

EXECUTIVE ORDER NO. 518  
ESTABLISHING A PROCEDURE FOR THE PREPARATION AND APPROVAL OF THE  
OPERATING BUDGETS OF GOVERNMENT OWNED OR CONTROLLED  
CORPORATIONS

WHEREAS, national government policy calls for the formulation of a national resource budget, representing the totality of government revenue, expenditure and debt;

WHEREAS, the volume of public resources and activities undertaken by government corporations are such that a formal mechanism is necessary to ensure that the budgets of government corporations are consistent with the national development plan and follow the budgetary standards and guidelines adopted for agencies of the national government and local government units;

WHEREAS, Section 22 of P.D. No. 1177, known as the Budget Reform Decree of 1977, provides for review and approval of the budgets of government owned or controlled corporations under certain conditions; cd

WHEREAS, all government-owned or controlled corporations require national budget support, either in the form of direct outlays or guarantees;

NOW, THEREFORE, I, FERDINAND E. MARCOS, President of the Philippines, by virtue of the powers vested in me by the Constitution do hereby Order:

Sec. 1. Title. - This Order shall be known as the "Government Corporate Budget Executive Order of 1978."

Part I - Introductory Provisions

Sec. 2. Declaration of Policy. - It is hereby declared policy that the budgets of all components of government shall be supportive of national objectives and development plans and that in pursuance thereof, the budgets of government-owned or controlled corporations shall be supportive of and consistent with the budgets of the ministries, bureaus, offices and agencies of the national government.

The budgets of government-owned or controlled corporations shall observe the budget, organization and compensation policies and guidelines which govern agencies of the national government and which are contained in pertinent budget and compensation laws, rules and regulations.

The budget process of government corporations shall observe the concept of flexible budgeting and as such shall allow immediate adjustment to changes in economic and business conditions.

Corporations that earn a profit shall be allowed greater flexibility in terms of administrative expenses and compensation but corporations that incur losses shall be subject to the same conditions and guidelines as those that govern regular agencies of the government: Provided, however, that exceptions may be allowed with the approval of the President/Prime Minister in the case of corporations that are at the initial stages of operation and which are expected to show a profit within a reasonable period of time. aisa dc

Sec. 3. Definition of Terms. - As used in this Order:

a. "Government" means the National Government, including the Executive, the Legislative and the Judicial Branches, and the Constitutional Commissions. It includes, among its branches and instrumentalities, local governments and government-owned or controlled corporations;

b. "Government-owned or controlled corporations" are corporations created by law as agencies of the State for narrow and limited purposes, either owned wholly by the state or wherein the Government is a majority stockholder, in cases of stock corporations, or otherwise, agencies so created where no stocks are issued but whose affairs are conducted by a duly constituted board and which perform proprietary functions. This term shall include all corporations, including financial institutions, owned or controlled by the National Government performing government and/or proprietary functions, but excluding state universities and colleges;

c. "Subsidiary Corporations" are affiliated or secondary corporations which are created and administered by a principal/parent agency for the purpose of helping achieve the objectives of the latter;

d. "Appropriation" is an authorization under Acts of Congress, Presidential Decrees, or other Legislative enactment, allowing obligations to be incurred and payments to be made with funds of the Government under specified conditions and/or specified purposes.  
cda

e. "Allotments" are authorizations issued by the Ministry of the Budget to an agency which allow the latter to incur obligations within a specified amount, as duly authorized by a Legislative appropriation;

f. "Obligations" are amounts which are committed to be paid by Government originating from a Legislative appropriation, which arise from an act of a duly authorized administrative officer which binds the government to the immediate or eventual payment of a sum of money;

g. "Current Operating Expenditures" refer to appropriations for the purchase of goods and services for current consumption, the benefits of which are expected to terminate within a specified fiscal year;

h. "Capital Outlays" are appropriations spent for equipment and fixed assets and other objects of a more or less durable nature, whose benefits usually extend beyond one fiscal year; acd

i. "Subsidy" means the amounts granted to government-owned or controlled corporations from the General Fund, to cover operational expenses that are not supported by corporate revenues or to cover corporate deficits and losses;

j. "Equity" refers to the amount received by government-owned or controlled corporations as payment of capital subscriptions and generally capital investment of the national government in said corporations and which form part of their capitalization;

k. "Internally generated funds" are funds obtained from net revenues, funds arising from depreciation provisions, income from investment in securities, sale of corporate property, and other transactions performed in the course of corporate activity;

l. "External sources of funds" are those that are obtained from such sources as foreign and domestic borrowings, contributions from the National Government in the form of subsidy or capital subscription payments, funds generated through sale of stocks to the public, and donations from private individuals or institutions;

m. "Financial institutions" shall refer to the Central Bank of the Philippines, the Development Bank of the Philippines, the Philippine National Bank, the Government Service Insurance System, the Social Security System, the Land Bank of the Philippines, the Philippine Amanah Bank, and other government financial institutions. casia

## Part II - Operating Budgets

Sec. 4. Fiscal Year. - The fiscal year of government-owned or controlled corporations shall be the period beginning with the first day of January and ending with the thirty-first day of December of each calendar year.

