

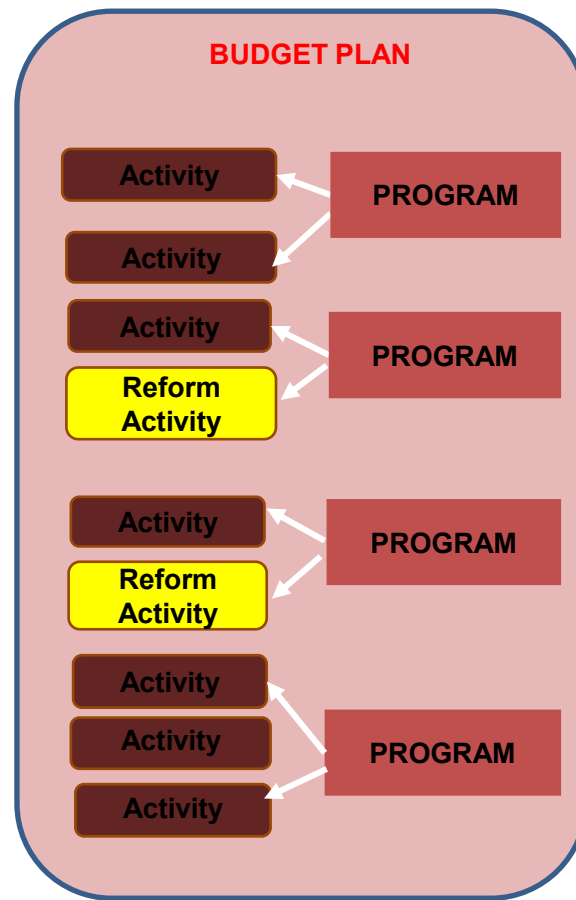
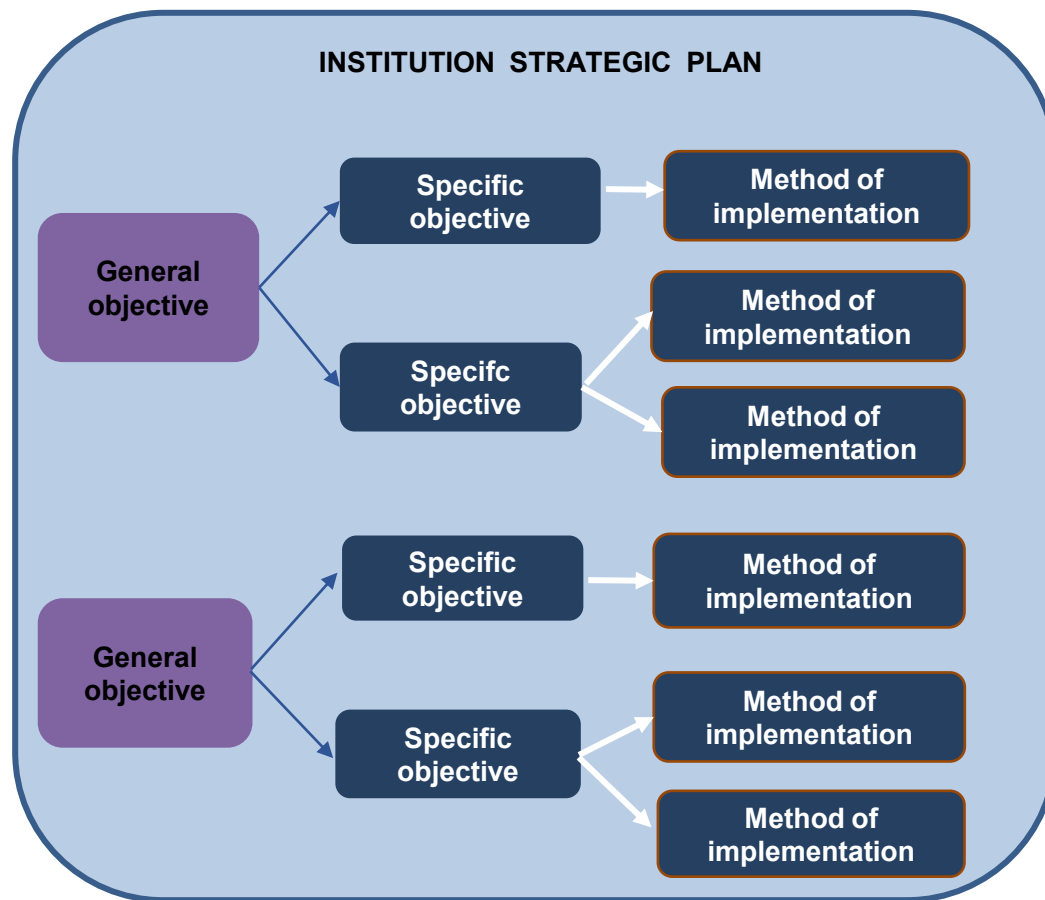
PRACTICAL GUIDE TO COSTING METHODOLOGY OF STRUCTURAL REFORM AND BUDGETING

