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Department of Budget and Management
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TO : Heads of Departments/Agencies/State Universities and Colleges and Other Offices of the National Government and All Others Concerned

SUBJECT: **GUIDELINES ON THE REVIEW OF MAJOR FINAL OUTPUTS (MFOs) AND PERFORMANCE INDICATORS (PIs) AND RESTRUCTURING OF PROGRAMS, ACTIVITIES AND PROJECTS (PAPs)**

1.0 RATIONALE

- 1.1 It is the objective of the Government to use a results-based budgeting system or the Organizational Performance Indicators Framework (OPIF) as basis for allocating the budget and monitoring, reporting and evaluating department/agency performance.
- 1.2 As the basic element of OPIF, Major Final Outputs (MFOs) represent the core mandated functions of the department/agency. MFOs are the goods or services that a department/agency is mandated to deliver to external clients; and PAPs are the activities undertaken to produce, or drive the attainment of MFOs.
- 1.3 The main rationale of the Programs, Activities and Projects (PAPs) restructuring is to establish the link of the PAPs to the MFOs for better cost estimation and expenditure prioritization. Activities that do not fall within the legal mandate of a department/agency, or are not linked to an MFO should be considered for restructuring.
- 1.4 For this purpose, existing department/agency MFOs shall be reviewed, and changed, if necessary. The corresponding Performance Indicators (PIs) need to be established to specify the standard for MFO delivery. Further, the PAPs shall also be reviewed to strengthen their link with the MFOs and how effectively these drive the MFOs, or trigger a change in budget strategy and conduct of activities.
- 1.5 It is important that a common methodology be applied to MFOs/PIs review and PAPs restructuring in order to develop standards for OPIF throughout government.

2.0 PURPOSE OF THE GUIDELINES

- 2.1 To provide the policy guidelines and instructions in reviewing MFOs and specifying PIs, and restructuring PAPs of departments/agencies;
- 2.2 To define the roles and responsibilities of DBM and departments/agencies in MFOs/PIs review and PAPs restructuring; and
- 2.3 To set the procedures and timetable for MFOs/PIs review and PAPs restructuring submission and approval.

3.0 COVERAGE

- 3.1 The MFOs/PIs review and PAPs restructuring will cover all Departments/Agencies and State Universities and Colleges (SUCs).

4.0 CONCEPTS AND TERMINOLOGIES

4.1 MFOs and PIs Specification

- 4.1.1 An MFO is a good or service that a department/agency is mandated to deliver to external clients through the implementation of programs, activities and projects. It may be a single output or a group of outputs that are similar in nature, targeted at the same organizational/sector outcome and capable of being summarized by a common performance indicator.
- 4.1.2 It may be defined relative to the outcomes that they contribute to, the client or community group that they serve, and the business lines of the department/agency.
- 4.1.3 Each MFO requires an integrated set of PIs that specifies the expected performance of a department/agency in terms of quantity, quality, timeliness and cost of MFO delivery.

4.2 PAPs Structure

- 4.2.1 PAPs refer to activities undertaken by a department/agency to achieve the purpose for which it is established or created to deliver its MFOs.
- 4.2.2 The PAPs structure represents the current budgeting framework used to appropriate funds in the General Appropriations Act (GAA). The grouping of PAPs identified with an MFO will work towards the accounting of the budget resources made available to each department/agency for the generation of its MFOs. As a rule, one PAP shall be attributed to only one MFO.
- 4.2.3 PAPs are the traditional building blocks of the budget, and the linking of PAPs to MFOs is an important prerequisite for appropriations to MFOs. It can also assist the departments/agencies in its functional rationalization process.

4.3 PAPs Classification

- 4.3.1 The three components of PAPs are:
 - 4.3.1.1 Program, which is an integrated group of activities that contributes to a continuing objective of a department/agency.
 - 4.3.1.2 Activity, which is a work process that contributes to a

program, sub-program or project.

4.3.1.3 Project, which is a special department or agency undertaking carried out within a definite time frame and intended to result in some pre-determined measure of goods and services.

4.3.2 PAPs are classified by cost structure into: General Administration and Support (GAS); Support to Operations (STO); Operations; and Projects.

4.3.3 PAPs are further classified according to expense class: Personal Services (PS); Maintenance and Other Operating Expenses (MOOE), and Capital Outlays (CO).

