5 day training course

decentralisation and local development programme

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STRATEGIC DEVELOPMENT PLANNING

and

PERFORMANCE BASED BUDGETING IN THE MEDIUM TERM

A five-day training course

This publication is prepared by Decentralization and Local Development Programme (dldp), with financial support of Swiss Agency for Development and Cooperation

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ACRONYMS

BC	Budget Ceiling
CIP	Capital Investment Plan
DSDC	Department for Strategy and Donor Coordination
GoA	Government of Albania
GSBI	Group on Strategy, Budget and Integration
INSTAT	Albanian Institute of Statistics
LGU	Local Government Unit
M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MTBP	Medium Term Budget Program
NSDI	National Strategy on Development and Innovation
PC	Program Costs
PMT	Program Management Team
PMTL	Program Management Team Leader
SDP	Strategic Development Plan
t	time, i.e. year

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PREFACE

The "Manual on Strategic Development Planning and Performance Based Budgeting in the Medium Term" is the result of intensive efforts of several authors and experiences. This manual is based on an initiative undertaken by HELVETAS Swiss InterCooperation in Albania, under the Program for Decentralization and Local Development Program in Albania. This document came as a response to the introduction of the Medium Term Budget at the local government level in Albania and builds on the experience of the authors and Decentralization and Local Government Program. The preparation of the document went through a process of close consultations between Albanian Association of Municipalities (AAM) and Albanian Association of Communes (AAC), Ministry of Interior, Ministry of Finance, Department for Strategy and Donor Coordination, etc. and was strongly supported by HELVETAS Swiss InterCooperation in Albania. The Manual was prepared by the staff of Co-Plan and dldp, who greatly benefited from the international experience and technical expertise of Prof. Stefan Pfaeffli, Lucerne University of Applied Sciences and Arts, provided in the frame of dldp. The preparation and publication of the Manual was made possible thanks to the financial support of the Swiss Agency for Development and Coordination (SADC).

Numerous sources were consulted including methodologies applied by various international donors and consulting agencies, as well as local experts. In addition, important documents such as the National Strategy for Development and Integration (NSDI), Sectorial Strategy on Public Finance, Manual on Financial Management and Control, Macroeconomic and Fiscal Frameworks, etc. and other important laws in Albania served as important source of reference.

INTRODUCTION

Currently, the local budgeting instrument is evolving from an instrument that reports “numbers” of planned expenditure and revenue for the next year towards a comprehensive multi-year planning instrument, integrating financial information on revenues and expenditure with information on policy plans to be implemented. However, many local government units still consider the traditional budget as the only relevant policy-planning document. Though, the environment, in which local government units operate, changed a lot in the past years, local governments have become much more responsible for the development of their towns and municipalities, and they are forced to plan and act much more strategically. Undoubtedly, the traditional budget was relatively easy to draw up. However, it is not sufficient anymore in the new environment. Information on how planned expenditure is linked with planned activities and projects and the development strategy behind these activities is missing in the traditional budget. The budgeting reform, which is currently under way, aims at allocating public financial resources effectively, efficiently, and transparently in accordance with strategic development goals and objectives covering a medium term time horizon.

Medium term budgeting implies the application of enhanced approaches of public finance management by local government units. These improved budgeting approaches require (a) a broader knowledge of local officials on financial management; (b) improved local budget development procedures including top down and bottom up processes; (c) the introduction of a program-oriented budget structure in order to present the budget in a more holistic way; (d) the application of more reliable and transparent practices and techniques in the planning of financial resources; (e) effective monitoring, reporting and control procedures for assessing the success of budget implementation.

It is the aim of the five day training course on “strategic development planning and performance based budgeting in the medium and short term” to enable staff and authorities of local government units to apply and make use of effective methods for local financial management, required for planning and monitoring local finances and policy making in the long-medium and short term. The major learning goals of the training course are presented more in detail in Table 1:

TABLE 1 : major learning goals
Participants of the training course are enabled to ■ understand an enhanced budgeting process with a medium term time horizon and a performance orientation connected with the Strategic Development Plan, ■ make use of advanced public finance management practices for local budgeting, ■ comply with the current legislation on local finance management, ■ combine top down and bottom up approaches for the medium term budgeting process, ■ apply innovative revenue estimation techniques and for improving the use of the local revenue potential, ■ to facilitate the implementation of development oriented local policies through budget programs with strategic objectives, ■ balance the prioritized medium term policy plan with the available resources, ■ apply performance management instruments using performance indicators at program level, and ■ monitor, report and control the implementation of the medium term budgeting program.

The training course covers five areas of local governance which are relatively new in Albania for most local governments:

- Strategic development planning
- Medium term budgeting
- Program budgeting with performance orientation
- Local revenue and expenditure planning
- Monitoring and Evaluation

Methodologically, the training course is designed for interactive use with active involvement of participants. Sequences of interactive instruction are followed by sequences for problem-based learning, case studies in groups as well as presentations and discussions. Participants are required to carry out follow up work after each course day; the assignments are targeted to the specific situation of the participant's local governments. For each course day, participants have to invest two additional workdays for preparation and follow up work.

The training course is geared primarily towards officers of the local finance department, tax (or revenue) department, head of programs or departments, interested members of the Local Council (e.g. economic commission), other interested officers or authorities of the local government unit.

The training course was developed by CO-PLAN, Tirana, with expert support from the Lucerne University of Applied Sciences and Arts. CO-PLAN started with the first training courses in 2011. These trainings are embedded in the framework of the Albanian Decentralization and Local Development Programme dldp, which is dedicated to fostering Local Governance of municipalities and communes in Northern Albania. Dldp is financed by the Swiss Development cooperation SDC and implemented by Helvetas/Swiss InterCooperation.

With this publication, dldp together with SDC intend to disseminate the training approach on strategic development planning and performance based budgeting in the medium term in a broader area of Albania. This publication can also be used as reference document for authorities and civil servants at the local level in Albania.

Dldp and SDC are grateful that the Ministry of Finance of the Republic of Albania actively supported the finalization of the publication and its dissemination in Albania.

1 THE BUDGET SYSTEM OF LOCAL GOVERNMENTS

OBJECTIVE:

Participants of training module 1

- are informed about the legal framework for local budgeting and for the Medium Term Budget Program
- can explain the advantages of midterm budgeting
- are familiar with good budgeting processes
- are aware roles of each actor in medium-term budgeting including preparation, adoption, exe-cution and control, i.e. the role of the head of the local unit and local Council, of the department of finance, the line departments, and the Council

Participants are encouraged to play an active role in the course especially in group works and discussions on innovative budgeting practices.

MODULE CONTENT:

1.1 INTRODUCTION TO MODULE 1

One of the basic characteristics of building up local governance, not only in Albania but also in other countries, especially those having a tradition of centralized power, is the principle of power decentralisation. Decentralisation in itself implies the transfer of power to the sub-national level. Decentralization affects public functions at regional or local level, such as social affairs, pre-university education, culture, sports, urban planning, public infrastructure, urban or rural development or social economic development, environment, etc.

The decentralization reform always implies enhanced responsibility of local government units; this is also the case in Albania. Furthermore, under decentralisation local preferences are more important for policymakers; policymaking and the local community are brought closer together. The transfer of a large range of functions from the central to the local level aims at further improving the effectiveness of local government units in order to further stimulate local economic development. The transfer of responsibility for financial resources management towards "own revenues" of local government units is another important aspect of the ongoing decentralisation reform. In Albania, the decentralisation process is guided by two important resolutions of the National Parliament, the Decentralisation Strategy and the "Organic Law".

1.2 THE LEGAL FRAMEWORK FOR THE BUDGETING SYSTEM IN ALBANIA

The legal framework which regulates the local budgeting process clearly prescribes how the local budgeting process must be organized including the implementation of budgets and the monitoring of budget execution. This framework is based on:

a) Law 8652, 31.07.2000 "On the organization and functioning of Local Government Units"
b) Law 9632, 30.10.2006 "On the local tax system in the Republic of Albania" with the respective amendments
c) Law 9920, 19.05.2008 "On the taxing procedures in the Republic of Albania" with its amend-ments
d) Law 10117, 23.04.2009; law 10146, 28.09.2009' law 10073, 09.02.2009 "On some changes on law 9632, 30.10.2006 on local tax system"

e) Law 9975, 28.07.2008 “On national taxes”
f) Guideline 1, 11.01.2008 “On income tax”
g) Law 9869, 04.02.2008 “On Local Government Borrowing”
h) Guideline no 35, 5.11.2008 “On Implementation of Law No 9869, date 4.02.2005, “On Local Government Borrowing”
i) Law 9936, 26.06.2008 “On the management of the budgetary system in the Republic of Albania”
j) Guideline 7/1, 29.02.2012 “On local budget preparation”
k) Law 10487, 05.12.2011 “On 2012 budget”
l) Supplementary guideline 2/1, 15.02.2012 “On 2012 budget implementation
m) Supplementary guideline 7/2, 01.08.2012 “On Medium Term Budget Program preparation for 2013-2015”

Law 8652 On the Organization and Functioning of Local Units

Although law 8652, date 31.07.2000 regulates the organization and functioning of local government units, its main content remains the definition of local government units’ functions, competences, rights and responsibilities.

