

PRACTICAL GUIDE TO COSTING METHODOLOGY

(Stylized examples based on ERPs)

Janez Šušteršič, Saša Jazbec, CEF Experts



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

Salaries of teachers
Equipment of centres

Subsidies
for children

Construction
of centres

Example 2

Downsizing and restructuring of a public enterprise

FEATURES OF THE MEASURE

Measure involving savings for the budget

HIGHLIGHTS OF THE METHODOLOGY

Treatment of reductions in budget expenditures

Only direct costs are to be included in the tables



Description of the measure

The government will restructure the public railways company to increase efficiency.

Activities, costs and funding sources:

- Year X: reduce employment by 500 and pay severance to employees. Savings in wage costs 2.4 mil EUR, severance 0.6 mil EUR
- Year X+1: ownership restructuring: conversion of debt into shares + buy-out of minority shareholders at 30 mil EUR
- Years X+1 and X+2: business restructuring with foreign assistance, total cost of consultants 0.5 mil EUR
- All costs will be covered from the central budget



Costing table 10a (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	- 1,800	0	0	0	- 1,800
X+1	- 2,400	250	0	30,000	27,850
X+2	- 2,400	250	0	0	- 2,150
TOTAL	- 6,600	500	0	30,000	23,900

Consultants and buy-out of shareholders.

X: 600 for paying debt *minus* 2,400 savings in wage cost.

X+1 and X+2: savings in wage costs are permanent (compared to the year before the reform) and are *entered with a negative sign*.

There may be *secondary effects*, for example costs of social / unemployment benefits for lay-offed workers; profits of the restructured company. The costing table includes *only direct costs of the measure* and not the total fiscal implications.

Example 3

Introduction of tax registers (fiscal cashiers)

FEATURES OF THE MEASURE

Revenue creating measure

HIGHLIGHTS OF THE METHODOLOGY

Treatment of revenue effects in the costing table

Case with no additional costs



Description of the measure

Fiscal registers will be introduced by all businesses obliged by the law.

Activities, costs and funding sources:

- Year X-1 (prior to introduction of the reform in ERP): the law on obligatory fiscal registered approved. The necessary software developed and tested.
- Years X: businesses buy and introduce fiscal registers. The government provides a tax relief of 500 EUR to each of estimated 10,000 business introducing a tax registry (5 mil EUR).
- VAT revenues expected to increase by 75 mil EUR, with a third of the total effect (25 mil EUR) already in Year X.
- No additional employment is needed for implementation.



Costing table 10a (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	0	0	0	0	0
X+1	0	0	0	0	0
X+2	0	0	0	0	0
TOTAL	0	0	0	0	0

Footnote: additional expected revenue from the measure is 20 mil EUR in Year X and 75 mil EUR annually in Years X+1 and X+2.

Cost of software not included as it was developed and paid before the reform was introduced in the ERP (in Year X-1).

No additional employment needed = zero additional cost.

Expected revenue effects are *included only in the footnote*:

Year X: 1/3 of expected additional revenue (25 mil EUR) *minus* expected reduction of revenues due to the tax relief (5 mil EUR). **Years X+1, X+2:** full effect (75 mil. EUR).



Alternative way of support to introducing the registries

Instead of the tax relief, each business receives a subsidy of 500 EUR (total 5 mil. EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	0	0	5	0	5
X+1	0	0	0	0	0
X+2	0	0	0	0	0
TOTAL	0	0	5	0	5

Footnote: additional expected revenue from the measure is 25 mil EUR in Year X and 75 mil. EUR annually in Years X+1 and X+2.

Subsidies for tax registries are included in the table. **Expected revenue effect for Year X** is now **higher by 5 mil EUR** because there is no reduction from the tax relief.

Example 4

Increasing employability of unemployed persons

FEATURES OF THE MEASURE

Measure which is adjusted to address the COVID 19 crisis

HIGHLIGHTS OF THE METHODOLOGY

Treatment of measures which are adjusted during implementation



Description of the measure

Government approved a set Active Labour Market Policy measures to increase employability of the unemployed, to be implemented by the Public Employment Service (PES).

Activities, costs and funding sources:

- Year X: implementation arrangements, employment of additional PES advisors (40,000 EUR annually) and their training (30,000 EUR)
- Year X+1: inclusion of beneficiaries in the measure (support for retraining and soft skills) in the total amount of 2 mil EUR (20% budget, 80% IPA).
- Year X+2: same as X+1, funding increased to 3 mil EUR.



Costing and funding tables 10a and 10b (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	40	30	0	0	70
X+1	40	0	2,000	0	2,040
X+2	40	0	3,000	0	3,040
TOTAL	120	30	5,000	0	5,150

Year	Central budget	Local budgets	Other national public	IPA funds	Other grants	Project loans	To be determined	TOTAL
X	70			0				70
X+1	440			1,600				2,040
X+2	640			2,400				3,040
TOT.	1,150			4,000				5,150



Changes during the first year of implementation

There is a COVID 19 outbreak, priority is to prevent massive layoffs:

- Government pays 80% of salaries to people who are temporarily not working and would otherwise be laid off by employers
- Government pays a benefit to people who are working with shorter work-time due to the COVID 19 crisis
- Donors provide additional 5 mil EUR for this programme

Changes to the ERP measure:

- Year X (current year): The budget provides additional 2 mil EUR for the measures to prevent massive layoffs. Employment at PES is still increased, but trainings are redefined.
- Year X+1: Funding remains as planned, but is now equally distributed between short work-time benefits and training of unemployed
- Year X+2: Measure remains as planned originally.



Amended costing and funding tables (in 1000 EUR)

Added costs of lay-off prevention measure in Year X, funded by donors and budget
In Year X+1, funding is the same, but the purpose of subsidies is different

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	40	30	7,000	0	7,070
X+1	40	0	2,000	0	2,040
X+2	40	0	3,000	0	3,040
TOTAL	120	30	12,000	0	12,150

Year	Central budget	Local budgets	Other national public	IPA funds	Other grants	Project loans	To be determined	TOTAL
X	2,070			0	5,000			7,070
X+1	440			1,600				2,040
X+2	640			2,400				3,040
TOT.	2,150			4,000	5,000			12,150



What will the costing table look like in the next ERP?

Year X: In the next ERP, Year X will be what is now Year X+1.

- The costing table does not say what will be the purpose of subsidies, so you need to explain this in the description of the measure. Add a new activity (short work-time benefit) and explain the allocation of funds between this and unemployed training in the text on costs

Year X+1: In the next ERP, Year X+1 will be what is now Year X+2

- Nothing needs to change in the table or in activities, as the COVID 19 crisis is expected to be over.

Year X+2: You planned the measure for 3 years, so in principle this should be empty.

- However, since you will provide less support to the unemployed as planned, and the unemployment will probably increase, you may consider extending the measure
- Note that in this case, the base year for additional costs remains the same (the year before the measure was first introduced, that is X-2 and not X-1)

Note about the current year:

- You will need to report on the adjustment of the measure and additional funding when you report on the implementation and actual costs



Costing and funding tables in the next ERP (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	40	0	2,000	0	2,040
X+1	40	0	3,000	0	3,040
TOTAL	80	0	5,000	0	5,080

Year	Central budget	Local budgets	Other national public	IPA funds	Other grants	Project loans	To be determined	TOTAL
X	440			1,600				2,040
X+1	640			2,400				3,040
TOT.	1,080			4,000				5,080

