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SENATE

S. B. No. 626

RECEIVED BY: *ja*

Introduced by Senator 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 fiscal responsibility bill intends to accomplish. The bill introduces a series of reforms with far reaching implications intended to enhance the public sector reforms 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 between the executive and legislative 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 a new revenue generation or expenditure reduction measure. This bill shall foster an atmosphere of mutual respect, coordination and cooperation between the executive and legislative branches of government.

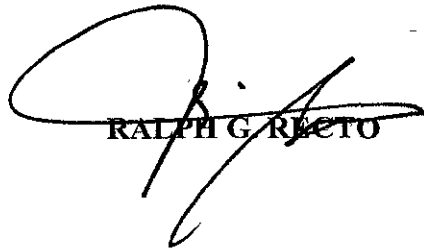
Another burden sharing feature of the proposed bill is the provision on Personal Services Cap or PS Cap. A concept introduced under the Local Government Code of 1991, a PS Cap establishes over-all limit on the personal service expenditures as a percentage of the net current or operating revenue of the national or local government, including GOCCs. In the national government, PS Cap is set at forty-five percent (45%) of net current revenue beginning 2016. The intervening years are meant to give government the time to gradually adjust to the said limit. A PS Cap, to be later determined by the Governance Commission on GOCCs (GCG) 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. RIETA



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SENATE

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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.
- c. Borrow from domestic resources in order to limit the vulnerability of the government's fiscal position to foreign exchange fluctuations, but without unduly

1 affecting adversely domestic interest rates by keeping its borrowings to a level that
2 can be absorbed by the market.

- 3 d. Promote budget flexibility by reducing non-discretionary portions of the budget such
4 as allocations for personal services and interest payments in order to channel more
5 resources to growth inducing capital investments.
- 6 e. Preserve the relative value of government assets by ensuring that the total value of
7 liabilities is congruent to any adjustment in its tax revenues and other assets. The
8 State shall not use proceeds from the sale or transfer of properties to finance current
9 or operating expenditures of the public sector.
- 10 f. To protect any fiscal gain that may be achieved and prevent backsliding, the
11 government shall continuously adopt control mechanisms on spending, pass only
12 deficit-neutral measures to prevent the erosion of the revenue or tax base, and
13 rationalize incentive mechanisms.
- 14 g. Manage prudently all fiscal risks facing the government.

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

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

- 1 g. *Constitutional Offices* refer to the Civil Service the Commission, Commission on
2 Audit, the Commission on Elections, the Commission on Human Rights and the
3 Office of the Ombudsman.
- 4 h. *Contingent Liabilities* refer to either of the following:
- 5 i possible obligations that arise from past GOCC and BOT operations whose
6 existence will only be confirmed upon the occurrence or non-occurrence of
7 one or more uncertain future events not wholly within the control of the
8 enterprise; or
- 9 ii. present obligations that arise from past events but are not recognized because
10 it is not probable that an outflow of resources embodying economic benefits
11 will be required to settle the obligation or the amount of the obligation cannot
12 be measured with sufficient reliability. Examples of these are the future
13 projects of actuarial deficiencies of the government social security institutions.
- 14 i. *Credit Operations* refer to the act of contracting funds from financial institutions
15 whose principal plus interest and other financial charges shall be paid at a later agreed
16 upon date.
- 17 j. *Debt* refers to the stock of total liabilities or obligations at any given time, whether of
18 the national government or the consolidated non-financial public sector, or both.
- 19 k. *Debt Service* refers to the sum of loan repayments, interest payments, commitment
20 fees and other charges on foreign and domestic borrowings.
- 21 l. *Deficit* refers to the shortfall or deficiency of revenues over expenditures of the
22 government classified into:
- 23 i. Budgetary deficit, which is the deficiency of total revenues over expenditures
24 excluding debt repayments and payments of non-budgetary accounts.
- 25 ii. Financial deficit, which is the deficiency of total receipts over the sum of
26 current and capital expenditures.
- 27 m. *Development Budget and Coordinating Committee* or *DBCC* refers to the committee
28 created under Executive Order No. 232, s. 1970, as amended.
- 29 n. *Discretionary Fund* refers to lump-sum appropriations for general purposes whose
30 specific allocation shall be determined by an authorized public official or entity.
- 31 o. *Economic Enterprises* refer to income generating establishments created by local
32 governments for the purpose of improving production and delivery of basic goods and
33 services for a specific market or client group, such as public markets, slaughter
34 houses, cemeteries, sports, cultural and recreation centers, parking lots, ice plants,
35 hospitals, and special and tertiary schools.
- 36 p. *Executive Department or branch* refers to all national government agencies, including
37 state universities and colleges and other instrumentalities, whether or not receiving

1 funding support through the General Appropriations Act, falling under the control and
2 supervision of the President of the Philippines.

- 3 q. *Fiscal Indicators* refer to measures such as numerical ceilings, whether or not set as a
4 percentage of the gross domestic product, as may be prescribed, for the evaluation of
5 the fiscal position of the government.
- 6 r. *Government Financial Institutions* or *GFI*s are GOCCS that are primarily engaged in
7 both incurring liabilities and acquiring financial assets in the market, and any
8 acceptance of demand, time or savings deposits.
- 9 s. *Government Owned and/or Controlled Corporations* or *GOCCs* refer to a stock or
10 non-stock corporation, whether performing governmental or proprietary functions,
11 which is directly chartered by a special law, or if organized under the general
12 corporation law is owned or controlled by the government directly or through a parent
13 corporation or subsidiary corporation, to the extent of at least a majority of its
14 outstanding capital stock or of its outstanding voting capital stock.
- 15 t. *Government Subsidiaries* refers to those created in accordance with law where at least
16 a majority of the outstanding capital stock or outstanding voting capital stock is
17 owned by parent government corporations and/or other government-owned
18 subsidiaries.
- 19 u. *Gross Domestic Product* or *GDP* refers to the value of all goods and services
20 produced domestically; the sum of the gross value added of all resident institutional
21 units engaged in production, plus any taxes and minus any subsidies, on products not
22 included in the values of their outputs.
- 23 v. *Guarantee* refers to an arrangement whereby the government promises to pay the debt
24 of another entity if certain conditions are met, such as the liability of the entity to pay.
- 25 w. *Joint Resolution* refers to a formal declaration or expression from both the Senate and
26 the House of Representatives voting separately. Like bills, joint resolutions shall
27 embrace only one subject and must pass three readings on separate days, except when
28 the President certifies to its urgency.
- 29 x. *Judiciary Department or branch* refers to the Supreme Court, Court of Appeals,
30 Sandiganbayan, Court of Tax Appeals, Shari'ah Appellate Court and all lower courts.
- 31 y. *Internal Revenue Allotment* or *IRA* refers to the share of local governments in the
32 national internal revenue taxes as prescribed under Sections 284 and 285 of Republic
33 Act No. 7160, or the Local Government Code.
- 34 z. *Legislative Department or branch* refers to the Senate and House of Representatives.
- 35 aa. *Medium Term Fiscal Accord* or *MTFA* shall have the meaning provided under
36 Section 5.
- 37 bb. *National Government* refers to the executive, legislative and judiciary branches of the
38 government, including the constitutional offices.

- 1 cc. *National Government Debt* refers to all security issuances and loans of the national
2 government, excluding assumed liabilities from the Philippine National Bank and the
3 Development Bank of the Philippines, as well as promissory notes issued to the
4 different international financial institutions and loans under the Consolidated
5 Borrowings Program.
- 6 dd. *Net lending* refers to advances by the national government for the servicing of
7 government guaranteed corporate debt during the year, net of repayments and such
8 advances, including loans, outlays or proceeds from program loans relented to GOCCs.
- 9 ee. *Net current revenue* refers to the sum of all tax and non-tax collections less the
10 following:
- 11 i. Proceeds from privatization and recovery of ill-gotten wealth;
 - 12 ii. Internal Revenue Allotment;
 - 13 iii. Interest payments on national government debt; and
 - 14 iv. Net lending to government corporations.
- 15 ff. *Other Government Corporate Entities* or *OGCEs* refer to those who by judicial
16 decree are considered GOCCs, including those which by legal definition are treated
17 as such, as well as private corporations acquired by the government either by
18 voluntary transfer or sequestration.
- 19 gg. *Personnel Expenditures* shall have the meaning provided under Section 26.
- 20 hh. *Public sector entity* refers to an individual office, agency, bureau, or court, as may be
21 appropriate, falling under the executive, legislative, and judicial branches of
22 government, including constitutional offices.
- 23 ii. *Public utilities* refer to revenue raising undertakings created by local governments for
24 the purpose of providing a basic need or service to the general public which otherwise
25 cannot be provided adequately by the private sector, such as water and sewerage
26 services, garbage collection and disposal, telephone system, electric and power
27 services, public transport and terminal station services.
- 28 jj. *Tax breaks* refer to any of the following: amnesty, subsidy, presumed credit,
29 exemptions, changes in tax rate or tax base which results in reduction of taxes or
30 contributions, and other beneficial treatments.
- 31 kk. *Voluntary Transfer* refers to the transfer of current or capital resources to other
32 branches, agencies, offices, local governments, and other instrumentalities in the form
33 of cooperation, aid or financial assistance, sourced from any discretionary fund.

34 TITLE II

35 Fiscal Planning and Accord

36 Chapter 1

37 Medium Term Fiscal Accord

1 the President shall likewise submit to Congress the proposed Annual Budget Strategy for the
2 ensuing fiscal year.

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

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

16 **Sec. 10. *General Appropriations Act*** - The GAA must be consistent with the MTFAs and
17 based on the Annual Budget Strategy

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

21 TITLE III

22 Debt Cap

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

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

29 By the end of 2016, the national government shall endeavor to gradually reduce
30 consolidated non-financial public sector debt to below 60% of GDP. The government shall
31 likewise endeavor to reduce national government debt to 40% of GDP.

32 After 2016, or when the debt targets have been achieved, whichever occurs later, the
33 national government shall maintain the same at a sustainable level taking into account the
34 prevailing economic condition as well as changes in the underlying assumptions that may affect
35 the fiscal position of the country. Thereafter, the medium-term and annual deficit targets for
36 consolidated non-financial public sector and national government debt shall be embodied in the
37 MTFAs and Annual Budget Strategy, respectively, and shall be intended to facilitate the steady
38 reduction of debt over a six-year period.

1 In the event that the national government anticipates a fall in the nominal GDP, or upon
2 the occurrence of other events, which are due to extraneous factors beyond its control, the
3 President is hereby authorized, upon the recommendation of the DBCC, and subject to
4 consultation with the Congress of the Philippines to make the necessary adjustments on the
5 applicable debt target.

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

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

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

17 **Sec. 15. Additional Sanctions** - Once the period for bringing the debt target within the
18 limit has expired, and as long as the excess persists, the public sector entity or entities identified
19 by the DBCC to have contributed the most to such violation shall be prohibited from:

- 20 a. receiving voluntary transfers; and
- 21 b. qualifying as a beneficiary of a foreign-assisted project.

22 **Sec. 16. Excusable Breach** - The deficit targets provided herein may be temporarily
23 breached when the same is absolutely necessary to counter catastrophic emergencies of national
24 proportion as may be declared by the President. The presidential certification must specify the
25 urgency and necessity of such breach, the period of time within which the government should
26 offset the breach, as well as measures to cushion the effects of said breach to the national
27 economy.

28 **Sec. 17. Debt Monitoring** - The Debt and Risk Management Office, created under the
29 DOF, shall supervise the borrowing operations of the national government. It shall likewise
30 monitor and evaluate compliance by any public sector entity concerned with the specified targets
31 under this chapter.

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

1 TITLE IV

2 National Government

3 Chapter 1

4 Compliance with Fiscal Targets

5 **Sec. 18. *Annual Revenue Forecast*** - The revenue forecast, as embodied in the Annual
6 Budget Strategy, must consider historical data, taking into account the effects of changes in
7 legislation, price index variations, economic growth or any other relevant factor. It must be
8 accompanied by a statement of revenue evolution in the last three years, a projection for the next
9 two years, and the calculation methodology and premises adopted.

10 **Sec. 19. *Quarterly Revenue Targets*** - Within thirty (30) days from the passage or
11 reenactment of a Joint Resolution adopting the Annual Budget Strategy, estimated revenues
12 reflected in the Annual Budget Strategy must be broken down by the DBCC into quarterly
13 collection targets, including, if applicable, a separate description of measures to combat tax fraud
14 and evasion and the number and amounts of judicial suits for the collection of outstanding tax
15 debts.

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

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

25 Chapter 2

26 Deficit-Neutral Measures

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

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

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

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

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

10 Hence, for all bills proposing an increase in public expenditures, the Department of
11 Budget and Management (DBM) is required to submit to Congress a position paper providing
12 among other information the estimates of the budgetary and financial impact for the next three
13 (3) years.

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

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

22 Chapter 3

23 Personnel Expenditures

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

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

32 **Sec. 26. *Personnel Cap*** - Consistent with the principles of responsible fiscal
33 management, total personnel expenditures of the national government shall not exceed forty-five
34 percent (45%) of net current revenues starting 2016.

35 By the end of 2016, the national government shall continually maintain and manage its
36 total personnel expenditure at an optimum level, which shall in no case exceed forty-five percent
37 (45%) of its net current revenues. For this purpose, the Annual Budget Strategy shall specify the
38 optimum level of total personnel expenditures for the succeeding years.

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

- 3 a. Executive – ninety-four percent (94%);
- 4 b. Legislative - one percent (1%);
- 5 c. Judiciary - three percent (3%); and
- 6 d. Constitutional Offices – two percent (2%).

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

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

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

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

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

33 In addition, the following measures may be adopted:

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

37 **Sec. 30. *Remedy Period*** - Without prejudice to the measures in the preceding section, if
38 total personnel expenditures exceed the limits set in Sections 27 and 28, the excess percentage

1 must be eliminated in the two subsequent four-month periods, with at least one-third of such
2 excess being eliminated in the first four-month period.

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

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

10 Chapter 4

11 Treatment of Savings

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

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

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

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

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

1 Creation of Subsidiaries

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

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

8 Chapter 3

9 Government Corporate Performance

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

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

17 Chapter 4

18 Personnel Expenditures

19 **Sec. 44. Salary Increase** - All increases in salaries, per diems, allowances, or other
20 fringe benefits of board directors and trustees shall be granted by the corporation's governing
21 board in accordance with the guidelines issued by the GCG and shall only take effect after the
22 expiration of the full term of all the directors and trustees approving such increase.

23 **Sec. 45. Increases in Salaries, Allowances, Honoraria, and Other Fringe Benefits** - All
24 increases in salaries, allowances, honoraria, and other fringe benefits that may be granted by the
25 governing boards to the employees of GOCCs, including those that are presently or may
26 hereafter be exempted by law from the Salary Standardization Law, shall be subject to the
27 approval of the President, upon recommendation of the GCG.

28 **Sec. 46. Corporate Personnel Cap** - A personnel cap shall be imposed on total personnel
29 expenditures of each GOCC as a percentage of its net operating revenue. Within six (6) months
30 from the effectivity of this Act, the GCG shall fix the applicable personnel cap for each GOCC in
31 accordance with the following policy guidelines:

- 32 a. Definition of net operating revenue shall exclude remittances of fees, charges or
33 premiums, or any payments made, which are mandated by law or rules and
34 regulations to be so remitted or paid;
- 35 b. Taking into consideration the peculiarities of each GOCC, a different personnel cap
36 may be imposed per GOCC, or cluster of GOCCs: *Provided*, That the clustering of
37 GOCCs must capture, as much as possible, the homogeneity among GOCCs in terms
38 of their mandate, core and secondary functions, historical data on operations income

1 or losses, subsidy received from the national government, and exemption from the
2 Salary Standardization Law.

3 c. Personnel cap must be comparable to applicable benchmarks in the private sector.

4 d. The personnel cap to be imposed may consider the targets and schedule of any
5 rationalization program to be implemented by the national government.

6 The GCG shall periodically review the personnel cap imposed and shall make the necessary
7 adjustments as may be justified under the circumstances.

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

11 Chapter 5

12 Additional Sanctions

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

16 a. assign an independent financial comptroller;

17 b. prohibit the issuance of any national government guarantee, whether direct or
18 indirect; and

19 c. recommend to the President a revamp of the governing board or management.

20 **TITLE VI**

21 **Local Governments**

22 Chapter 1

23 National Remittances

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

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

28 b. national government share in taxes, fees, and charges collected by local
29 governments;

30 c. any taxes withheld in accordance with law or rules and regulations;

31 d. statutory contributions, including its counterpart contribution as employer, to the
32 Home Development Mutual Fund (Pag-IBIG), Philippine Health Insurance
33 Corporation, Government Service Insurance System and other government
34 agency or corporations; and

35 e. amortization payments of salary, policy and other loans incurred by its employees
36 to the Government Service Insurance System or other GOCCs.

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

1 complied with the requirements prescribed under this Act, shall be prohibited, during the period
2 of its violation, from:

- 3 a. receiving voluntary transfers;
- 4 b. qualifying as a beneficiary in any foreign assisted project; and
- 5 c. obtaining any direct or indirect guarantee from the national government.

6 TITLE VII

7 Voluntary Transfers

8 **Sec. 55. Definition** - Voluntary transfer is defined as the transfer of current or capital
9 resources to other branches, agencies, offices, local governments, and other instrumentalities in
10 the form of cooperation, aid or financial assistance, sourced from any discretionary fund.

11 **Sec. 56. Requisites** - In addition to those that may be established in the GAA, the
12 requirements for voluntary transfers shall include:

- 13 a. existence of a specific budget allocation;
- 14 b. proof by the beneficiary that:
 - 15 i. the project, activity, or program to be funded is covered by the project menu
16 prepared by the DBM;
 - 17 ii. it has no outstanding taxes, loans and financing due to the national
18 government, and that previously received funds have been duly accounted for;
 - 19 iii. it has complied with procurement procedures prescribed by Republic Act No.
20 9184; and
 - 21 iv. it is in compliance with the limits set for consolidated non-financial public
22 sector and national government debt, as well as those for total personnel
23 expenditures.

24 **Sec. 57. Disclosure of Voluntary Transfers** - All beneficiaries of voluntary transfers
25 shall report and disclose to the DBM the details and outcomes of the program, project or activity
26 being funded by the voluntary transfers. The DBM shall widely disseminate these information
27 through electronic media.

28 **Sec. 58. Suspension of Voluntary Transfers** - Suspension of voluntary transfers
29 imposed as a sanction under this Act shall not apply to those intended for the education and
30 health sectors or those that may be exempted by the President.

31 TITLE VIII

32 Transparency in Fiscal Management

33 Chapter I

34 Full Disclosure

35 **Sec. 59. Public Disclosure** - The instruments of public fiscal management, including the
36 Budget of Expenditures and Sources of Financing, the GAA, the MTF, the Annual Budget
37 Strategy, and other plans, policies, assessment reports, or budgets, together with a simplified
38 version of these documents, shall be widely disseminated, especially in electronic public media.

1 **Sec. 60. Public Participation** - Transparency must also be ensured by encouraging public
2 participation and comments during the preparation and deliberations of the above documents.

3 **Sec. 61. Inspection** - All plans, policies, reports, budgets, and other documents required
4 to be submitted in accordance with this Act shall be made available throughout the year in the
5 respective branch or office of the government taking custody thereof and shall be subject to
6 inspection during office hours on regular business days, except only such matters as may, in the
7 judgment of the proper official, pertain to matters that may adversely affect the interest of the
8 government.

9 **Sec. 62. Fiscal Management Reports** - Within sixty (60) days from the effectivity of this
10 Act, the DBM in coordination with the DOF shall prepare a list of reports to be submitted by the
11 different branches and agencies of the government, including constitutional offices, to monitor
12 compliance with this Act and ensure consistency with the government's fiscal policies.

