

[EXECUTIVE ORDER NO. 518, January 23, 1979]

**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;

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:

Section 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.

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.
- 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;

- 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.

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.

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