Law 9632, 30.10.2006 “On the local tax system in the Republic of Albania”

The law No. 9632, dated 30.10.2006, “On the system of the local Taxes” is the crucial law for the decentralization reforms of local governments. This law sets out the rights and duties of local government units in terms of establishing local taxes, their collection, and administration. Following that, law 9920, 19.05.2008 “On taxing procedures in the Republic of Albania” considerably improves uniform administration procedures of local rates and taxes as well as the role of local taxing administration.

Law 9869 On Local Government Borrowing

The law 9869 “On Local Government Borrowing” was submitted to the Parliament and adopted in 2008. It completes the administrative and fiscal framework and offers broader fiscal autonomy. Still, it presents limitations on debt. This constraint is imposed by the central government in order to facilitate macroeconomic oversight of the public debt. According to this law, the Ministry of Finance (MoF) is entitled to issue sub-regulatory acts that limit or interdict loan agreements of LGUs.

Law 9936 On the Management of the Budgetary System in the Republic of Albania

The Law on the Management of the Budgetary System in the Republic of Albania, No. 9936, dated 26.06.2008, is crucial for local finances and related administrative processes. It regulates the budgeting system for what concerns:

a. Structure
b. Principles
c. Bases of expenditure planning process
d. Financial relations
e. Budget implementation
f. Audit and monitoring

In addition, this law defines the basic principles of budgeting and describes the budgetary system, both at central and local level. The law introduces a number of new concepts and instruments, such as program-based budgeting and medium-term orientation. Until the approval of this law, the Medium Term Budget Program was only in use at the central level; now, it became mandatory at central and local level.

Among other things, the law is established on the basis of three basic principles:

Uniformity – For the first time, the budgetary system aims at unifying the budgeting procedures and the terminology used for budgeting. Now, both levels of government (central and local) operate "within" a common legal framework, and the terms and definitions used are the same for the upper and the lower state level.

Responsibility sharing – Within this legal framework, two groups of responsibilities are identified: a) policymaking responsibilities and b) implementation responsibilities. Policymaking is divided between the head of the local unit and the local council, while the implementation responsibilities remain with the municipal experts (staff directly involved in the technical issues).

Internal control and audit, external control and public scrutiny – Besides the inspection institutions appointed by the national level (State

Supreme Audit Commission, considered as "external auditor"), the internal control system plays an important role in order to ensure that the LGU administration meets its objectives and provides accurate and reliable financial and performance-related information in a timely manner. Internal audit is a function that oversees the mode of operation of the internal control system. In addition to that, the local Council exercises public scrutiny, i.e. oversight over the LGU's planning, implementation, monitoring and control process as well as over the performance results and the financial situation of the LGU. The internal control system together with the internal audit function is part of local government structure where as the external auditor operates in a fully independent way outside of the LGU structures.

The law "on the Organization and Functioning of Local Units" is composed of 10 chapters:

Chapter 1 on "General Principles" provides general definitions for 44 economic and financial terms are presented. The same terms and definitions are used for the central and local level.

Chapter 2 on "Budgeting System in the Republic of Albania" is dedicated to the budgetary system in the Republic of Albania; parts of this system are a) the state budget; b) the local budget; c) special funds; d) encashment e) payments and their components. Another important topic of this chapter is "budget classifications". Besides the previous classifications for revenue and the traditional classifications for expenditure (administrative, economic and functional), a program classification is introduced as a new feature. In addition, the budget deficit or surplus and the fiscal year are addressed in this chapter.

Chapter 3 on "Role and responsibilities of organisms in the budgeting process" clearly defines the role and responsibilities of the bodies and institutions involved in the budgeting process, including the "executive officers". The innovative feature of this chapter is the function of the "authorising officer" who is now responsible for the financial management within the local government unit, including budget preparation and implementation, internal financial control, monitoring, accounting and internal reporting of the respective unit's budget; the authorising officer is considered as a guarantee for the efficient and effective use of public resources.

Chapter 4 on "Preparation, analysis and approval of state budget" provides guidance for the preparation, analysis and approval of state budget; step by step, it defines the budget calendar until the approval of the local budget. A very important section of this chapter is dedicated to the elaboration of the Medium Term Budget Program at central and local level; it clearly defines the responsibilities for drafting the guidelines for MTBP preparation and the procedures and responsibilities for their implementation. Article 32 of the law requires that the local budget is submitted for an analysis to the local council within November and not later than December; furthermore, deadlines are set for the budget analysis and for the approval by the local council.

Chapter 5 on "Budget implementation" specifies the regulatory role of the Ministry of Finance MoF. The MoF issues guidelines for budget implementation; it sets regulations and specifies procedures and deadlines that the authorising and executive officers of all levels must follow during budget implementation. In addition, MoF defines the procedures for the distribution of funds, both at central and local level; furthermore, it describes the procedures for local budget review and for the determination of ceilings for both level of government.

Chapter 6 on "Borrowing and Guarantees of the Public Sector" is dedicated to borrowing and guarantees in the public sector; the Council of Ministers is clearly defined as the borrowing authority. Further important issues of this chapter are the limits for public debt and the conditions for local governments to take and issue a guarantee together with the debt service and the loan data man-agement.

Chapter 7 on "The Budgetary System Accounting" covers a core component of financial management in the public sector. It addresses accounting standards and procedures as well as the preparation of the annual statement and the consolidated budget report.

Chapter 8 is dedicated to "Monitoring, auditing and inspection of budgetary system".

Chapter 9 on "infringements and sanctions" clearly defines the cases that are considered as infringements and the respective sanctions for each of them; it specifies the administrative infractions and the complaint procedures against allegations and sanctions.

Chapter 10 on "last and transitory dispositions" specifies the transitional provisions and the entry into force.

1.3 BASIC ASPECTS OF BUDGETING

1.3.1 WHAT IS A LOCAL BUDGET? WHAT IS ITS GOAL?

Broadly spoken, the budget is a compilation of planned revenue and expenditure in monetary terms used to carry out defined undertakings or reach defined goals within a determinate timeframe. This definition is true for the public as well as for the private sector. Law 9936/2008 "On the management of the budgetary system in the Republic of Albania", defines the budget as the total of central or local government revenues, expenditures and funding as well as special funds legally approved by the Albanian Parliament or by decision of the LGU Council. For LGUs, the budget is the basic policy planning and controlling document for all local authorities. A budget is not just a compilation of financial figures and indicators, it is the link between the available funds and the policy goals and objectives of the LGU to be achieved within the period covered by the budget. The budgeting process should be organized in a way that the LGUs can identify the current and future community needs and define the activities needed to meet the strategic development goals and objectives within the financial limits of each LGU.

In their budget, LGUs specify the reasons for which they will spend money and the related amounts as well as the time in which the planned projects will begin and will be concluded. Under the yearly budget process, the implementation of strategic priorities has been particularly difficult because of the limited financial degree of freedom in the short term. Unrealistic financial planning and lack of a clear link between the financial resources and strategic priorities are usually additional impediments.

An overview of the major function of a budget is presented in Table 2.

TABLE 2 : BUDGET FUNCTIONS	
Promote economic development	LGUs promote local economic development through capital investments based on their strategic development plans
choose among priorities	Due to the increasing demand and limited funds, LGUs will have to choose among priorities in order to keep LGU finances in balance
optimally allocate the limited resources	Assessing community needs through public dialogue and allocating resources where it is more needed is important for positively influencing development of society and economy. However, it is important to find a compromise between the needs of the different stakeholders and the available resources.
be a means of controlling and for analyses	LGUs monitor and analyse the budget implementation and appraise the achievement of the objectives. At the same time, evaluation and analysis of the factors influencing budget implementation makes it possible to eliminate factors with a negative impact on local development.

1.3.2 IMPORTANT TERMS AND DEFINITIONS USED FOR THE BUDGETING PROCESS

The law on budgetary system in Albania clearly defines the meaning of important terms used for budgeting, among which the most important are:

"Spending unit" – the smallest organizational unit of government at national or local level as specified in the budget.