Sec. 5. Budget Calendar and Format. - The budgets of government-owned or controlled corporations shall be consistent in format and timing with that of the National Government budget, except as these may be modified to suit the peculiarities of individual corporations. These budgets shall be formulated on the basis of an obligational authority and/or a cash basis of accounting, or variations thereof as may be duly approved under pertinent law.

Sec. 6. Operating Budget. - Each government-owned or controlled corporations shall prepare an operating budget consisting of (1) estimates of revenues, (2) estimates of expenditure, and (3) estimates of borrowings. The expenditure estimates shall cover current operating and capital expenditures. The operating budget of each government owned or controlled corporation shall be prepared following such procedure and guidelines as may be determined by the President/Prime Minister. They shall be prepared prior to the beginning of the fiscal year and recommended by the Governing Board of the Corporation, for consideration and final approval by the President/Prime Minister. cda

Sec. 7. Projected Financial Statements. - The operating budgets of government owned or controlled corporations shall be accompanied by a projected Balance Sheet, Profit and Loss Statement, Cash Flow Statement, and such other financial projections as may be required, together with the underlying assumptions adopted in making the projections.

Corporations, including financial institutions, shall submit as an attachment to their operating budget proposals, the projected sources and uses of funds statement for the budget year, an estimated sources and uses of funds statement for the current year, and an actual statement of sources and uses of funds for the preceding year. The latter two submissions shall be accompanied by comparative data on the approved funds flows established for the said year.

The operating budget proposal shall be accompanied by an assessment of the economic and business conditions which will have a bearing on the corporation's operations.

Sec. 8. Financial Institutions. - The operating budgets of government financial institutions shall be subject to the review and approval process provided under this Act: Provided, That rediscounting, lending and borrowing transactions of these institutions shall not be considered as part of their operating budgets for purposes of this Order: Provided, Further, That capital outlays included within the scope of the budget review and approval process herein provided shall include permanent investments, such as equity investments in subsidiaries or affiliated companies, land acquisition, building construction, land improvements, and the like: Provided, Finally, That loans granted to other financial institutions which have the effect of increasing the fringe benefits or compensation of the staff of the original lending institutions or for purposes of allowing the implementation of capital projects for use of the institution shall be considered as part of the operating budget governed by this Order.

Sec. 9. Long Term Budget. - The Governing Board of an institution shall prepare a long term budget consisting of estimates of income, expenditure and debt for the budget year

and at least the subsequent four-year period. In the case of capital outlays, budget estimates shall be prepared to cover the cost of capital projects scheduled over the five year period beginning with the budget year.

Sec. 10. Budget Flexibility. - Supplemental budgets may be proposed by corporations for approval, only when supported by adequate funding sources. The approval of supplemental budgets shall observe the same procedures as those established for the principal operating budget of the corporation: Provided, That in lieu of a system of supplemental budgets, the President/Prime Minister may approve a flexible budget system for individual corporations, which would allow automatic changes in expenditure level to accompany changes in revenue, raw material or other direct expenses: Provided, Further, That the President/Prime Minister may delegate to the Governing Board, the authority to change allocations within limits and under such conditions as he may specify. cd i

Sec. 11. Changes in the approved Budget. - Changes in the approved principal or supplemental budgets shall be made only with the approval of the President/Prime Minister, subject to the provisions under Sec. 10 of this Order.

Sec. 12. Objects of Expenditure. - The operating budget of corporations shall include a specification of estimates of expenditure by object and shall include an organization chart and an itemization of personal services. Positions may be created or reclassified, and reorganization affected, only when approved by the Governing Board under such guidelines and/or procedure as may be issued by the President/Prime Minister: Provided, That reclassification and the creation of positions shall be within approved budget levels: Provided, Further, That any such changes shall be in accordance with pertinent position classification and compensation laws.

Sec. 13. Contributions and Donations. - A government owned or controlled corporation may grant donations, in kind or in cash, to institutions or persons authorized to receive public funds in the form of donations or contributions, within the limitations of its budget as approved under this Order: Provided, That contributions and donations shall be made only if the operating revenues of the corporation, net of expenses, are sufficient to cover these.

Sec. 14. Trust Funds. - Each corporation shall submit to the President budget estimates covering the income and expenses associated with funds administered, managed, or held in trust by the government-owned or controlled corporation: Provided, That transactions relating to the receipts, disbursements, or generally the disposition of the principal and accumulated net income of such Trust Funds shall not be considered as forming part of the corporation's operating budget.

