

PRACTICAL GUIDE TO COSTING METHODOLOGY

(Stylized examples based on ERPs)

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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



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 debts to employees. Savings in wage costs 2.4 mil EUR, debt payment 5 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	2,600	0	0	0	2,600
X+1	- 2,400	250	0	30,000	27,850
X+2	- 2,400	250	0	0	- 2,150
TOTAL	- 2,200	500	0	30,000	28,300

Consultants and buy-out of shareholders.

X: 5,000 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

Promotion of renewable energy sources

FEATURES OF THE MEASURE

Measure where costs (expenditures) depend on available funding

HIGHLIGHTS OF THE METHODOLOGY

Realistic planning of funding sources

Category „to be determined“ in the financing table



Description of the measure

Government will subsidize production and consumption of energy from renewable sources (RES).

Activities, costs and funding sources:

- Year X: development of software for market oriented support mechanisms (auctions and premiums); 600.000 EUR for software and 67.000 EUR for additional employment
- Years X+1 and X+2: disbursement of premiums for RES energy consumption, estimated at total 600.000 EUR.
- Years X to X+2: subsidies for investment in RES capacity, financed from international assistance:
 - IPA funds already programmed at 5 mil EUR but conditioned by a functioning market-based mechanism
 - WB loan signed for 10 mil EUR. WB indicated willingness to negotiate on another 5 mil EUR loan provided good implementation and initial results of the measure.



Funding table 10b (in 1000 EUR)

We start with this table because the level of subsidies depends on available funding.

Year	Central budget	Local budgets	Other national public	IPA funds	Other grants	Project loans	To be determined	TOTAL
X	667			0		2,000	0	2,667
X+1	367			1,500		4,000	0	5,867
X+2	367			3,500		4,000	5,000	12,867
TOT.	1.401			5,000		10,000	5,000	21,401

X: 600 software, 67 salaries
X+1, X+2: 300 premiums, 67 salaries

X: 0 because **conditioned** on market mechanisms
X+1, X+2: a smaller share in X+1 for precaution

Already signed, but less planned in X for precaution.

Still to be negotiated, **not yet secured funding.**



Costing table 10a (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	67	600	2,000	0	2,667
X+1	67	0	5,800	0	5,867
X+2	67	0	12,800	0	12,867
TOTAL	201	600	20,600	0	21,401

X: Planned funding from already signed WB loan.

X+1: WB loan + first IPA funds + premiums from the budget.

X+2: WB loan + remaining IPA + premiums + potential additional loan.

From the budgetary point of view, these expenditures are subsidies, although the recipients will use the subsidies for investment.

Example 5

Youth employment programme

FEATURES OF THE MEASURE

Measure which is enhanced and extended during implementation

HIGHLIGHTS OF THE METHODOLOGY

Treatment of measures which are rolled-over for more than 3 years

Treatment of measures which are adjusted during implementation

Additional costs are costs compared to the year before the reform



Description of the measure

Government approved a set of measures to support youth employment, to be implemented by 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, disbursement of support 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 were difficulties in implementation of the measure:

- recruitment and training at PES was delayed and will only be completed next year, with half of the cost moved to that year
- first beneficiaries will receive support only in the second half of the next year
- IPA funding will accordingly not yet be available next year

Corrective measures adopted by the government:

- next year: budget will provide full funding for subsidies, but the amount will be halved compared to original plans
- following years: the measure is extended for one year. More beneficiaries will be included compared to original plans, with additional funding of 300.000 EUR annually provided by the budget
- changes will be reflected in the measure in the next ERP



Amended costing table in the next ERP (in 1000 EUR)

Year	Salaries	Goods and services	Subsidies and transfers	Capital expenditure	TOTAL
X	40	15	1,000	0	1,055
X+1	40	0	2,300	0	2,340
X+2	40	0	3,300	0	3,340
TOTAL	120	15	6,600	0	6,735

Footnote: the base year against which additional costs are calculated is X-2.

Year X is now what was Year X+1 in the previous ERP.

These are **still additional costs** because they *are compared to the year before the reform was introduced (X-2)* and not to the last year before this ERP. Explain this in **a footnote** to the table.

The measure is extended for one year. Subsidies are increased for additional funding now provided by the budget, but the total amount in Year X (Year X+1 in previous ERP) is halved compared to original plans.



Amended financing table in the next ERP (in 1000 EUR)

Year	Central budget	Local budgets	Other national public	IPA funds	Other grants	Project loans	To be determined	TOTAL
X	1,055			0				1,055
X+1	740			1,600				2,340
X+2	940			2,400				3,340
TOT.	2,735			4,000				6,735

Year X is now what was Year X+1 in the previous ERP.

Increased for additional subsidies now provided by the budget.

IPA funds will not be available in X as originally planned (Year X+1 in the previous ERP).



How to avoid reforms lingering on for more than 3 years?

PLAN FOR SEQUENCED RATHER THAN CONTINUOUS REFORMS

- For example, instead of a general measure for employment policy, which is enhanced every year with new activities, introduce a sequence of smaller measures in consecutive ERPs (e.g. one year for youth unemployment, another year for participation of women etc.)
- When first introducing the measure, plan also the final year of implementation

INCLUDE ONLY THE REFORM PART OF MEASURES

- For example, setting up a support system for innovation, SMEs or agriculture, including its full implementation, is a reform, whereas continuous provision of support in later years is no longer a reform (even if there are still some adjustments)

REPLACE REFORMS THAT ARE NOT WORKING

- For example, when reforms are not implemented due to capacity, funding or prioritization reasons, or when they need to be substantially adjusted to be effective and implementable, replace the old reform with a new one