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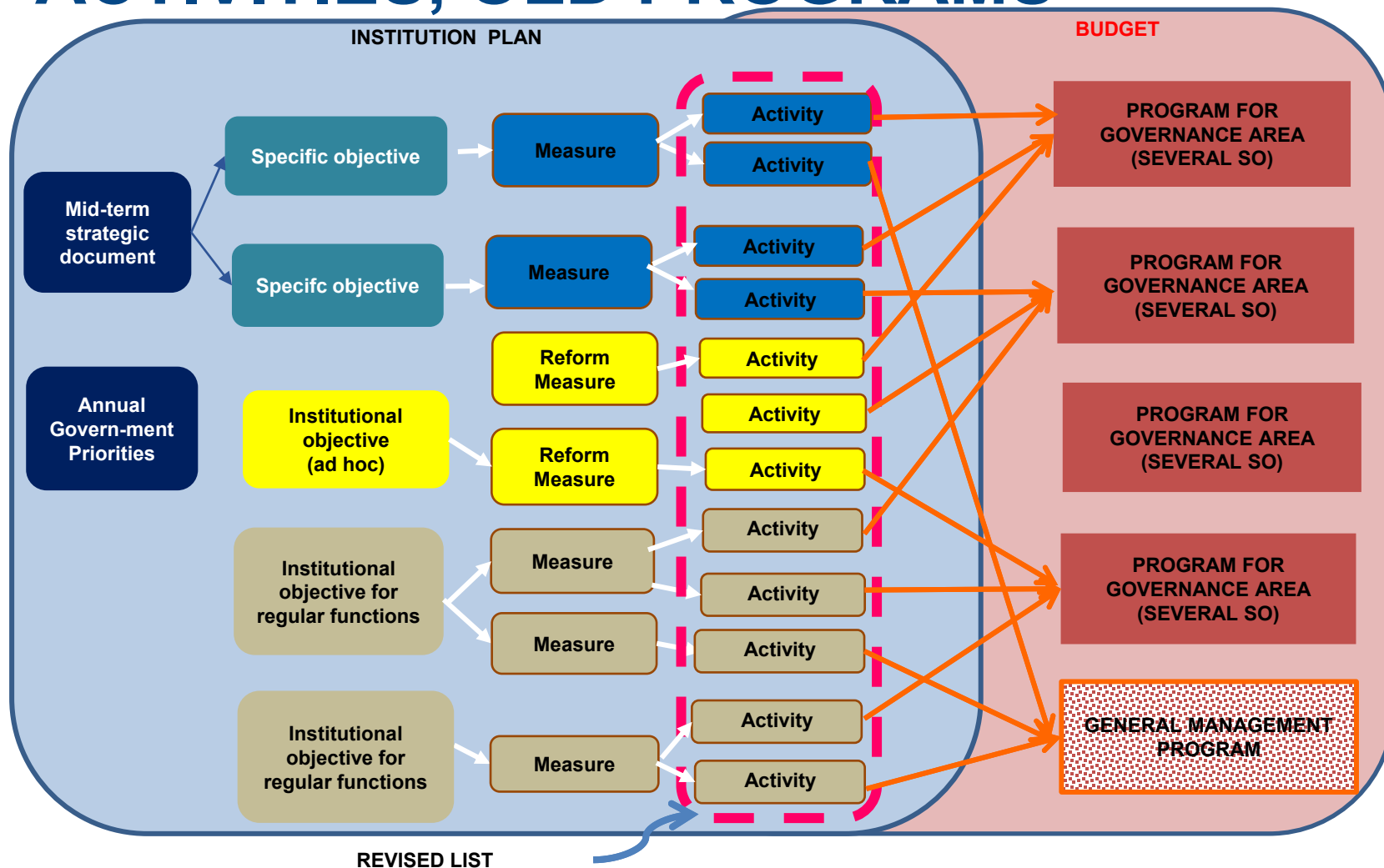