4.4 **General Administration and Support (GAS)**

4.4.1 GAS is defined as activities dealing with the provision of overall administrative management support to the entire agency operation. It includes activities such as general management and supervision, legislative liaison services, human resource development and financial and administrative services. Funds provided for GAS are management overhead expenses and are therefore indirect costs incurred in delivering the MFOs of a department/agency.

4.4.2 GAS is common to all departments/agencies and therefore it is possible to compare the ratio of GAS expenditure to MFO delivery across departments/agencies to establish the benchmarks for cost efficiency.

4.5 **Support to Operations (STO)**

4.5.1 STO is defined as activities that provide technical and substantive support to the operations and projects of the department/agency. The types of services included under STO are likewise common across agencies. Examples of such include planning and policy formulation, program monitoring and evaluation, public information programs, research and development, statistical services, and information systems development.

4.5.2 Funds provided under the STO classification are also overhead expenses and, therefore, indirect costs of delivering the department/agency's MFOs.

4.6 **Operations**

4.6.1 Operations are activities directed towards fulfilling the department/agency's mandate. These may include regulatory services, provision of goods, delivery of services such as health care or education, national economic planning, and central statistics administration and management. Activities under Operations drive the MFOs.

4.6.2 Activities which are classified as GAS or STO may represent the core functions of a department/agency. For example, NEDA's economic

planning function, DBM's budgeting function, CSC's personnel management function, DAR's legal and adjudication services, and NSO's statistical activities should be classified as Operations.

4.6.3 Funds provided for Operations are direct costs of delivering department/agency MFOs.

4.7 **Project**

4.7.1 A Project is considered an investment in the capacity of an agency to deliver an MFO. It is not usually an MFO by itself but contributes to the delivery of an MFO.

4.7.2 Most projects are capital investments but short term activities with specific and identifiable output such as the development of a new IT system, which may involve MOOE (software) or CO (infrastructure, equipment). Because they have very specific outputs, projects are usually direct costs and are related to one or more MFOs.

4.7.3 Projects may be locally-funded or foreign-assisted. Unlike GAS, STO and Operations, a project is not a recurring activity and thus funds are allocated to it only until its completion.

4.7.4 Funding requirements for the operating and maintenance expenses of a completed project shall be included in the regular provision for an MFO.

5.0 **POLICY AND PROCEDURAL GUIDELINES**

5.1 MFOs and PIs shall be reviewed to recognize the different groups of major outputs that the department/agency produces consistent with their mandate.

5.2 Each MFO shall have at most two sets of PIs that measure quantity, quality, timeliness and cost, which provide the basis for assessing department/agency performance in meeting its targets.

5.3 PAPs shall be restructured to align them with appropriate MFOs and improve cost estimation and expenditure prioritization. Restructuring actions may involve merging, splitting or dropping of activities. See examples in table below.

Before	After
Example 1: Merging of PAPs	
Department of Agriculture PAPs under Operations (O)	PAP under Support to Operations (STO)
III.a.1 Agricultural crop research	II. Research on agricultural crops, tools and implements, and others
III.a.2 Research on farm tools & implements	
III.c.4 Conduct of research studies	
	<i>Note: This is also an example of reclassifying the PAPs from O to STO</i>

Example 2: Splitting of PAPs

Department of Budget and Management

PAP under Operations

III.b.2 Review and evaluation of the funding requirements of government agencies, including their respective foreign-assisted projects, and preparation and issuance of release documents therefore, monitoring of fund utilization and analysis of accountability reports of agencies to determine commitments (actual performance vis-à-vis targets), and development of the organization and staffing structure of agencies

PAP under Operations

III.b.2 Develop organization and staffing structure of agencies (MFO 1)

III.b.3 Review and evaluate government agencies' funding requirements including their their foreign-assisted projects and issue release documents (MFO 2)

III.b.4 Monitor agency physical and financial performance and analyse performance reports (actual vis-à-vis targets;) (MFO 3)

Note: Do not repeat PAP statement

Example 3: Splitting of PAPs and Reclassification of PAPs

Department of Agriculture

PAP

II.a Development of the Crop Sector

III.a Development of the Crop Sector

II.c.5 Economic research, policy formulation and planning services

III.c.1 Economic research, policy formulation and planning services

PAP under Operations

III.a Development of the Crop Sector

PAP under STO

II. Economic research, policy formulation and planning services

Note: This is also an example of reclassifying PAPs.