Sec. 15. Expenditure Authority. - No government-owned or controlled corporation shall incur obligations or make payments for current operating or capital expenditures after the beginning of each calendar year without a budget as approved under this Order.

Sec. 16. Subsidiaries. - The operating budget of a government owned or controlled corporations shall be accompanied by similar operating budgets of its subsidiaries and affiliated companies: Provided, That the budget of subsidiaries of financial institutions other than the Central Bank of the Philippines that are classified as acquired assets under Central Bank regulations, shall be excluded from the scope of this Section.

Sec. 17. Cash Dividends. - Each corporation shall declare at least five per cent of net earnings of each year as cash dividends: Provided, That cash dividends accruing to the National Government shall be received by the Treasury and recorded as income of the General Fund: Provided, Further, That the fraction of net earnings that shall be declared by a corporation as cash dividends may be changed by the President/Prime Minister upon recommendation of the Minister of Finance: Provided, Finally, That this Section shall not apply to the Government Service Insurance System, the Social Security System, and those government owned or controlled corporations whose profit distribution is provided for by their respective charters or by special law.

Sec. 18. Accounting Method. - The budget and accounting process of government owned or controlled corporations shall be expressed in terms of the obligational authority and/or the cash budget concept, or as otherwise provided under budget and accounting laws.

Sec. 19. Compensation. - Policies and rates on salaries, wages, allowances, per diems, consultant's fees, overtime pay, and other forms of compensation, including allowances and fringe benefits, of government-owned or controlled corporations, shall be determined in accordance with the position classification and compensation and salary schemes as prescribed by P.D. No. 985 and other pertinent compensation law: Provided, That transportation facilities, housing, retirement plans, financing programs, and other fringe benefits shall be subject to such guidelines as may be approved by the President/Prime Minister, as provided by P.D. No. 985.

Sec. 20. Additional Allowances and Emoluments. - Officials and employees of a parent corporation who are detailed with a subsidiary corporation, or vice versa, may receive only such allowances and other emoluments as may be approved in accordance with P.D. No. 985 and other pertinent compensation law.

### Part III - Equity Investment

Sec. 21. Budgetary Requests. - Government owned or controlled corporations may propose the payment of capital stock subscriptions of the National Government and the allocation of subsidy payments in the form of a budgetary request submitted in response to the annual budget call issued by the Ministry of the Budget in the preparation of the annual General Appropriations Bill: Provided, That corporate equity investments shall be within the limit of the authorized capital stock of the requesting corporation: Provided, Further, That the budgetary request of corporations shall be submitted in such format and following such timetable as may be determined by the Minister of the Budget: and Provided, Finally, That the requests for equity investment shall be accompanied by projected financial statements and by details of the proposed projects for which the requested government equity investments is intended.

Sec. 22. Fund Releases. - Funds appropriated for government equity investments and subsidies shall be released upon submission of Special Budgets as provided by Sec. 40 of P.D. No. 1177. The usage of such funds shall be specified, including the projects to be implemented or undertaken with equity investments.

### Part IV – Accountability

Sec. 23. Legislative Submission. - The Minister of the Budget shall prepare a summary of approved operating budgets of government-owned or controlled corporations. He shall submit this summary to the Batasang Pambansa on or before the last day of March of each year.

Sec. 24. Performance Reports. - Government-owned and controlled corporations, including financial institutions, shall submit a separate annual report of financial performance as compared with the approved budget, explaining performance in terms of work and financial results. Reports shall likewise be submitted for subsidiaries and affiliates of these corporations. The Minister of the Budget shall prescribe the content of such reports which shall include information on corporate solvency, liquidity and profitability and the status of capital projects being undertaken by the corporation. Reports pertaining to a given fiscal year shall be submitted on or before June 30 of the following year, through the Ministry of the Budget and the President/Prime Minister, to the Batasang Pambansa, together with comparative data for the preceding year and the approved budget for the current year.

Sec. 25. Reports on Guaranty Obligations. - Government-owned or controlled corporations shall periodically report to the Minister of Finance and to the Minister of the Budget on the status of obligations they have entered into and which are backed by government guarantee.

#### Part V - Final Provisions

Sec. 26. Rules and regulations. - The rules and regulations for the implementation of this Order shall be issued by the Minister of the Budget.

Sec. 27. Board Action. - The representatives of the National Government or the Governing Boards of government owned or controlled corporations shall pass the Resolutions and otherwise adopt such action as may be necessary to comply with this Executive Order.

Sec. 28. Effectivity. - This Order shall take effect upon its approval, subject to transitional measures for the CY 1979 budget year as may be duly approved under the rules and regulations issued pursuant to this Order.

Done in the City of Manila, this 23rd day of January, in the year of Our Lord, nineteen hundred and seventy-nine.