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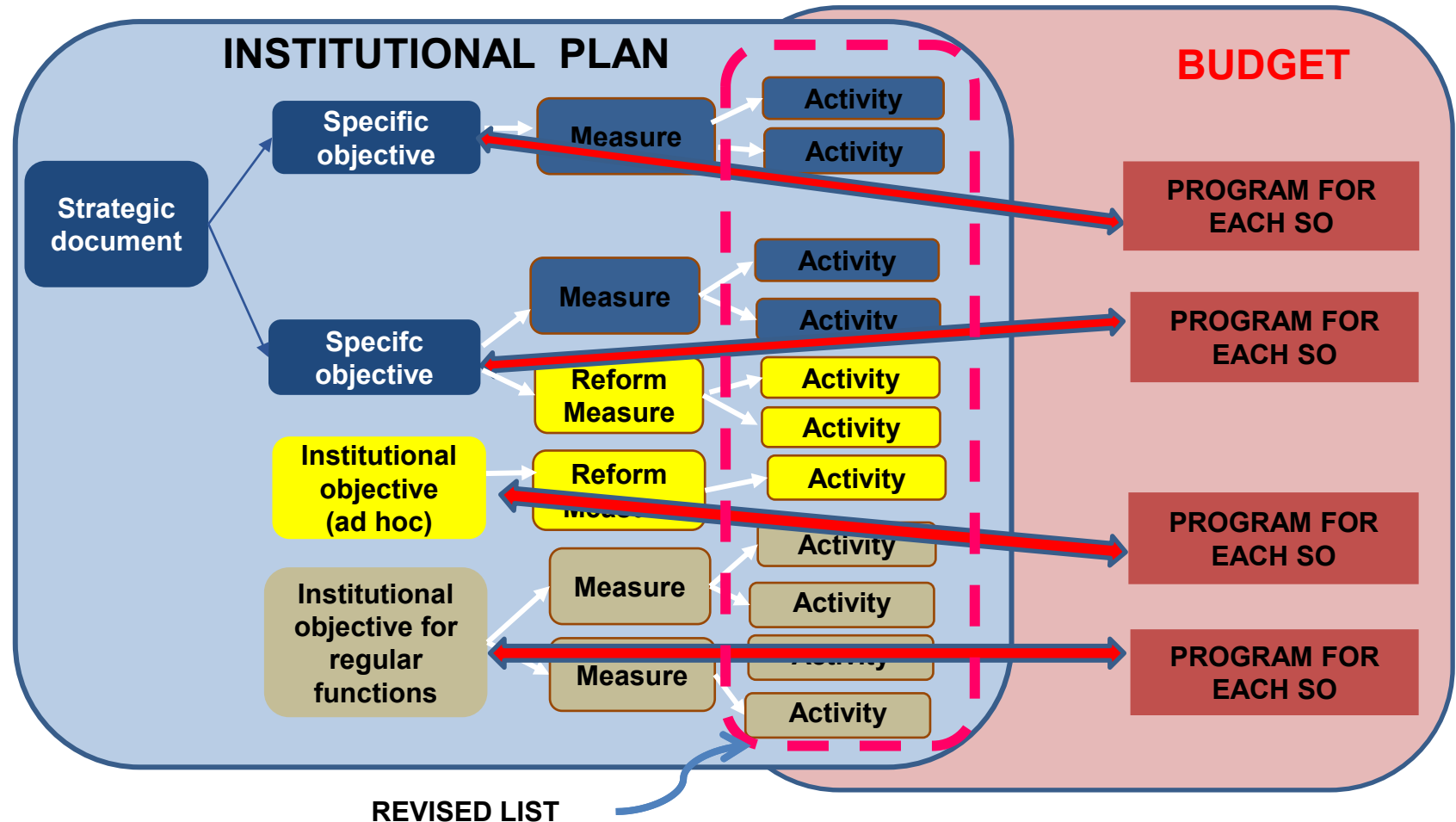
CURRENT SITUATION (1)