"Reserve fund" – a fund created to finance non-permanent and unexpected expenditures not predictable during the preparation of the budget.

"Contingency fund" – a fund that is kept in reserve to guard against possible risks related to revenues and expenditures during the budget implementation.

"Debt" – is the amount of money borrowed from the private sector with a repayment obligation together with or without interest. The money is borrowed for financing specific investment projects or due to a temporary lack of liquidity or more generally in case of a fiscal deficit.

"Long-term local currency loan" – is an amount borrowed by local government units in national or foreign currency for a period of time equal or longer than one year; it has to be repaid.

"Contingent obligation" – is an eventual obligation of the units of general government towards third parties. The obligation depends on future events that might occur or not occur. For example: natural disaster, guarantee-cases.

"Economic use" – is the careful use of input to produce one unit of output at the lowest cost possible.

"Effectiveness" – is the level at which a product contributes in the achievement of policy objectives or budgetary policy goals. For example: the decrease of the accidents as a result of the renovation of the infrastructure.

"Efficiency" – is the relation between the products of a program and the financial and human resources used. For example: km of roads renovated / financial resources used.

1.3.3 REQUIREMENTS FOR GOOD BUDGETING

An important principle, which is clearly stated in the Law 8652, "On the organization and functioning of Local Government Units", is the right of LGUs to draw, approve and implement their own budget. However, there are some important criteria that must be respected in the budgeting process (see: Table 3).

TABLE 3: BUDGET REQUIREMENTS

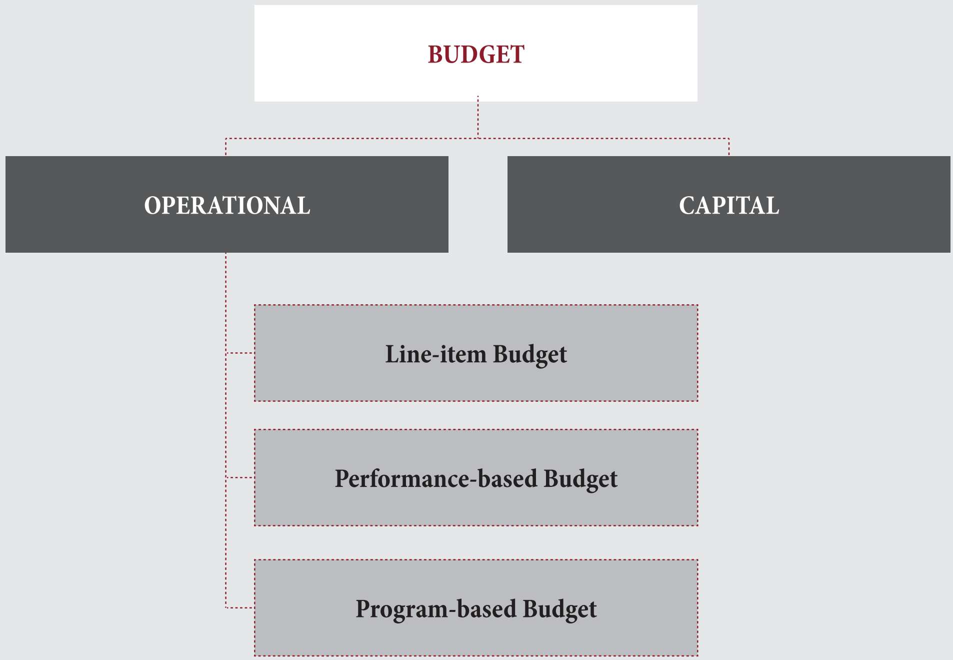
Requirement	Characteristics
Accountability	Reporting on the resources used and the objectives achieved is the first step of accountability. The second step means that responsible persons within government must answer questions when objectives were not achieved and face consequences in case of underachievement.
Inclusive	Includes the presentation of all LGUs financial resources and expenditure
Unbiased	Includes unbiased projections of revenues and expenditures
Interactive	Encourages participants in seeking the strongest effect for the lowest cost
Lawful	The budget process must be guided by important decisions of local authorities and respect legal obligations
Corresponding	Guarantees the distribution of resources in accordance with objectives
Flexible	Resource allocation should be geared towards strategic objectives in a flexible way. Incremental budgeting should be avoided.
Timely	The budget must be adopted before the new fiscal year starts. To reach this goal, budget preparation must follow a carefully designed budgeting calendar in a very strict way.
Transparent	The budget and its drawing procedures must be comprehensible by participants and external stakeholders; they must have easy access to the information. Information must be available at a low price or free.

Source: Meyers, R. T. (1996). Is there a key to the Normative Budgeting Lock. Washington DC: The World Bank

1.3.4 TYPES AND FORMATS OF LGU BUDGETS

Traditionally, in the public sector, we make a distinction between the operational budget and the capital budget. For the operational budget, different presentation formats are in use (see: Figure 1).

FIGURE 1: Types and formats of LGU budgets



As shown in the diagram above, for the operational budget, three formats of presentation are available:

(i) line-item budget; (ii) performance-based budget, and (iii) program-based budget.

(i) Line-item budget – (what will be purchased) also known as the traditional budgeting format, is the most used format by LGUs. As a financial instrument, the line-item budget answers to the question of how much the LGU will spend for each item, i.e. element identified in the budget. Costs categories include staff expenditures, non-staff operating expenditures and capital expenditures; these broad categories are further itemized in accordance with the classification scheme specified by the treasury office. This classification scheme works with numeric codes for each expenditure item and for each source of revenue. Line-item budgeting is control oriented. When a line-item budget is executed, there is little expenditure flexibility; the specific use of resources is planned very much in detail and spending units are bound to use the resources exactly as planned. With line-item budgets, the focus is more on inputs and less on outputs and outcomes. Therefore, this format provides local government units with comprehensive and detailed information on the volume of financial resources used for each specific costs category, but it does not provide information on planned activities or on program initiatives.

(ii) Performance-based budget – (what has to be done) tries to prioritize resource allocation, focusing on deliverables defined as outputs and outcomes. Performance-based budgets have several similarities with program-based budgets; both budget formats are built on product groups and the allocation of resources is geared towards output and outcome goals. Performance is measured in terms of the achievement of these output and outcome goals; to facilitate the performance appraisal, performance indicators are used.

(iii) Program-based budget – making use of a holistic program structure of LGU responsibilities. A program can be understood as a broad, purpose-oriented aggregation of public sector activities. The common purpose of these activities should be derived from the strategic development plan. A program-based budget is composed of a limited number of programs. Each of these programs is broader than the product groups used for performance-based budgets. Let's make an example to demonstrate the idea. A LGU could run a program under the title "urban life quality program". This program could include product groups such as street cleaning, street lightening, maintenance of parks, urban security, etc. Within the product groups, a number of products may exist, e.g. maintenance of a number of parks and public playgrounds, each of them could be considered as a product within the product group called maintenance of parks.

Program-budgets as well as performance budgets have a focus on what should be achieved in terms of performance. Given the broader approach of a program budget, the objectives tend to be more outcome-oriented than with a performance-based budget; the latter is more output-oriented. Unlike a performance budget, the program budget with its broader, more comprehensive approach is in a better position to take account of interdependences between interrelated policy areas. Therefore, it can more easily be targeted to outcomes and not only to outputs. However, the time-horizon of a program must reach far beyond a single year. At outcome level, it is difficult to significantly measure progress from one year to the other.

It is an option to present a program budget with a line item sub-structure. This approach guarantees more control on how resources are used. However, there is a drawback of this mixed approach; by doing so, a program will have a more bureaucratic character. Most probably, this could result in efficiency losses. Therefore, programs usually are run on a lump sum basis. However, even though the budget is presented externally on a lump sum basis, program managers will plan with a line item budget, but for internal use only. The reason for internal line budgeting within programs is that program management must be in a position to have costs under control. To run a program budget on a lump sum basis requires a skilled management with high ethical standards. Furthermore, safeguards against fiduciary risks are required, such as a fully independent internal control with skilled personnel. If this is not fully guaranteed, a combination of program budgeting with line items is highly recommended.

When a program budget approach is adopted, these may have consequences for the organisational structure of an LGU. It must be ensured that the administrative structure and the program structure match. This is required for two reasons: coordination requirements between departments should be limited and accountability should be clear.

Despite of the many advantages of program budgeting, there are also some drawbacks to be considered: Preparation is more time-consuming than for the other types of budget; in addition, budget presentation is less analytic but more holistic; furthermore, conflicts of interest between programs and departments are more open. If a program wants to expand, others may have to shrink. Finally, attention on fiscal discipline could be neglected when the focus is mainly on program content. Political guidance is required to counterbalance these drawbacks.