Note: PAP was repeated

- 5.4 Activities that are not linked to an MFO, or do not fall under the mandate of the department/agency shall be deleted. As far as practicable, the organizational structure should be aligned with the MFOs. Redundant activities shall also be eliminated or discontinued. As a rule, one activity shall be attributed to only one MFO.
- 5.5 PAPs may be grouped into those benefiting external clients and those benefiting the internal clients. As a general rule, those benefiting external clients shall form part of the PAPs under Operations while those benefiting internal clients only should go to GAS or STO.
- 5.6 Funds for GAS and STO shall be presented separately and not allocated across MFOs.
- 5.7 Funds from the dropping of unnecessary or redundant activities may be used to fund higher priority or new activities in the same department/agency.
- 5.8 The restructured MFOs, PIs and PAPs as approved by DBM shall be used and implemented in the next budget preparation.
- 5.9 The detailed guidelines are indicated in **Annex 1** – Instruction for MFOs, PIs and PAPs Review and Restructuring.

6.0 ROLES AND RESPONSIBILITIES

6.1 Role of DBM

- 6.1.1 The DBM shall provide technical assistance to departments/agencies in the review and analysis of MFOs, PIs and PAPs. DBM ROs shall assist the SUCs in their MFOs, PIs and PAPs restructuring.
- 6.1.2 It shall review and approve the proposed MFOs and PIs submitted by departments/agencies and coordinate with NEDA to ensure consistency with the Philippine Development Plan Results Matrix (PDP RM).
- 6.1.3 It shall review and approve restructured PAPs of departments/agencies for use in the next budget preparation.


6.2 Role of Departments/Agencies/SUCs

- 6.2.1 Departments/Agencies/SUCs shall initiate the MFOs, PIs and PAPs restructuring using the DBM guidelines.
- 6.2.2 They shall establish their own internal structure and process for the review and restructuring of MFOs, PIs and PAPs.
- 6.2.3 They shall submit their proposed restructured MFOs, PIs and PAPs to DBM for review and approval.

7.0 TIMETABLE

- 7.1 Department/Agencies/SUCs shall submit to DBM their restructured MFOs, PIs and PAPs on January 26, 2012.
- 7.2 DBM shall conduct review/consultation with the departments/agencies on the restructured MFOs/PIs and PAPs. The review/consultation and finalization of the restructured MFOs/PIs and PAPs shall be done within 22 calendar days from the receipt of submissions on January 26, 2011.
- 7.3 Approved restructured MFOs/PIs and PAPs shall be formally transmitted by the DBM to the departments/agencies concerned to be used for the 2013 annual budget preparation activity.

8.0 FOR COMPLIANCE


FLORENCIO B. ABAD
Secretary

Instructions for MFO, PIs and PAPs Review and Restructuring

This section provides detailed instructions for accomplishing Form 1- Proposed MFOs and PIs, Form 2 – PAPs Review and Analysis Worksheet, and Form 3 – Proposed PAPs Structure and Justification.

1.0 Collect data

- 1.1 Obtain a copy of the following:
 - a) Legal basis and other issuances on the department/agency's creation
 - b) Organizational chart
 - c) Current General Appropriations Act (GAA)
 - d) Corresponding OPIF Book of Outputs for the Budget Year
 - e) Form A of the budget proposal for the latest Budget Year
 - f) Budget Performance Review (BPR) report or end-of-the-year performance report of the agency (latest)
- 1.2 Examine the documents to determine where data will be relevant for review and analysis of MFOs and PAPs and completion of Forms 1, 2 and 3.

2.0 Review/improve specification of MFOs

- 2.1 Review the current set of MFOs reported to DBM and identify MFOs that needs to be improved or restated in a way that helps the Government, Congress and the public understand the nature of the good or service for which public funding is being provided.
- 2.2 Define the MFO in such a way that it:
 - a) describes the product or service to be provided to an identifiable external client,
 - b) is within the department/agency's control, and
 - c) is measurable, manageable and auditable.
- 2.3 Express the MFO in comprehensive terms, inclusive of the MFOs of its subordinate units.
- 2.4 Examples of MFOs are Policy advisory services (to external clients or beneficiaries), Regulatory services, Basic education services, Agriculture and fishery support services and Tertiary and other specialized health care services.
- 2.5 The number of MFOs a department/agency may have would depend on the range or diversity of its mandate within the scope of its organizational outcome.
- 2.6 Additional information on how to formulate MFOs and PIs is contained in the **OPIF Reference Guide** disseminated separately by DBM to departments/agencies.