PARTIAL REFORM: NEW IP & ACTIVITIES, OLD PROGRAMS



COHERENT REFORM: NEW IP & ACTIVITIES, NEW PROGRAMS



COMPARISON OF GROUPING

- ONE BUDGET PROGRAM –
- ONE SPECIFIC OBJECTIVE
- Coherent reform

- CLEAR LINKS BETWEEN OBJECTIVES AND SPENDINGS
- NO NEEDS FOR EXTRA EXPLANATORY NOTES,
- INSTITUTIONAL PLAN IS SUFFICIENT FOR BUDGET JUSTIFICATION
- MORE PROGRAMS
- NEW PROGRAMS WITH NEW STRATEGIES AND OBJECTIVES

- ONE BUDGET PROGRAM –
- ONE GOVERNANCE AREA
- Partial reform

- WEAK LINKS BETWEEN OBJECTIVES AND SPENDINGS
- NEEDS FOR ADDITIONAL EXPLANATION OF THE CONTENT OF PROGRAMS
- LESS POSSIBILITY TO DIVIDE COSTS RELATED TO STRATEGIC OBJECTIVES AND REFORMS AND REGULAR COSTS
- LESS PROGRAMS, PROGRAMS ARE STABLE
- NEW PROGRAM FOR EACH NEW OBJECTIVE

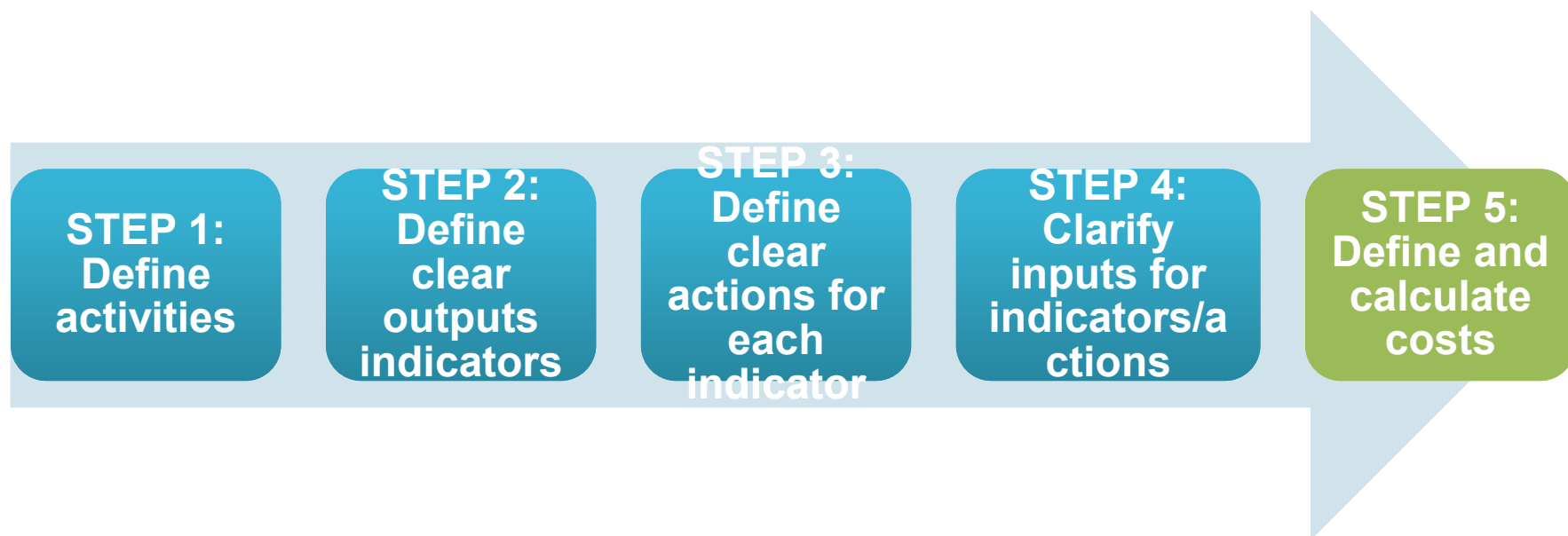


Preparatory Work! What to do?

- Ensure activities are clear
- Outputs = concrete deliverables
- List all activities you need to undertake to Produce/deliver each specific output
- Estimate inputs for each specific activity
- **Prepare a list of average unit prices/costs**
- Ensure that you have all information available on potential donor 'support
- Have a copy of your budget/Fiscal strategy
- Fill in the costing & budgeting estimation table



Costing steps



An example (NRP program) - Improving Public Administration

			measure results indicators							
Measure	CSR	Objective	Results indicator	Initial value	Target value	Fiscal effect of the measure — Total and annual change of Government revenue and expenditure	Legal/administrative instruments of measure implementation	Activities	Deadline for the implementation of activities	Implementing authority of activities
1.3. Improving public administration										
1.3.5. Streamlining of state information structure		establishment of the Shared Service Centre (SSC) as a single strategic place for managing and coordinating the development of state ICT and streamlining of the state ICT expenditure.	Contract on grant award to the Project of establishment of SSCs and establishment of the SSCs in 40 institutions		SSC established in 40 institutions	Expenditure: HRK 370.6 million (85% ERDF, 15% SB)	1) National Information Infrastructure Act 2) Regulation on the organizational and technical standards for connecting to the national information infrastructure	1.3.5.1. Preparation and start of implementation of project activities (phase 1) - establishment of Shared Service Centers in 40 institutions.	Dec 2018	MPA

Part of the strategic plan of Ministry of Public administration

Reform	EC Recommendation	Reform short description		Qualitative effect		
Rationalization and industrialization of the state information infrastructure and easier access to services provided by the public administration	Reduce administrative burden of enterprises	establishment of a shared service center as a unique strategic place for managing and coordinating the development of state IT and rationalization of state ITP expenditures through monitoring of spending of budgetary resources		Establishment of a Service Sharing Center as a Single Strategic Site for Management and Coordination and Development of State ICT, Rationalization of State Consumption		
Legal/administrative instruments of measure implementation	Activities for measure implementation	Fiscal impact on budget		Activity/project in CG budget		
The law on state information infrastructure, Decree on standards		370,8 mil HRK (85% ERDF, other national cofunding)		A757024		
Results indicators	Unit	Initial value	Target value 2018	Target value 2019	Target value 2020	Target value 2021
	kn	0	68.000.000	297.000.000	370.600.000	370.600.000



PFM Example

No	Activity	Outputs	Actions	Inputs	Costs
5.1.1	Develop methodologies for medium-term baseline estimates and costing of new policies, set up the legislative framework and provide training	Methodology developed and adopted by 3Q 2019	Preparation of methodology	50 man days (MD) of technical assistance (international expert)	One-off activity. The cost of 1 MD is 500 euro. 50 MDs * 500 = 25000 euro
		Minister of Finance Instructions adopted by 4 ^Q 2019	Preparation of Minister instruction	Civil servants inputs	Base budget.
		80 budget officers trained	Organisation of 4 – 2 days trainings with 20 officers in each of the training	2 trainers = 13 MD/each (total 26 MD) 80 materials packages	<u>Experts</u> : 26 MDs * 300 euro = 7800 euro <u>Training materials</u> : cost of one training pack is 15 euro * 80 persons = 120 euro <u>Refreshment</u> 80 persons * 5 euro * 2 days = 800 euro <u>Interpretation</u> 16 MDs (2 persons) * 200 = 3200 euros Total = 11920 euro (will this be one off activity??)
		MTEF 2020 -2023 prepared based on new methodology	Preparation of the MTEF by line ministries	Civil servants inputs	Base budget.