Figure 2 presents an overview of the budget types mentioned above.

FIGURE 2: Overview of budget types

Budget types	Characteristics	Question	Criteria
Line-item	• Focus on inputs in a very detailed way. • Expenditures are itemized in groups such as salaries, expenditures for goods and services	What is bought?	• Input-oriented • Control-oriented • Detailed • Offers information on expenditure for each item • Relatively easy to prepare • Break down by functional, economic and administrative classification
Performance-based	• Expenditures and revenues are related to the result that will have to be achieved	What has to be realized in terms of output?	• Mainly output-oriented • Manages the resources use efficiency • Identifies a service level on which the budget is based
Program-based	• Expenditures and revenues are related to broader public goals	What has to be achieved in terms of effect?	• Mostly outcome and impact oriented • Budget directed towards policy effectiveness in a broad sense

1.3.5 BUDGET CLASSIFICATION

The budget needs to be structured in a logical and consistent way at the expenditure and at the revenue side. In the area of budgeting, we use the term “classification” for characterizing a budget’s outline. There exist four modes on how to structure the expenditure side of the budget in the public sector, (i) the economic classification; (ii) the administrative classification;

(iii) the functional classification; and (iv) program classification which is a new way on how to structure the expenditure side. All modes of expenditure classification must be considered as complementary, not as alternative. For the revenue side, there exists only one conventional classification.

Modes for expenditure classification:

(i) **Economic classification** – used for financial and fiscal analysis and control. This type of classification represents the classification of transactions according to their economic nature. Items classification is used to control, monitor and administrate the local budget and its implementation. This classification specifies expenditures for salaries, operation and maintenance (600 – 602), etc.

(ii) **Administrative classification** – used for budget administration, representing the classification of units of general government up to the level of spending units. For LGUs the expenditure is itemized for departments and its units and for enterprises controlled by LGUs, etc. With this classification, the focus is on accountability.

(iii) **Functional classification** – represents a detailed classification by tasks of LGUs such as cleaning, lighting, housing, urban planning, culture, sports, etc. The functional classification is mandatory for international comparisons.

(iv) **Classification by programs** – represents programs, subprograms and projects in accordance with LGU objectives. The concepts of program and function are very close, but classification by program is strictly depending on the program structure. Expenditure classification by programs serves two goals: a) the identification and clarification of LGU objectives and policies and b) the operational monitoring based on performance indicators.

Mode for revenue classification:

Revenue classification – revenues are presented in a structured way, presenting own revenues first followed by revenues from third parties. For LGU, the presentation starts with taxes, fees, fines, revenues from assets and enterprises owned by LGUs; the presentation continues with contributions from central government and then from donors, and it concludes with revenue from borrowing.

1.3.6 SPECIAL PROGRAM CLASSIFICATION ISSUES

It is recommended to insert an economic classification and a classification by financing resources into the program classification. By doing so, the program provides information on the composition of the program costs in terms of salaries, use of material, or energy; in addition, it is made transparent how each program is financed, e.g. by fees, conditional grants, third party contributions, or by tax money. Furthermore, by using this approach, information is made available on the gross and net costs of a program

The use of a program classification has a number of advantages; at the same time, it faces new chal-lenges. The benefit of program based budgeting does not materialize automatically. The subsequent list shows what matters when a program based budgeting approach is adopted:

- *Transparent and more understandable budget* – presentation of the budget in a format that facilitates the understanding of citizens of the goal, nature and scope of services provided
- *Attention on community goals, needs and possibilities* – The use of program-based budgeting approach facilitates budgeting in accordance with community objectives and priorities and the financial possibilities.
- *More benefit for citizens' taxes* – With its focus on program goals, erroneous costs for meaningless activities can be better avoided.
- *Meeting the needs for information of the community* – A budget program keeps citizens and businesses informed about the community programs and activities that affect their living and business ventures.
- *Better coordination within LGUs* –Activities and investments are coordinated through the program approach by granting better oversight; resources can be allocated at local level in a more effective, goal-oriented way. It is easier to eliminate overlapping or even duplication of activities within an LGU.
- *Economic use of financial resources* – When investment planning (program outputs) is carried out in the framework of a multi-year period, program-based budgeting may reduce the burden of these investments for the local budget. The longer time horizon allows the LGU to identify more economic capital investment options.
- *Fiscal discipline,* i.e. balanced budget, by clearly identifying the responsible authority within an LGU for the implementation of each program and making them account-able.

1.4 THE MEDIUM TERM BUDGET PROGRAM – PART I

1.4.1 THE INTEGRATED PLANNING SYSTEM AND THE MEDIUM TERM BUDGET PROGRAM

The Integrated Planning System IPS coordinates the various planning documents existing at the national level in order to achieve a coherent country-wide policy planning framework. Based on this planning framework, resource allocation should be geared towards strategic development goals. In particular, the IPS takes account of the following high-level planning documents, policy priorities and opportunities for policy implementation:

- National Development and Integration Strategy (NDIS), which presents the long-term policy orientation of National government with a time horizon of 7 years (2007 – 2013).
- Medium Term Budget Program (MBP) and Public Investments Management Process (PIMP)
- European Integration and NATO membership
- Foreign aid

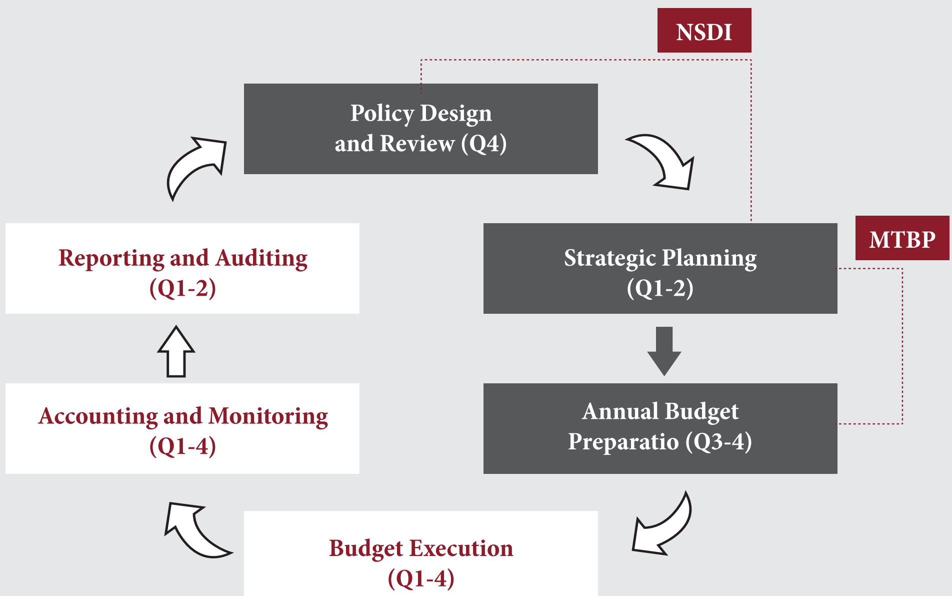
Table 4 offers a short overview of the introduction of the IPS.

TABLE 4: STEPS TOWARDS THE INTEGRATED PLANNING SYSTEM

Period	Steps
2006	Specification of the ISP architecture, process planning and capacity building
2007	Implementation – Ensuring that processes was understood and institutionalized at central level through technical assistance for each ministry
2008 – 2009	Consolidation – Strengthening responsibility and expanding capacities on service provision
2009	Implementation in all the ministries focusing on organizational development and capacity building within ministries related to budgeting and planning
2010	Enhance implementation quality – strengthening of responsibilities and expansion of capacities on service provision

The National Development and Integration Strategy NSDI encompass all sector and in-ter-sector strategies. The relation between the long-term goals of the NSDI and the medium term priorities of the MTBP together with the process of resources allocation to the budget demonstrates the high relevance of the NSDI, as it is also shown in Figure 3[1]:

FIGURE 3: Relationship between NSDI and MTBP



Within the framework shown in the diagram above, the MTBP ensures that resource allocation in the medium and short term is directly linked with the strategic priorities defined in the National Strategy for Development and Integration. The NSDI is broken down in policies and strategies for line Ministries (sector and cross-sector strategies). These policies and strategies are linked with financial resources; the MTBP makes these links transparent. The first year of MTBP is the annual budget. The MTBP is considered to be the main instrument for implementing the NDIS and for controlling, monitoring and reporting the success of this implementation.