3.0 Specify MFO PIs and targets

- 3.1 Review/revise the description of PIs and specification of PI targets for each MFO in accordance with the quality standards discussed in the **OPIF Reference Guide**. Currently, departments/agencies report too many quantitative PIs and internal process or input PIs, which should be dropped for these do not describe MFOs.
- 3.2 Formulate, at most, two PI sets (quantity, quality, timeliness and cost) to adequately describe the MFO. This means that for every quantity PI, there should be a corresponding or associated quality, timeliness and cost PI to describe the MFO.
- 3.3 Drop/delete PIs that do not describe the MFO, and if necessary, formulate new PIs that would best describe the MFO.
- 3.4 Submit proposed changes to MFOs and PIs to DBM for approval. Use **Form 1 – Proposed MFOs and PIs Worksheet** for this purpose.

4.0 Prepare the worksheet for PAPs review

- 4.1 Before restructuring PAPs, it is understood that a review of the MFOs has been undertaken and proposed revisions, amendments or corrections are reflected in Form 1. Thus, PAPs should be attributed to the appropriate MFOs as revised, corrected or restated.
- 4.2 Copy data from the GAA, OPIF Book of Outputs and BP Form A into **Columns 1, 2, 3 and 4** of the worksheet (**Form 2- PAPs Review and Analysis Worksheet**) and reconcile the difference in the information. To facilitate comparison, movement and tracking of cells that will be done in the succeeding steps, shade the cells using a different colour for each group of activity (GAS, STO and O) and for each column - GAA, OPIF Book of Outputs and Form A.
- 4.3 Review and analyse PAP statements in the GAA, OPIF Book of Outputs and Form A and make notations, if there is action needed for a particular PAP, in the issues and recommendations columns (**Columns 5 to 8**). Notations are important as these will establish the trail and historical link between the old and new PAP structure, including their budget allocation.

5.0 Review and analyse PAPs

- 5.1 The review and analysis of PAPs shall be based on four parameters: legal mandate, activity structure, cost of MFO and activity classification.
- 5.2 Legal mandate and other policy instructions/documents
 - 5.2.1 Review each PAP and determine if the activities are within the authority of the department/agency to undertake, using as reference the department/agency's legal mandate and other policy instructions and documents.
 - 5.2.2 Drop activities that do not fall within the legally mandated function of the department/agency.
 - 5.2.3 In **Column 5**, explain the issue and recommended action for activities that do not fall within the mandate of the department/agency.
- 5.3 Activity structure

- 5.3.1 Review the activities of each PAP and determine if they are correctly linked or aligned with the appropriate MFO. As a rule, one activity shall be attributed to only one MFO.
- 5.3.2 The aim is to ensure that the activity structure corresponds to essential work tasks needed to produce the MFO, and to refine the composition of activities where this will improve performance. Poor performance may be the result of misaligned activities and thus poor expenditure prioritization.
- 5.3.3 Consider dropping, merging or splitting activities to ensure alignment of activities to the appropriate MFO. In particular, there is need to drop or discontinue redundant or unnecessary activities. Examples of these actions can be found in the **OPIF Reference Guide**.
- 5.3.4 In **Column 6**, state the issue and recommended action, i.e. dropping, splitting or merging of activities to improve the PAP structure and budget estimation for MFOs.

5.4 Accountability

- 5.4.1 Review the activity structure of each PAP and identify which unit is responsible for undertaking the activities. The aim is to establish accountability and ensure that PAPs are aligned with the operational/functional organization of the department/agency.
- 5.4.2 In **Column 7**, indicate the unit or units responsible for the activity and recommended changes in case of redundant or duplicated activities and to clarify responsibility for activities.