Why *ERP Costing Guidance* is needed?

- *ERP Costing Guidance* provides a methodological tool for measuring fiscal implications of SR under ERPs
- *ERP Costing Guidance* therefore complements the European Commission's *ERP Guidance Note* in this area



Ambiguities of “old” ERPs in measuring SRs’ „fiscal effects“?

- Which costs should be the subject of the calculation?
- How to integrate extra-budgetary sources?
- What figures on extra-budgetary funding sources should be taken (commitments / disbursements)?
- How to articulate well a priority measure (costing is the final stage of a bottom-up process)?



Overall framework of *ERP Costing Guidance* preparation

- Its preparation was based on thorough review of the experiences the countries in the region had with ERP preparation
- It has been prepared in a way that it can be applied across countries and across the line ministries within a country
- It is aimed to be simple and made in a user friendly manner



Key costing/financing features of *ERP*

Costing Guidance

- Focus on costs of SR measures only
- Focus on „additional costs“ of SR measures only
- Focus on direct, first-level fiscal effects of SR measures only
- Systematic classification of costs under SR measures
- Systematic classification of sources for funding SR measures



Tables on costing/financing of SR under *ERP Guidance Note*

- *ERP Guidance Note* provides basic explanation for costing individual SR measure
- More specifically, *ERP Guidance Note* contains template tables (each with methodological explanation)
 - One on *costing* – volume and structure – of a SR measure
 - Another one on *financing* of the SR measure



Table 10a of the ERP Guidance Note: costing of SR

Table 10a: Costing of structural reform measure: (NAME OF THE MEASURE) (in EUR) (Fill in one per reform)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	Total
Year X					
Year X+1					
Year X+2					

Methodological explanation of the table:



Table 10a of the ERP Guidance Note: costing of SR

Methodological explanation of the table:

- Only “additional costs” are to be calculated in the table. This means that only those costs are to be calculated that would not be there if the measure would not be implemented. For example, if existing staff is working on implementing a measure, their salaries should not be calculated.
- The table addresses only direct first-level costs of the reform measure. In case the reform measure can be implemented without additional costs, all spaces in the table should be filled with “0” (zero). In case the measure generates first-level implications on the revenue side of public finances (for example, an increase in budget revenues or an increase in pension fund contributions); this should be explained and quantified in a footnote to the table.
- Costing is to be done for a three-year period with the year X being the first year under the ERP, i.e. 2019.
- If a measure is composed of several activities, a sub-table for each of them has to be prepared as an input for the summary table that shows costing for the structural reform measure as a whole – these sub-tables do not have to be included in the ERP.
- Category “Salaries” and its costing: The category is composed of costs for salaries to be paid for hiring additional staff that is needed to implement the structural reform measure. Costing of the additional staff has to take into account not only the number of new staff members but also their qualifications as well as salary increases for the existing staff members. Standardised salaries for different categories of new staff members should be applied. Such a table of standardised costs does not need to be included in the ERP. If standardised costs are either not available or not appropriate, expert opinion can be applied.
- Category “Goods and services” and its costing: The category is composed of the following categories of costs: (i) training, (ii) expertise, (iii) office equipment, (iv) utilities (rent, electricity, travel). Standardised costs for each category should be applied whenever possible. Such a table of standardised costs does not need to be included in the ERP. If standardised costs are either not available or not appropriate, expert opinion can be applied.
- Category “Subsidies and transfers” and its costing: The category includes different types of subsidies and transfers that the beneficiary may get in order to implement the structural reform measure. Expert opinion can be used for calculating this category of costs.
- Category “Capital expenditures”: The category includes capital expenditures associated with implementation of the structural reform measure. Expert opinion can be used for calculating forecasted expenditures under this category of costs.
- Category “Total”: This is a sum of the categories in the three columns.

Table 10b of the ERP Guidance Note: financing of SR

Table 10b: Financing of structural reform measure: (NAME OF THE MEASURE) (in EUR) (Fill in one per reform)

Year	Central budget	Local budgets	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
Year X								
Year X+1								
Year X+2								

Methodological explanation of the table:



Table 10b of the *ERP Guidance Note*: financing of SR

Methodological explanation of the table:

- The table should give an overview of funding sources to finance the total costs of the structural reform measure calculated in Table 10a.
- Category “*Central budget*”: The category includes funds to be realistically provided from the central budget either from national public finance revenues or from borrowing in the form of financial loans. For the year X, the funds are actually available under the budget adopted for this year.
- Category “*Local budgets*”: The category includes funds to be realistically provided by budgets at sub-national level, regional level and/or municipal level.
- Category “*Other national public finance sources*”: The category includes funds to be realistically provided from other national public finance sources (apart from central budget and local budget revenues), such as health and pension fund contributions.
- Category “*IPA funds*”: The category includes funds to be realistically disbursed from IPA funds.
- Category “*Other grants*”: The category includes funds to be realistically disbursed in the form of grants from all multilateral and bilateral donors; the category excludes IPA funds.
- Category “*Project loans*”: The category includes funds to be realistically disbursed from foreign multilateral and bilateral lenders in the form of project loans. Financial loans should not be included here, but rather under the “Central budget”.
- Category “*To be determined*”: The category quantifies the portion of funds that is needed for implementing the structural policy measure concerned but for which the funding source(s) is/are yet to be determined. The category should be calculated as a residual between the category “*Total*” and the sum of categories for all already known funding sources for the structural policy measure concerned.
- Category “*Total*”: The category is the sum of the categories and must be equal to the category “*Total*” in Table 10a for each respective year.

Few lessons learned so far

- Framework for selection of SR measures (obstacles to growth; prioritization)
- Link of SR measures with country specific recommendations
- „Story“ for introduction of each „old“ SR measure into ERP (two types of „old“ SR measures)
- Clear articulation of SR measures (not too broad and not too narrow) with performance indicators



Example 1

Increasing inclusion in pre-school education

FEATURES OF THE MEASURE

Complex measure including investment, equipment, subsidies and new employment, and combining diverse sources of funding

HIGHLIGHTS OF THE METHODOLOGY

Systematic definition of cost categories and funding sources

Additional costs are costs compared to the year before the reform



Description of the measure

Parliament approved a law on compulsory pre-school education at the age of 5, with accompanying measures to increase enrolment from 75 to 100 % in 3 years.

Activities, costs and funding sources:

- Opening of 100 pre-school centres at average cost of 250.000 EUR (80% investment, covered by WB loan; 20% equipment)
- Hiring of 300 additional teachers at average gross salary of 600 EUR
- Subsidy to poor families provided by local governments, estimated to cover 20% of all children at annual cost of 960.000 EUR

Costing table 10a (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	360	1,000	192	4,000	5,552
X+1	1,080	2,000	480	8,000	11,560
X+2	2,160	2,000	960	8,000	13,120
TOTAL	3,600	5,000	1,632	20,000	30,232

X: 20 centers; X+1, X+2: 40 centres

X: 50 additional teachers; X+1: 100; X+2: 150

X+1 and X+2: costs include all newly employed teachers (i.e. also those employed in X and X+1), because they were not employed in the year before the reform was introduced (X-1), which is the base year for the table.

Subsidies for poor families are also introduced gradually.

Funding table 10b (in 1000 EUR)

Year	Central budget	Local budgets	Other national public	IPA funds	Other grants	Project loans	To be determined	TOTAL
X	1,360	192				4,000		5,552
X+1	3,080	480				8,000		11,560
X+2	4,160	960				8,000		13,120
TOT.	8,600	1,632				20,000		30,232