Medium term budgeting requires that all revenues and expenditure must be estimated for the medium-term; in addition, resource allocation must be planned in a predictable way for the medium-term. At central level, this means that the macroeconomic framework will be used to estimate revenues

1) See Manual of Integrated Planning System, DSDC/GoA, pg. 12

and expenditures for the following three years in a transparent and realistic way. These macro economic projections are prepared by the Ministry of Finance based on information of the Bank of Albania and INSTAT. At the same time, the trend values for local revenues for the next three years are estimated by the Ministry of Finance.

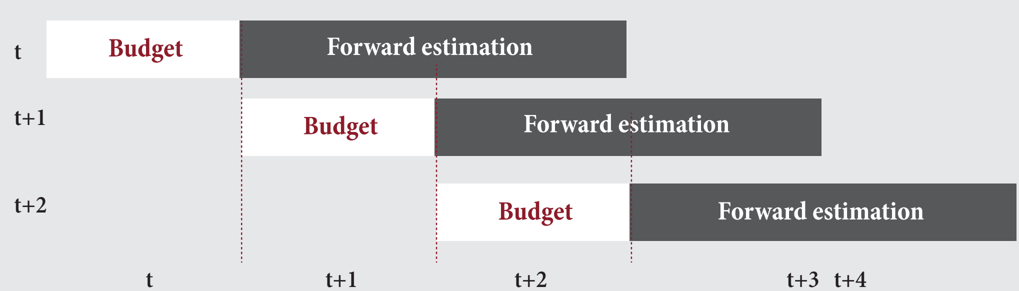
The Integrated Planning System requires that LGUs consider three main documents: a) the Local Strategic Development Plan; b) sector strategies as far as these affect LGU functions and local development, and, in the same way, c) inter-sector strategies.

1.4.2 INTER-LINKING OF ANNUAL BUDGET WITH THE MEDIUM TERM BUDGET PROGRAM

Since the 1990s, the Medium Term Budget Program has become a key element of the budgeting reform at international level. In countries in transition such as Albania, Russia, Armenia, Georgia, Bosnia and Herzegovina and Serbia, this new budgeting approach became known between 1999 and 2000. In Albania, the first initiative to introduce MTBP dates back to November 1999 while the first budget document was elaborated in February 2000; it consisted of the Medium Term Budget Program for the period from 2001 to 2003. However, the inclusion of all Line Ministries in this process took place only between 2007 and 2009, although still partially.

The specification of strategy oriented program policies and its prioritization are major advantages of program budgeting; the use of ceilings is another important improvement of this approach. Both advantages apply for the annual budget as well. The annual budget is just the first year of MTBP (see Figure 4).

FIGURE 4: Relation between the annual budget and the medium-term budget program



(t = ongoing year; t+1 = following year; t+2 = second year; t+3 = third year)

In addition, the Medium Term Budget Program comes as a legal requirement not only for the central but also for the local level. In recent years, LGUs gained experiences and made progress with strategic development planning, but now, they are increasingly reflecting the mismatch between what was planned at local level and what local government units were able to implement. Scarcity of financial resources is only one of the reasons for this implementation gap, insufficient strategy orientation of the local budget is the other reason.

The Medium Term Budget Program is the missing link between the strategic development plan and the annual budget; it facilitates the implementation of new policies in accordance with the Strategic Development Plan. Furthermore, with the MTBP, a new methodology with financial and performance indicators is used for planning, managing and reporting as well as a new way of structuring the budget. Understanding the terminology used by the MTBP approach is a precondition for its use. Let's have a look at some of the terms:

"Medium Term Budget Program" – is the presentation of budget expenditure and revenue plans for a three-year period; the MTBP is presented programme-wise and finances are linked with activities, products, objectives and policy goals.

"Budget program" – is a comprehensive group of activities needed to deliver a specified amount of outputs in order to achieve the programme policy goal.

"Program goals" – are desired outcomes, measurable over time, regarding quantity, quality and cost aspects. They are achievable step by step in the medium-term.

"Inputs" – are the financial, human and physical resources used to carry out activities in order to generate the desired products and reach the program policy goals.

"Program activities" – are the processes needed to generate the planned outputs within the framework of a program.

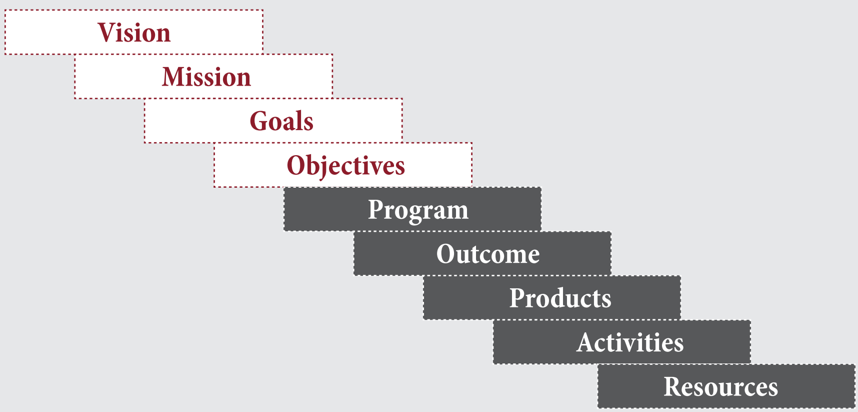
"Products" – are the goods and services provided as an effect of the program activities.

"Program ceiling" – is the overall expenditure limit of a program in the budget preparation phase; program management must respect this spending limit when they prepare the program budget. The program ceiling may be further subdivided in program ceilings for salaries and for purchases of goods and services, etc.

1.4.3 STRATEGIC OBJECTIVES AND THE MEDIUM TERM BUDGET PROGRAM

In the drawing process of Medium Term Budget Program, the Strategic Development Plan plays an important role; it is the logical framework for the MTBP. When LGUs elaborate or review the MTBP, they translate the priority objectives of the SDP into concrete activities for the medium term or they re-examine the connection between the long-term (SDP) and the medium-term (MTBP) policy plan. The connection between SDP and MTBP is demonstrated in Figure 5.

FIGURE 5: SDP as logical framework for MTBP



GROUP WORK 1:

CONNECTION BETWEEN SDP AND MTBP

Assignment: Produce a simple and schematic sketch that illustrates the relationship between the Strategic Development Plan and the Medium Term Budget Program!

Size of group:	4-6 participants
Time for group work:	30 minutes
Working materials:	Flipchart
Time for reporting:	10 minutes for each group
Reporter:	1 person for each working group

It is the purpose of GROUP WORK 1 to further develop participants' understanding of the relationship between the SDP and MTBP. The outcome of this exercise will be an important starting point for module 2 where the relation between SDP and MTB will be explained more in detail.

1.4.4 LGU'S FUNCTIONS LIMITING THE SCOPE OF LGU'S MTBP

When LGUs draw the Medium Term Budget Program, they must consider all policy areas under their responsibility. These areas are defined by the functions assigned to LGUs. A consequence of this fact is that the possibilities of LGUs for strategy implementation through the Medium Term Budget Program are limited by the scope of these local functions.

Article 10 of law 8652, 31.07.2000, determines the LGU functions, classifying them in three groups:

- Exclusive (own) functions – for which LGUs exercise their full authority: a) regulatory authority; b) administrative authority and c) maintenance and investment authority. These functions must be totally or firstly financed by the local budget.
- Shared functions – which are undertaken by two different levels of government.
- Delegated functions, which are delegated from one unit/authority

(central level) to another (local level) together with at least a minimum of authority for their execution.

Following, an overview of different classes of LGU function is presented:

Exclusive functions

Law 8652 /2000 "On organization and functioning of Local Government" Articles 9, 10, 11, 12, defines the exclusive functions for the local governments:

(i) Area of infrastructure and public services

a. construction, rehabilitation and maintenance of local roads, pavements and public squares

b. provision of lighting in public environments

c. urban public transport functioning

d. cemetery administration and burial service provision

e. decoration service

f. parks, landscapes and public green areas administration

g. waste collection, transport and processing

h. potable water supply, white water and wastewater systems

i. urban planning, land management and housing

(ii) Area of social, cultural and sports services

a. protection and development of local cultural and historical values, organization of activities and administration of related institutions

b. organization of sports, recreational and entertaining activities and administration of related institutions

c. social service and administration of institutions such as crèches, hospices, orphanages, etc.

(iii) Area of local economic development

a. preparation of local economic development programs

b. establishment and functioning of public markets and commerce networks

c. development of small businesses and organization of incentive activities such as fairs, publicities in public places, etc.

d. organization of services supporting local economic development such as information services, structures and related infrastructure

e. veterinary service

f. protection and development of local forests, pasturages and natural resources

(iv) Area of public order and civil protection

a. the protection of public order to prevent administrative infringements and guarantee the implementation of LGUs' acts

b. civil protection

Shared functions (article 11, Law 8652/2000)

LGUs perform each of the following functions, apart or together with central government, in accordance with the terms defined on Chapter XI of law 8652, 31.07.2000. In the cases in which central government requires LGUs to perform a common function or to achieve a national standard for the execution of this function, it provides sufficient financial and material support.