13 **Sec. 63. Accountability** - The plans, policies, reports, budgets, and other documents
14 required to be submitted pursuant to this Act shall include a sworn statement signed by the head
15 of the branch, agency, or constitutional office, as the case may be, which shall include the
16 following:

- 17 a. A certification that the report was prepared using the best professional judgment on
18 the basis of information available to it before and at the time of its submission; and
19 b. A statement of responsibility guaranteeing:
20 i. integrity of the disclosure contained in the report; and
21 ii. consistency with the requirements of this Act.

22 Chapter II

23 New Government Accounting System

24 **Sec. 64. New Government Accounting System** - To enhance uniformity in the
25 application of government accounting rules and facilitate the consolidation of financial reports,
26 the New Government Accounting System (NGAS), designed and prescribed by the Commission
27 on Audit (COA) to all national government agencies, local governments, and GOCCs, is hereby
28 adopted.

29 Henceforth, all financial statements included in the reports required pursuant to this Act
30 shall be prepared in accordance with the NGAS.

31 **Sec. 65. Compliance Period** - Within a period of one (1) year from the effectivity of this
32 Act all national as well as local government agencies, including GOCCs, shall have completely
33 installed the computerized version of NGAS otherwise known as "e-NGAS".

34 **TITLE IX**

35 **Final Provisions**

36 **Sec. 66. Implementing Rules and Regulations** - Within sixty (60) days from effectivity
37 of this act, the DBM and DOF shall promulgate the necessary rules and regulations for the
38 proper implementation of the provisions of this Act.

1 **Sec. 67. Separability of Provisions** - If for any reason, any portion or provision of this
2 Act or the application thereof shall be declared invalid or unconstitutional, the validity of other
3 parts or provisions not affected thereby shall continue to be in full force and effect.

4 **Sec. 68. Repealing Provision** - The following laws, presidential decrees, executive
5 orders, corporate charters and other issuances or parts thereof, contrary to or inconsistent with
6 the provisions of this Act are hereby repealed or modified accordingly:

- 7 a. Section 21, Republic Act 1161 as amended by R.A. 8282 (Social Security Act
8 of 1954);
- 9 b. Section 14, Republic Act 4850 (An Act Creating the Laguna Lake
10 Development Authority);
- 11 c. Section 17, Republic Act 6234 (Creation of Metropolitan Waterworks and
12 Sewerage System);
- 13 d. Section 1, Republic Act 6395 (An Act Revising the Charter of National Power
14 Corporation);
- 15 e. Section 13, Republic Act 6958 (Charter of the Mactan-Cebu-International
16 Airport Authority);
- 17 f. Section 12, Republic Act 7354 (Postal Service Act of 1992);
- 18 g. Section 19, Republic Act 7393 (Quedan and Rural Credit Corporation Act);
- 19 h. Section 58, Republic Act 7875 (National Health Insurance Act of 1995);
- 20 i. Section 1, Republic Act 8291 (The Government Service Insurance System Act
21 of 1997);
- 22 j. Section 1, Republic Act 8282 (Social Security Act of 1997);
- 23 k. Section 18, Republic Act 8763 (Home Guaranty Corporation Act of 2000);
- 24 l. Section 2, Presidential Decree 179 (An Act Creating the Cultural Center of the
25 Philippines);
- 26 m. Section 8, Presidential Decree 346 (Amending the Charter of Philippine
27 Aerospace Development Corporation);
- 28 n. Section 8, Presidential Decree No. 425 (Amending Certain Sections of R.A.
29 No. 6234);
- 30 o. Section 3, Presidential Decree 552 (Amending certain Sections of R.A. No.
31 3601, creating the National Irrigation Administration);
- 32 p. Section 12, Presidential Decree 564 (Revising the Charter of the Philippine
33 Tourism Authority);
- 34 q. Section 1, Presidential Decree 572 (Amending the Charter of the Philippine
35 National Oil Company);
- 36 r. Section 11, Presidential Decree 690 (An Act Creating the Southern
37 Philippines Development Administration);

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

23 **Sec. 69. Effectivity Clause** - This act shall take effect fifteen (15) days after its
24 publication in the Official Gazette or in two (2) newspapers of national circulation.

Approved,