5.5 MFO Cost

- 5.5.1 Review the classification of activities in each PAP with regard to General Administration and Support (GAS), Support to Operations (STO) and Operations, and identify activities that have been misclassified.
- 5.5.2 In **Column 8**, indicate the new classification for these activities that were previously misclassified.
- 5.5.3 Once all activities have been correctly classified, it will be easier to distinguish direct costs, i.e., Operations, from indirect costs, i.e., GAS and STO of each MFO, and thus improve prioritization of expenditures within the department/agency.

6.0 Justify the new PAP structure

- 6.1 Write the new PAP structure implementing the recommendations in the worksheet or Form 2. The new PAP structure should capture all activities which contribute to the MFO and all the budget financing assigned to these activities. Use **Form 3 - Proposed PAPs Structure and Justification**.
- 6.2 Prepare a narrative summary to explain and justify the new structure comparing this to the old structure and citing the improvements expected to be gained or achieved.

7.0 Submit signed Forms 1, 2 and 3 to DBM for review and approval.

Proposed MFOs and Performance Indicators

Name of Department/Agency:

MFO/PI ⁽¹⁾	Performance Target ⁽²⁾
MFO 1:	
PI Set	
Quantity PI:	
Quality PI:	
Timeliness PI:	
Cost of MFO:	
MFO 2:	
PI Set	
Quantity PI:	
Quality PI:	
Timeliness PI:	
Cost of MFO:	
MFO 3:	
PI Set	
Quantity PI:	
Quality PI:	
Timeliness PI:	
Cost of MFO:	

(1) If proposing more than 1 PI set, number PI set accordingly, e.g. PI Set 1, PI Set 2.

(2) Express target as minimum or maximum (>, <), e.g. >90%

Prepared by:

Endorsed by:

(Name, Title & Signature)

Date:

Department/Agency Head

Date:

PAPs Review and Analysis Worksheet

NAME OF DEPARTMENT / ATTACHED AGENCY
 MANDATE OF DEPARTMENT / ATTACHED AGENCY

1	2	3	4	5	6	7	8
PAP Code	GAA	FORM A	OPIF/Proposed New MFOs	Issues and Recommendations			
				Alignment to Mandate	Alignment to MFO & Activity Structure	Responsible Unit	PAPs to be Reclassified
A.I	General Administration & Support	General Administration & Support					
A.II	Support to Operations	Support to Operations					
A.III	Operations	Operations					
			MFO No. 1				
			MFO No. 2				
			MFO No. 3				

Column Summary Instructions for Worksheet

- 1 In column 1, copy PAP code from FY 2011 GAA.
- 2 In column 2, copy Program & Activity statements from FY 2011 GAA.
- 3 In column 3, copy PAP titles from BP Form A FY2012.
- 4 In column 4 (after last entry/row in Form A column), copy MFOs and PAP titles from FY 2011 OPIF Book. Indicate new proposed MFO titles if any from Form 1 of this guidelines.
- 4.1 Cut/move and paste cells in columns 1, 2 & 3 to match with appropriate MFOs & PAPs in column 4. To facilitate comparison, movement and tracking of cells, shade the cells using a different colour for each group of activity (GAS, STO and O) and for each column - GAA, OPIF Book of Outputs and Form A.
- 4.2 If applicable, create rows (below related PAPs) and paste PAPs from columns 1, 2 & 3 that cannot be matched to PAPs in column 4.
- 4.3 If applicable, highlight cell for PAP being matched that does not exist in either GAA or Form A.
- 5 In column 5, state the issue re: PAP alignment to legal mandate and recommendation
- 6 In column 6, state the issue re: PAP alignment to MFO & activity structure and recommendation
- 7 In column 7, indicate specific department unit responsible for aligned PAPs and relevant issues arising, if any, and recommendation
- 8 In column 8, identify activities that are misclassified, other issues relevant to MFO cost, and recommendations to address issues identified.

Proposed PAPs Structure with Justification

NAME OF DEPARTMENT / ATTACHED AGENCY
 MANDATE OF DEPARTMENT / ATTACHED AGENCY

Proposed PAPs Structure	Justification
GAS Activity 1: Activity 2:	
STO Activity 1: Activity 2:	
OPERATIONS MFO 1 Activity 1: Activity 2:	
MFO 2 Activity 1: Activity 2:	

PROJECTS	
Project 1 Project 2	

Prepared by:

Endorsed by:

(Name, Title & Signature)

Date:

Department/Agency Head

Date: