Republic of the Philippines
House of Representatives
Quezon City, Metro Manila

SEVENTEENTH CONGRESS
First Regular Session

House Bill Number **2828**

Introduced by Representative ROLANDO G. ANDAYA, JR.

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. This bill introduces a series of reforms with far reaching implications intended to initiate the long delayed public sector reform in our country.

This measure 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 to resuscitate the country's ailing economy.

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 stress and eventually improve the fiscal position of our country.

This proposed bill offers a framework of burden sharing among the three branches of government. Aside from the debt cap, this bill introduces a deficit-neutral measure designed to address the proliferation of unfunded laws. The concept is straight-forward: no expenditure measure shall be passed into law without the concurrent revenue-generating or expenditure reducing measure. Such innovation, commonly referred to as the Pay-As-You-Go or PAYGO, was first introduced in the United States. This measure shall foster an atmosphere or mutual respect, coordination and cooperation between the executive and legislative branches of government.

Another burden sharing feature of this proposed measure is the provision on Personal Services Cap or PS Cap. A concept introduced under the Local Government Code of 1991, a PS Cap establishes an overall limit on the personal service expenditures as a percentage of the net current revenue beginning 2021. The intervening years are meant to give the government time to gradually prepare and adjust with said limit. A PS Cap, to be later determined by the Development Budget and Coordinating Committee, shall likewise be imposed on GOCCs. To set the parameters, this bill incorporated 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.

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.

ROLANDO G. ANDAYA, JR.
First District, Camarines Sur

Republic of the Philippines
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House Bill Number **2828**

Introduced by Representative ROLANDO G. ANDAYA, JR.

"AN ACT INSTILLING FISCAL DISCIPLINE IN THE PUBLIC SECTOR BY SPECIFYING 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 House of Representatives of the Philippines in Congress assembled:

TITLE I
Preliminary Provisions

Section. 1. *Title* - This Act shall also 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 this deficit targets have been achieved, maintain these levels 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. Without unduly adversely affecting domestic interest rates by keeping its borrowings to a level that can be absorbed by the market, borrow from domestic resources in order to limit vulnerability of the government's fiscal position to resource to foreign exchange fluctuations.

d. Promote budget flexibility by reducing non-discretionary portions of the budget such as requirements for personal services and interest payments in order to channel more resources to growth inducing capital investments.

e. Preserve the relative value of its 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 minimize the risk of backsliding, control mechanisms on spending, deficit-neutral measures to prevent the erosion of the revenue or tax base, and imposition of better incentive mechanisms shall continuously be adopted.

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 proposed by the executive branch to the legislature for spending authority, accompanied by an estimate of expected sources of financing.

e. Consolidated, Non-Financial Public Sector Service 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 well as the cost of restructuring the defunct Central Bank, and the financial position of the present Bangko Sentral ng Pilipinas.

g. Constitutional Offices refer lo the Civil Service the Commission, Commission on Audit, the Commission on Elections, the Commission on Human Rights and the Office of the Ombudsman.

h. Contingent Liabilities refer to either of the following:

   i. Possible obligations that arise from past GOCC and BOT operations whose existence will only be confirmed upon the concurrence or non-concurrence of one or more uncertain future events not wholly within the control of the enterprise; or

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

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

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

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

l. Deficit refers to the shortfall or deficiency of revenue over expenditures of the government classified into:

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

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

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

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

o. Economic Enterprises refer to income generating establishments created by local governments for the purpose of improving production and delivery of basic goods 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 though 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.

y. Internal Revenue Allotment or IRA refers to the share of local government in the national internal revenue taxes a prescribed under Sections 284 and 285 of Republic Act No. 7160, or the Local Government Code.

z. Legislative Department or branch refers to the Senate and House of Representatives.

aa. Medium Term Fiscal Accord or MTFA shall have the meaning provided under Section 5.

bb. National Government refers to the executive, legislative and judiciary branches of the government, including the constitutional offices.

cc. National Government Debt refers to all security issuances and loans of the national government, excluding assumed liabilities from the Philippine National Bank and the Development Bank of the Philippines, as well as promissory notes issued to the different international financial institutions and loans under the Consolidated Borrowings Program.

dd. Net lending refers to advances by the national government for the servicing of government guaranteed corporate debt during the year, net of repayments and such advances, including loans, outlays or proceeds from program loans relent to GOCCs.

ee. Net current revenue refers to the sum of all tax and non-tax collections less the following:

i. Proceeds from privatization and recovery of ill-gotten wealth;

ii. Internal Revenue Allotment;

iii. Interest payments on national government debt; and

iv. Net lending to government corporations

ff. Other Government Corporate Entities or GOCEs refer to those who by judicial decree are considered GOCCs, including those which by legal definition are treated as such, as well as private corporations acquired by the government either by voluntary transfer or sequestration.

gg. Personnel Expenditures shall have the meaning provided under Section 26.

hh. Public sector entity refers to an individual office, agency, bureau, or court, as may be appropriate, falling under the executive, legislative, and judicial branches of government, including constitutional offices.

ii. Public utilities refer to revenue raising undertakings created by local governments for the purpose of providing a basic need or service to the general public which otherwise cannot be provided adequately by the private sector, such as water and sewerage services, garbage collection and disposal, telephone system, electric and power services, public transport and terminal station services.

jj. Tax breaks refer to any of the following: amnesty, subsidy, presumed credit, exemptions, changes in tax rate or tax base which results in reduction of taxes or contributions, and other beneficial treatments.

kk. Voluntary Transfer refers to the transfer of current or capital resources to other branches, agencies, offices, local governments, and other instrumentalities in the form of cooperation, aid or financial assistance, sourced from any discretionary fund.

TITLE II
Fiscal Planning and Accord
Chapter 1
Medium Term Fiscal Accord

Sec. 5. *Definition* - The Medium Term Fiscal Accord (MTFA) is an agreement between the executive and legislative branches of government on the fiscal targets sought to be accomplished over a period of three (3) years. It shall contain the agreed upon fiscal indicators and their underlying assumptions, including the following:

a. Deficit targets, quantified as a percentage of GDP;

b. Revenue and tax targets, quantified as a percentage of GDP;

c. Expenditure targets, measured as a percentage of GDP;

d. Financing strategy to be adopted;

e. New revenue measures to be enacted in order to correct an identified weakness in the tax structure or to promote an economic or social objective;

f. New expenditure measures to be implemented; and

g. Additional measures to accomplish fiscal targets and sustain reforms.

Sec. 6. *Term* - Each MTFA shall be valid for a period of three (3) years starting from the second to the third year of a congressional term and the first year of the succeeding congressional term.

Sec. 7. *Preparation* - At the start of every congressional term, the President, through the Development Budget Coordinating Council (DBCC), shall prepare the proposed MTFA and submit it to Congress, through 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, within thirty (30) days from the opening of the regular session.

Within one hundred and eighty (180) days from its submission, the Executive Department and Congress shall agree ion the terms and content of the MTFA through a Joint Resolution to be signed by the Senate President, the Speaker of the House of Representatives, and the President of the Philippines, which shall have the force and effect of a law.

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

Chapter II
Annual Budget Strategy

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

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

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

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

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

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

TITLE III
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. The national government shall endeavor to gradually reduce consolidated non-financial public sector debt to 80-90% of GDP by the end of 2021. The government shall likewise endeavor to reduce national government debt to 60-65% of GDP.

After 2021, 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 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 identity 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 in 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.

Sect. 17. *Debt Monitoring* - The Debt and Risk Management Office, created under the Department *of* Finance (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 improvise measures to prevent the eventual violation of the debt cap.

TITLE IV
National Government

Chapter 1
Compliance with Fiscal Targets

Sec. 18. *Annual Revenue Forecast* - The revenue forecast, as embodied in the Annual Budget Strategy, must comply with historical data, taking into account the effects of changes in legislation, price index, variations, economic growth or any other relevant factor, and must be accompanied by a statement of its 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 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.

Chapter 2
Deficit-Neutral Measures

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 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.

Hereafter, all bills proposing an increase in public expenditures must be accompanied by the following:

a. An estimate by the Department of Budget and Management (DBM) of its budgetary and financial impact for the next three (3) years; and
b. A sworn statement of responsibility to be executed by its sponsor/s certifying that:

   i. the increase in expenditure shall be supported by a revenue generating or expenditure reduction measure enumerated either in the Annual Budget Strategy or an independent legislative proposal; and

   ii. an undertaking that the expenditure bill's effectivity is conditioned on the passage and execution of the revenue measures identified.

Sec. 24. *Conditions Precedent* - The effectivity of any law proposing an increase in public expenditure, except those enumerated in Section 23, shall be conditioned on the (i) issuance by the DBM of a certification that all the requirements prescribed by Section 23 have been complied with, and (ii) the enactment and implementation of the offsetting measure identified in the sworn statement of responsibility,

Sec. 25. *Unfunded Laws* - All laws passed in violation of Sections 23 and 24 shall be considered harmful to public finances and remain unfunded.

The effectivity of existing legal provisions whose mandates remain unfunded, whether partially or in full, shall be suspended until requirements of Sections 23 and 24 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 coordinated with the DBM, shall prepare a list of existing legal provisions that remain unfunded as of the effectivity of this Act.

Chapter 3
Personnel Expenditures

Sec. 26. *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.. 27. *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 2016.

By the end of 2016, 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. 28. *Personnel Cap Distribution* - The overall limits for the national government set in the preceding section shall be broken down 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 revenue, incurred in the three fiscal years preceding the effectivity of this Act.

Sec. 29. *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. 30. *Non-compliance with Personnel Cap* - Any increase in personnel expenditures resulting in a violation of the limits prescribed in Sections 27 and 28 shall be null and void.

Sec. 31. *Sanctions* - If total personnel expenditures exceed thirty percent (30%) 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:

g. abolition of positions and functions; and

h. temporary reduction in working hours, if wages may be adapted to the new work schedule.

Sec. 32. *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. 33. *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.

Chapter 4
Creation of National Entities

Sec. 34. *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. 35. *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 issuance by the DBM of a certification that all the requirements prescribed in Section 34 shall have been complied with.

TITLE V
Government Owned and Controlled Corporations

Chapter 1
Government Guarantees

Sec. 36. *Coverage* - For the erasure of doubt, 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. 37. *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. 38. *Grant of Guaranty* - 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. 39. *Disclosure of Government Guarantees* - As far as practicable, and consistent with the principle of full disclosure, the DOF shall disclose, 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.

Chapter 2
Creation of Subsidiaries

Sec. 40. *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.

Chapter 3
Government Corporate Performance

Sec. 41. *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.

Sec. 42. *Salary Increase* - All increases in salaries, per diems, allowances, or other fringe benefits approved 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.

Chapter 4
Personnel Expenditures

Sec. 43. *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. 44. *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) month from the effectivity of this Act, the DBCC shall fix the applicable personnel cap for each GOCC in accordance with the following policy guidelines:

a. Definition of net operating revenue shall exclude remittances of fees, charges or premiums, or any payments made, which are mandated by law or rules and regulations to be so remitted or paid;

b. Taking into consideration the peculiarities of each GOCC, a different personnel cap may be imposed per GOCC, or cluster of GOCCs; Provided that, the clustering of GOCCs must capture, as much as possible, the homogeneity among GOCCs in terms of mandate, core and secondary functions, historical data on operations income or losses, subsidy received from the national government, and exemption from the Salary Standardization Law.

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

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

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

Sec. 45. *Compliance and Sanctions* - Sections 26, 29 to 33, under Chapter 3, Title IV of this Act are hereby adopted for the purpose of determining compliance with, and imposition of sanctions to enforce the personnel cap, prescribed in the preceding section.

Chapter 5
Additional Sanctions

Sec. 46. *Additional Sanctions for GOCCs* - In addition to those prescribed above, the DOF is hereby authorized to impose the following sanctions on GOCCs and officers who have not complied with the requirements prescribed under this Act:

a. Assign an independent financial comptroller;

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

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

TITLE VI
Local Governments

Chapter 1
National Remittances

Sec. 47. *Efficient Remittance* - All local governments shall exercise responsible fiscal management by timely and efficiently remitting to the relevant national government agency or corporation the following:

a, All tax collections that accrue to the national government;

b. National government share in taxes, fees, and charges collected by local governments;

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

d. Statutory contributions, including its counterpart contribution as employer, to the Home Government Mutual Fund (Pag-ibig), Philippine Health Insurance Corporation, Government Service Insurance System and other government agency or corporations; and

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

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

Sec. 48. *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 be 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 capability to pay.

Sec. 49. *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.

Chapter 2
Personnel Expenditures

Sec. 50. *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. 51. *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.

However, those with personnel expenditures greater than said cap shall reduce such excess by the following percentages:

a. 25 percent by 2018

b. 50 percent by 2019;

c. 75 percent by 2020;

d. 100 percent by 2021.

By the end of 2021, the local governments as well as public utilities and economic enterprises shall maintain such level or reduce it to achieve the most cost-effective personnel expenditure.

Sec. 52. *Non-compliance with Personnel Cap* - Any increase in personnel expenditures resulting in a violation of the limits stated in the aforementioned sections shall be null and void.

Sec. 53. *Sanctions* - If total personnel expenditures exceed the prescribed limit, or if the required reduction on personnel expenditures prescribed in Section 51 is not followed, the violating local government, public utility, and economic enterprise, in addition to the sanctions prescribed by the Local Government Code, shall be prohibited from performing and adopting the acts and measures enumerated under Section 31, Chapter 3, Title IV of this Act.

Chapter 3
Additional Sanctions

Sec. 54. *Additional Sanctions for Local Governments* - In addition to those prescribed above, the violating local government, public utility or economic enterprise which has not complied with the requirements prescribed under this Act, shall be prohibited, during the period of its violation, from:

a. receiving voluntary transfers;

b. qualifying as a beneficiary in any foreign assisted project; and

c. obtaining any direct or indirect guarantee from the national government.

TITLE VII
Voluntary Transfers

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

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

a. existence of a specific budget allocation;

b. proof by the beneficiary that:

   i. the project, activity, or program to be funded is covered by the project menu prepared by the DBM;

   ii. it has no outstanding taxes, loans and financing due to the national government, and that previously received funds have been duly accounted for;

   iii. it has complied with procurement procedures prescribed by Republic Act No. 9184; and

   iv. it is in compliance with the limits set for consolidated non-financial public sector and national government debt, as well as those for total personnel expenditures.

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

Sec. 58. *Suspension of Voluntary Transfers* - Suspension o f voluntary transfers imposed as a sanction under this Act shall not apply to those intended for the education and health sectors.

TITLE VIII
Transparency in Fiscal Management

Chapter I
Full Disclosure

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

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

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

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

Sec. 63. *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. 64. *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. 65. *Compliance Period* - Within a period 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".

TITLE IX
Final Provisions

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

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

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

a. Section 21, Republic Act 1161 as amended by R.A. 8282 (Social Security Act of 1954);

b. Section 14, Republic Act 4850 (An Act Creating the Laguna Lake Development Authority);

c. Section 17, Republic Act 6234 (Creation of Metropolitan Waterworks and Sewerage System);

d. Section 1, Republic Act 6395 (An Act Revising the Charter of National Power Corporation);

e. Section 13, Republic Act 6958 (Charter of the Mactan-Cebu International Airport Authority);

f. Section 12, Republic Act 7354 (Postal Service Act of 1992);

g. Section 19, Republic Act 7393 (Quedan and Rural Credit Corporation Act);

h. Section 58, Republic Act 7875 (National Health Insurance Act of 1995);

i. Section 1, Republic Act 8291 (The Government Service Insurance System Act of 1997);

j. Section I, Republic Act 8282 (Social Security Act of 1997);

k. Section 18, Republic Act 8763 (Home Guaranty Corporation Act of 2000);

l. Section 2, Presidential Decree 179 (An Act Creating the Cultural Center of the Philippines);

m. Section 8, Presidential Decree 346 (Amending the Charter of Philippine Aerospace Development Corporation);

n. Section 8, Presidential Decree No. 425 (Amending Certain Sections of R.A. No. 6234);

o. Section 3, Presidential Decree 552 (Amending certain Sections of R.A. No. 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);

r. Section 11, Presidential Decree 690 (An Act Creating the Southern Philippines Development Administration);

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 36, 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);

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

dd. Section 16, Executive Order 903 (Revision of EO 778, creating the Manila International Airport Authority).

Sec. 69. *Effectivity Clause* - This Act shall take effect fifteen (15) days after its publication in a newspaper of general circulation.

Approved,