electronic media.
12	Sec. 59. Suspension of Voluntary Transfers - Suspension of voluntary transfers
13	imposed as a sanction under this Act shall not apply to those intended for the education and
14	health sectors.
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16	TITLE VIII
17	Transparency in Fiscal Management
18	
19	Chapter I
20	Full Disclosure
21	
22	Sec. 60. Public Disclosure - The instruments of public fiscal management, including
23	the Budget of Expenditures and Sources of Financing, the GAA, the MTFA, the Annual Budget
24	Strategy, and other plans, policies, assessment reports, or budgets, together with a simplified
25	version of these documents, shall be widely disseminated, especially in electronic public media.
26	Sec. 61. Public Participation - Transparency must also be ensured by encouraging
27	public participation and comments during the preparation and deliberations of the above
28	documents.
29	Sec. 62. Inspection - All plans, policies, reports, budgets, and other documents required
30	to be submitted in accordance with this Act shall be made available throughout the year in the
31	respective branch or office of the government taking custody thereof and shall be subject to
32	inspection during office hours on regular business days, except only such matters as may, in the
33	judgment of the proper official, pertain to matters that may adversely affect the interest of the
34	government.
35	Sec. 63. Fiscal Management Reports - Within sixty (60) days from the effectivity of
36	this Act, the DBM in coordination with the DOF shall prepare a list of reports to be submitted by
37	the different branches and agencies of the government, including constitutional offices, to
38	monitor compliance with this Act and ensure consistency with the government's fiscal polices.

ii. it has no outstanding taxes, loans and financing due to the national

Sec. 64. Accountability - The plans, policies, reports, budgets, and other documents
required to be submitted pursuant to this Act shall include a sworn statement signed by the head
of the branch, agency, or constitutional office, as the case may be, which shall include the
following:
a. A certification that the report was prepared using the best professional judgment on
the basis of information available to it before and at the time of its submission;
and
b. A statement of responsibility guaranteeing:
i. integrity of the disclosure contained in the report; and
ii. consistency with the requirements of this Act.
Chapter II
New Government Accounting System
Sec. 65. New Government Accounting System - To enhance uniformity in the
application of government accounting rules and facilitate the consolidation of financial reports,
the New Government Accounting System (NGAS), designed and prescribed by the Commission
on Audit (COA) to all national government agencies, local governments, and GOCCs, is hereby
adopted.
Henceforth, all financial statements included in the reports required pursuant to this Act
shall be prepared in accordance with the NGAS.
Sec. 66. Compliance Period - Within a period of one [1] year from the effectivity of
this Act all national as well as local government agencies, including GOCCs, shall have

completely installed the computerized version of NGAS otherwise known as "e-NGAS".

*		TILDAY ACT
2		Final Provisions
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4	Se	ec. 67. Implementing Rules and Regulations - Within sixty (60) days from effectivity
5	of this ac	et, the DBM and DOF shall promulgate the necessary rules and regulations for the
6	proper im	plementation of the provisions of this Act.
7	Se	ec. 68. Separability of Provisions - If for any reason, any portion or provision of this
8	Act or the	e application thereof shall be declared invalid or unconstitutional, the validity of other
9	parts or p	rovisions not affected thereby shall continue to be in full force and effect.
10	Se	ec. 69. Repealing Provision - The following laws, presidential decrees, executive
11	orders, co	orporate charters and other issuances or parts thereof, contrary to or inconsistent with
12	the provis	sions 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	1.	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	0.	Section 3, Presidential Decree 552 (Amending certain Sections of R.A. No.
37		3601, creating the National Irrigation Administration);

- p. Section 12, Presidential Decree 564 (Revising the Charter of the Philippine
 Tourism Authority):
- q. Section 1, Presidential Decree 572 (Amending the Charter of the Philippine National Oil Company);
- 5 r. Section 11, Presidential Decree 690 (An Act Creating the Southern 6 Philippines Development Administration);

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- s. Section 4, Presidential Decree 741 (Amending R.A. No. 4156, creating Philippine National Railways);
- t. Section 14, Presidential Decree 757 (An Act Creating the National Housing Authority);
 - u. Section 36, Presidential Decree 768 (An Act Declaring a National Policy Favoring Local Operations and Control of Water Systems);
 - v. Section 13, Presidential Decree 857 (Promulgation of Port Administration and Operation Functions in the Philippines);
 - w. Section 9, Presidential Decree 1080 (Revision of P.D. No. 550 creating the Philippine Foreign Loan Guarantee Corporation);
 - x. Section 7, Presidential Decree 1267 (Creation of the National Home Mortgage Finance Corporation);
 - y. Section 12, Presidential Decree 1648 (Reorganization of the National Development Company);
 - z. Section 12, Presidential Decree 1703 (Amending Presidential Decree 690);
- 22 aa. Section 11, Presidential Decree 1770 (Reconstituting the National Grains Authority);
 - bb. Section 1, Presidential Decree 1846 (Further Amending the Charter of the National Development Company);
 - 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)
- Sec. 70. Effectivity Clause This Act shall take effect fifteen (15) days after its publication in a newspaper of general circulation.