LGUs perform these common functions for:

(i) preschool and pre-university education

(ii) primary healthcare service system and public health protection

(iii) social care, poverty alleviation and guaranteeing of related institutions' functioning

(iv) public order and civil defence

(v) environment protection

(vi) other common functions, as according to the mode provided by the law

Delegated functions and competences (article 12, Law 8652/2000)

Delegated functions have the following features:

(i) Delegated functions and competences are mandatory or non-mandatory

(ii) The mandatory functions and competences are those provided by the law

(iii) Central institutions, when permitted by the law, authorize LGUs or Counties to perform specific functions belonging to central institutions by defining procedures of performing and controlling its implementation

(iv) Central institutions may authorize LGUs and Counties to exercise a sole competence for a specific function

(v) Communes, municipalities or counties may be delegated other non-mandatory functions and competences, based on an agreement between the related local government unit and the central institution responsible by law for this function or competence

(vi) In every case, central institutions guarantee to local government units the financial support needed for the exertion of delegated functions and competences.

(vii) Communes, municipalities and counties, on their own initiative, may use their financial resources for the exertion of delegated functions and competences, with the aim to improve the service for the interest of the community.

Horizontal collaboration of LGUs

Any local government unit may exercise its right for inter-communal cooperation, according to article 8 of Law 8652/2000 by any of the following means:

(i) by agreement for executing jointly one or more functions;

(ii) by contracting another local government unit for carrying out one or more functions,

(iii) by having more than one local government contracting a third party for performance of one or more functions.

Any agreement shall (i) describe the purpose and functions to be performed; (ii) provide for the method by which it shall be performed; (iii) establish the level and period of the delegation of powers; and, (iv) set forth respective financial inputs of the local governments and the method revenue collection and the distribution of profits.

Special purpose entities

Two or more units of local governments or units of local government and an organ of the central government may reach an agreement to create a legal entity separate from the parties to whom they assign specified authority and competences

Summary of LGU functions

For the purpose of Medium Term Budget Program preparation, the LGU functions may be summarized in eleven areas of activities.

1. Planning, management, administration
2. Water-supply, canalization
3. Street network (road infrastructure)
4. Public Services (cleaning, lighting, decoration, funeral, public space maintenance etc.)
5. Public transport management

6. Housing and Urban Planning
7. Support and local economic development
8. Environment protection
9. Preschool education
10. Civil emergencies
11. Culture and sports

For the Medium Term Budget Program functions are integrated into budget programs. Each function may be a program of the Medium Term Budget Program; this does not exclude the possibility of integrating several functions in one budget program.

The Financial Planning Tool follows the functional classification used in Albania. However, it offers the possibility to merge some of these functions to programs. The grouping of functions to programs is at discretion of each LGU.

1.4.5 THE ROLE OF LGUS IN CARRYING OUT THEIR FUNCTIONS

Seen from the legislative perspective, three basic roles are assigned to local government units: LGUs are service provider; act as regulator and as catalyser.

- Service provider – this is certainly the core role for LGUs. It includes "routine" operational functions such as waste collection and transportation, various administrative tasks, public spaces and parks, cleaning and maintenance, public assets management, etc. Furthermore, it is part of the local authority to make public investments, although traditionally, this responsibility was often shared with central government.
- Regulator – this is the second role of LGUs, and it has become more important due to the expansion of the private sector. Where conflicting interests between the private sector and the public interest exist, a "specific entity" is required to regulate private sector activities.

- Catalyser– The "catalyser" role is related to the responsibility of local government units for social and economic development on their territory. This includes fostering of "community movement" and the creation of a suitable environment for economic development. A local government unit can enlarge or limit possibilities of development. Limiting possibilities is not always negative; in some cases it may result as useful for the community. Problems arise when limitation is not desired. This could be the case when LGUs delete or postpone capital investments and reallocate the money to activities (such as festivals) which have a short run effect only.

1.4.6 BASIC STEPS FOR THE ELABORATION OF A MTBP

The elaboration of the MTBP can be divided into eight steps.

Step 1	Identify the programs, program goals (desired outcomes), products and structure of activities within LGUs related to the program and give the program a meaningful and attractive title
Step 2	Group all activities under one specific program goal, where they belong to
Step 3	Link program goals with goals of SDP
Step 4	Set program ceilings
Step 5	Classify expenditures (and revenues, where possible) by programs and activities
Step 6	Estimate program expenditure (and revenue) for the medium term
Step 7	Specify program objectives and products for the current and the following year
Step 8	Define performance indicators and targets for monitoring and evaluation

Steps 1-3 are related to the program structure while steps 4 – 7 belong to the drawing up of a MTBP within a given program structure. Based on legal requirements, the process of Medium Term Budget Program drawing follows a clearly defined calendar (see Figure 6):

FIGURE 6: CALENDAR FOR MTBP ELABORATION

Process for MTBP elaboration	Terms
Approval of the macroeconomic framework for the three following years (prepared by department of finance and approved by the head of the local unit)	January
Submission of guidelines for the planning process: a) Expenditure ceilings b) Planned revenues (from intergovernmental transfers and local taxes and tariffs) c) MTBP preparation procedures and terms	February
Creation of the Group on Strategy, Budget and Integration GSBI (heads of programs and chaired by head of local government). Definition of programs, constitution of Program Management Teams PMT and appointment of PMT Leaders. The head of local unit is the Chairman of the GSBI.	January – February
Approval of MTBP ceilings by the municipal Council for each program	March
Calculation of LGU revenues	January – March
Review of program policies together with the head of the local unit and local council	February – March
Program expenditure planning	March – April
Preparation of program budget request and MTBP draft	Up to May 15th
Submission of the MTBP draft to GSBI and Local Council	Up to June 15th
Submission of the MTBP draft to the MoF (only the two tables on revenues and expenditures projection)	Up to June 1st
Discussion of the MTBP document by local council	June
Guideline for MTBP revision	Up to July 10th
Review and update MTBP	July – August
Public Hearings on MTBP	August – October
Submission of the MTBP for approval to the municipal Council	November
Approval	November/ December
Publication	December

Preparatory work for module 2: Participants are asked to bring the following items to the second course: the LGU vision, a list of the goals and objectives of the Strategic Development Plan, and a list of the functions that are executed in their LGU. Furthermore, the participant's opinion on the budget program structure will be asked.

2 STRATEGIC DEVELOPMENT PLAN AND MEDIUM TERM BUDGET PROGRAM

OBJECTIVE:

Participants of training module 2

- are informed about the new legal requirements regarding the drawing processes for Medium Term Budget Programs and Strategic Development Plans
- can explain the relation between the Strategic Development Plan and the Medium Term Budgeting Program
- are familiar with the steps and actions needed for the drawing up of a Strategic Development Plan related to a Medium Term Budget Program.

MODULE CONTENT:

Group exercise: Identification of Programs and Program components

Participants identify the budget programs for their local units and define the program policies and objectives in a systematic and comprehensive way based on the instructions given in this course: 3 working groups for 3 different programs.

2.1 INTRODUCTION TO MODULE 2

Modernizing the local budget process implicates changing from an exclusive line-item budget with detailed information on the allocation of inputs to a budget that additionally includes information on the expected results, i.e. output- and outcome targets. Local budgeting has become a complex process; it combines line item budgeting with performance orientation in the context of a program structure. Furthermore, it is required that the budget for the short and medium term is interconnected with the long-term oriented Strategic Development Plan SDP. For this reason, the SDP must be designed in a way that it is compatible with the Medium-Term Budget Program MTBP.

Flashback to module 1

Participants of module 1 were asked to outline the connection between the SDP and the MTBP in a graphical way and to prepare a short presentation. Before the presentations start, LGU functions are recapitulated in order to make sure that the discussion on the SDP-MTBP link is embedded in the realities of policy making in Albanian LGUs. Each participant has 3 minutes to present his/her understanding of the link.

The discussion will be guided towards the principle: "if resources have been provided – activities will be undertaken; if activities are undertaken – products will be generated; if products are generated – objectives will be achieved; if objectives have been achieved – the local government unit has made progress in implementing priorities of the SDP".

2.2 THE STRATEGIC DEVELOPMENT PLAN

The term "Strategic Development Plan" has become very popular in the last years. The SDP is the master development planning document of an LGU; it provides orientation for the general development of communes and municipalities over a long-term period. Strategic Development Planning is the process in order to establish the SDP; it helps LGUs to reflect and make decisions on what they want to achieve and on the main actions that need to be undertaken in the future. Above all, strategic development planning is considered to be a collective and inclusive process, including not only the elected representatives of the LGU but all stakeholders of an LGU. From a long-term perspective, the SDP looks like a "big picture of the current and future functioning of an LGU and its transformation". The Strategic Development Plan identifies the priorities for local development and aligns LGU staff in pursuing common objectives. The process of SDP elaboration offers the opportunity to address basic questions on the mission of an LGU; it draws the attention beyond the daily questions, it invites thinking the future of the LGU, and it requires reflecting the actions needed for developing the LGU towards the desired development goals.

The SDP is characterised by three components: it's strategic, it's about development, and it's a plan. The SDP obliges LGUs to think about their future; that's the development component. Because of its long-term orientation, it is called strategic. The reflexion about how to build up the future is done in a systematic way, that's why it is called a plan. "Strategic Planning for an organization is like navigation for a ship at sea. The goal is to get from 'here' to 'there', but before the navigator can chart a course, he has to know where he is now, and where he wants to go. Strategic Planning is designed to ensure that we have that information."[2]

2.2.1 GOALS OF SDP ELABORATION:

There are many reasons why to elaborate a SDP (see Table 5)

2) VNG, (2007). The Role of Local Government in Local Economic Development, A Step by Step Approach. VNG International.

TABLE 5: GOOD RESONS WHY TO ELABORATE A SDP
Agreement on desired future
Identification of strategic priorities
Promotion of sustainable partnerships between actors within and outside of the LGU
Performance improvement - more effectiveness of resource allocation based on priorities
More transparency on future policies and better communication between elected representatives, employees, citizens and other stakeholders
Improved institutional capacities and accountability for managing limited financial resources more effectively and efficiently

2.2.2 QUESTIONS ADDRESSED DURING THE ELABORATION OF THE SDP

When a LGU conducts a process for SDP elaboration, many fundamental questions are addressed and need an answer (Table 6).

TABLE 6: QUESTIONS ON THE WAY TO A SDP
What is the aim of our existence?
Who are our clients and stakeholders?
What are our strengths and weaknesses?
Which are the trends that affect our work and environment?
What are the critical factors for success?
Witch policies should we shape and follow?
Witch values should guide our decision-making?
What are the required actions to be taken?
What are our priorities; what resources do we need?
What will be the impact on our target groups and clients?
How will we know it is valuable?
How can we assess whether we are going in the right direction or not?
How will we make sure that corrections are taken during the implementation of the plan when this is needed?

2.2.3 FEATURES OF A GOOD SDP

A good Strategic Development Plan of an LGU aims to improve life quality of its citizens. In Table 7, eight features are presented which are characteristic for a good SDP.

TABLE 7: CHARACTERISTICS OF A GOOD SDP
Challenging agenda: It's motivating the institution in trying to fulfil its mission and vision
Change orientation with creative ideas: In a good, inspiring SDP, there should be a spirit of creativity and innovation; thinking beyond possibilities should materialize in the aims and actions of the SDP.
Realistic planning: It is based on strengths and opportunities of the municipality and taking account of weaknesses and risks. The implementation of the plan must be feasible and funding must be possible.
Clear and easy to understand: The SDP must not be too "technical" since it functions as means for a wide-range of communication.
Analytic basis: It must rely on an accurate evaluation of the current situation and must identify the eventual risks and insecurities.
Appropriate prioritization: The goals of the SDP must be prioritized
Inclusive elaboration with broad-based ownership: When the SDP is elaborated and discussed, participation of all stakeholders is required in order to create ownership.
Flexible approach: The SDP must be flexible, updated and reviewable in order to reflect changes in the environment.

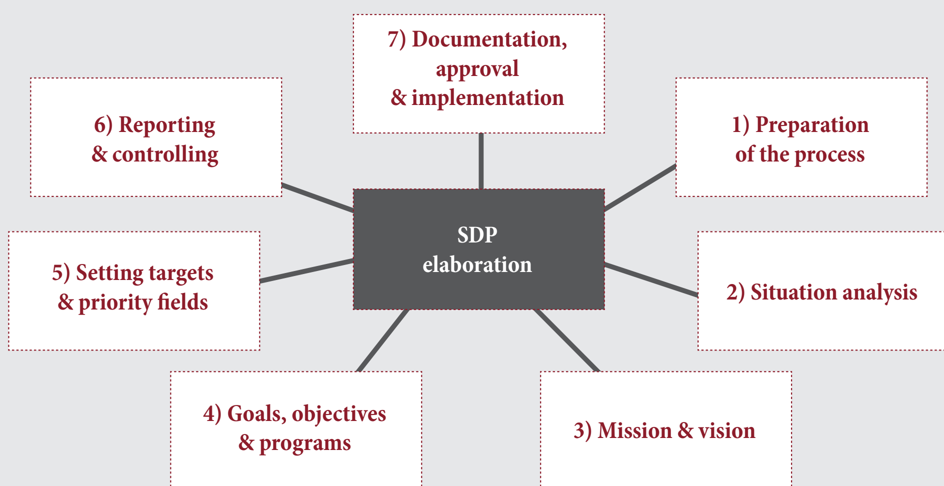
Strategic Development Plan must be revised every 3 to 5-years, in order to adjust the SDP to the requirements of the dynamic environment of LGUs. If these adjustments are not undertaken regularly, the SDP becomes outdated rapidly. However, the planning horizon of the SDP should cover a longer time frame of ten years or more.

2.2.4 ELABORATION OF THE SDP IN SEVEN STEPS

The process of SDP elaboration is based on broad practical experience. The elaboration process is subdivided in seven main steps (see: Figure 7).

Step 1: Preparation of the process: It is highly recommended to establish a working group for SDP elaboration. This group should have the operational management responsibility for SDP elaboration and for bringing stakeholders close to this process. The group is responsible for: a) designing the methodology b) clarifying the roles and responsibilities; and c) preparing the work plan. However, the ultimate responsibility for the organisation of SDP elaboration is with the head of local unit.

FIGURE 7: Stepwise elaboration of SDP



The success of the process depends on the involvement of the concerned actors. The more actors involved, the more inclusive the process, the broader the support for the SDP will be. The actors shown in Table 8 should be motivated and invited to participate in the elaboration of the SDP:

TABLE 8: INVITATION CHECKLIST FOR PARTICIPATION IN SDP ELABORATION PROCESS
Citizens
City Council
Private agencies
Civil Society (NGO)
Businesses
Public institutions
Media
Religious communities
Universities
Educational institutions etc.
Program officers of LGU administration

Step 2: Situation Analysis: In the 2nd step, the current situation of the LGU is analyzed; by doing so, the following questions may be asked: Where do we come from? Where are we now? Where we will go? Which are our choices? The evaluation of the current situation is a preparatory step needed to elaborate the mission, vision, development goals and strategic objectives for the LGU. It is the intention of this analysis to generate information on community's perception, experiences and expectations and to identify strength and weaknesses of local service delivery. In addition, the situation analysis assesses the external and internal environment of the LGU in terms of risks and opportunities.

The way how the situation analysis is carried out depends on the type and the accuracy of the available information. In any case, an important part of this step is the SWOT analysis which is conducted with the participation of the main stakeholders involved in the process. The questions and the example presented in Figure 8 provide guidance on how to conduct a SWOT analysis.

FIGURE 8: HOW TO CONDUCT A SWOT ANALYSIS

Strengths	Weaknesses
Internal Factors	
• What are our advantages? • What do we do well? • Which are the important resources to which we have access? • What are our strong points?	• What do we want to improve? • What haven't we done well? • What do we want to avoid? • Where are other LGUs better, what can we learn from it?
Opportunities	**Threats**
External Factors	
• What are the available opportunities? • What are the positive trends?	• What are the obstacles encountered? • Which trends/factors could affect us negatively?

Examples of items in a SWOT analysis:

FIGURE 8: HOW TO CONDUCT A SWOT ANALYSIS

Strengths	Weaknesses
Internal Factors	
• Population age young • Strategic geographic condition • Favourable climate • Low density of population • Free public space • Low criminal range • Local infrastructure in good conditions	• Low management capacities on territorial planning and controlling • Fragmented land • Higher land erosion • Low financial capacities of farmers to invest in mechanisation of agriculture
Opportunities	**Threats**
External Factors	
• Political support from the central government in subsidizing the agricultural products • Decentralization process increasing the financial resources of the LGUs in supporting the agricultural products • Construction of a new regional market	• Uncontrolled urban development at regional level is a risk due to environmental damage and increased land use • High level of competition amongst LGUs for donor funds targeted to the agribusiness sector.

We can carry out the SWOT analysis in a holistic way for the LGU as a whole or for each program

The SWOT analysis identifies positive and negative issues relevant for development; These can be internal features of the organisation or external influences of the environment.

- "Strengths" are internal features while "opportunities" are external influences; both have a positive impact on development, they are supportive for the current strategy and can help to improve the local government unit's performance.
- "Weaknesses" are internal features while "threats" are external influences; both have a negative impact on development and must be considered as a negative risk; they hinder or endanger the implementation of the current strategy and have a negative impact on performance.

Step 3: Mission and vision

The mission describes the purpose of an organization; it explains why we exist and shows what we have to do and want to do. The mission strongly guides the elaboration of the SDP; the scope and the direction of the SDP must match with the mission (see example in Box 1).

The vision describes where the LGU will be in the future, based on shared values of all stakeholders involved. It can be considered as the guiding idea for future development. It materializes as a concrete mental image of how an organisations wants to see its future, not too much away from what seems to be realistic, but far enough to stimulate enthusiasm in a organisation to make the "dream" become real. The vision is based on a set of goals and of aspirations defined for a long-term period of 10-15 years.

BOX 1: VISION OF ORA[3]

Ora will be an important regional centre of exchange with a prosperous economy and offering good education; it will be developed in harmony with the culture and history of the city and people of Ora; benefitting from its remarkable natural environment, it will become an attractive place to live and work and to visit.

3) The city (Municipality) of Ora is a local government unit and is used to illustrate theoretical notions with practical examples.

When you design a vision, consider the following guiding questions:

- What is the aim of our existence?
- What are the positive factors for development?
- What are the negative factors?
- What are the trends that affect our economic environment?
- What factors are crucial for success?
- How should we present ourselves and give our best?
- What has changed compared to 5 years ago and how should our LGU look like in the future?

Short reflexion:

Training participants will bring up for discussion examples of visions used in their LGUs. The aim of this discussion is to improve the understanding of what a good vision could be why it is relevant for SDP elaboration.

Step 4: Setting of goals and objectives: Goals and objectives can be described as the aims of an undertaking or as the desired results. They are like milestones on the way towards realizing the vision step by step. Setting goals and objectives helps us to take decisions about methods and means to achieve the changes needed.

While goals are aspirations, objectives are more operational. Goals are related to desired impacts while objectives are related to desired outcomes and outputs. Objectives are the basis of the Strategic Development Plan. They must identify the outcome (or output) to be achieved in a measurable way, using indicators. They must be specific and attainable, focused on results and time-bound. They are established by consulting stakeholders and local staff. A program goal may have at least one objec-tive.

Figure 9 illustrates how goals differ from objectives more in detail.

FIGURE 9: DIFFERENCES BETWEEN GOALS AND OBJECTIVES

Goals	Strategic Objectives
• are broad	• are narrower
• express general aims	• are more specific
• are "unalterable" / long-term oriented	• are alterable
• are more abstract	• are more concrete
• are not linked to a time schedule	• are always linked to a time schedule

Step 5: Targets and Prioritizing – Targets define the desired level of performance measured by indicator values that should be achieved. They are used for services or capital investment projects. For this purpose, indicators must be displayed in the SMART format. Box 2 illustrates this concept for the road maintenance services.

BOX 2: TARGETS FOR ROAD MAINTENANCE

Km of Roads Maintenance	Actual target	Target for next three years
	20	32

The manual on "Long and Medium-Term Strategic and Financial Planning[4]" provides guidance for LGUs on how to set priorities in favour of local development. Some of the priority fields, mentioned in this manual, are: (1) economic and social development; (2) land management; (3) good governance; (4) social capital and (5) infrastructure and services. For the purpose of budgeting, LGUs should decide which fields to prioritise taking into account the strategic needs. The example of Box 3 illustrates how this could be done.

BOX 3: PRIORITY SETTING

Ora Municipality allocates 50% of the available capital funds to road infrastructure improvement projects as a priority policy for the following year (t+1).

4) Co-PLAN//dldp, (2011). Long and Medium Term Strategic and Financial Planning - A manual for Local Government Units in Albania

Step 6: Monitoring & Evaluation[5]: Monitoring and evaluation is closely related with reporting and control. As a matter of transparency and in order to assure accountability, reporting is needed on what has been achieved. In our context, we call this process monitoring. The control process follows the reporting process. In the control process, we assess what has been achieved. This process is called evaluation in our context. That is how we will use this term below. However, be aware that the term evaluation is used in two different ways, and this may cause confusion. The action of periodic control, which is the idea presented here, is called formative evaluation. It takes place annually or in-year; its purpose is to control whether programs or projects are on track towards the objectives. In contrast, summative evaluation takes place in the middle or at the end of a project or program in order to assess, whether the project/program meets its goals and whether the strategy is still appropriate.

Monitoring is an indispensable activity which must accompany the implementation of the SDP. Important questions that should be asked and answered during the monitoring process are presented in Table 9.

TABLE 9: GUIDING QUESTIONS FOR THE MONITORING PROCESS
Are we moving towards our vision?
Are we accomplishing with our objectives?
Are we behaving consistently in relation to our values?
Are we meeting stakeholders' expectation?
What has changed as result of the process?
Have we been able to include stakeholders in the process?
Are the processes carried out in an appropriate way?
Have we allocated resources correctly and are we acting within the approved targets?

The information produced during the monitoring process is required for the subsequent process, the evaluation. Through the evaluation process, local government units are able to compare project achievements with what was planned in the Strategic Development Plan. In the evaluation, monitoring information is used for an appraisal of the achievements of the period under

5) Both two steps will be part of the 5th module

review, it is assessed what was done well and what went badly. Based on the evaluation results, the LGU tries to learn from the achievements or failures. If necessary, corrective measures are taken.

The two processes of monitoring and evaluations are closely interrelated. While monitoring starts when the implementation of the SDP begins, evaluation cannot take place earlier than one year after having started the implementation. Therefore, it is clear that during the elaboration of the SDP, monitoring and evaluation are not yet in function. However, it is needed to design the methodology and processes for SDP monitoring and evaluation already when the SDP is elaborated.

Step 7: SDP documentation: Documentation of the SDP is the final stage of the SDP elaboration. Before you start to write the SDP, consider again the recommendations for a good SDP (see, Table 7, section 2.2.3). Another aspect that has to be considered during the drawing of the document is related to keeping the focus on the audience to which this plan will be addressed. There are two types of audiences: local government units' staff and external stakeholders; therefore the preparation of the document in a language simple and comprehensible for all is required.

2.3 THE MEDIUM-TERM BUDGET PROGRAM – PART II

The Medium-Term Budget Program MTBP is a three-year forecast for expenditure and revenue; it directly links this forecast with a policy plan for the same period. The MTBP uses a program classification. For each program, the MTBP provides information on the program goals and objectives, planned products and activities together with planned expenditure and revenue for each program. The link between SDP and MTBP guarantees that resources are allocated in accordance with the goals and objectives of the SDP and reflect the strategic priorities of the local government unit. By doing so, the budgeting process becomes more strategic and policy-oriented.

The preparation of the MTBP should be organized as a transparent process of budget planning for a three-year period. It must take into consideration the scarce resources regardless of their nature and shows the implementation costs for the activities. However, the elaboration of the MTBP starts with revenue estimation followed by setting the program ceilings.

The MTBP can be described as a multi-year, comprehensive, broad-based and performance-oriented budget document (see: Table 10)

TABLE 10: MAIN FEATURES A MTBP

Features	Description
multi-year	provides planning information for three years: t+1, t+2, t+3, in addition to the figures of last year and the budget for the current year
comprehensive	combines financial planning with policy planning
broad-based	includes budget information for all spending units under control of the LGU
performance-oriented	provides information on goals, objectives and sets targets

What is true for budgeting in the public sector is also true for the MTBP: Scarce resources must be allocated in an optimal way in order to respond to unlimited demands. In addition, there is more to say about the MTBP:

- The MTBP can be used to strengthen fiscal discipline in the medium term by carrying out realistic revenue estimations, limiting planned expenditure in an early stage of the budgeting process with ceilings to what is affordable, and by considering forward-costs of new policies.
- The MTBP is a strong and verifiable promise of policy makers to their citizens.
- It serves as a benchmark for control, e.g. planned expenditures can be compared with the approved ceilings when the budget is still under elaboration.
- It supports planning for efficient service delivery by making unit costs more transparent.
- It can be used as a powerful communication instrument; this is especially the case when all relevant stakeholders participate in the process of MTBP preparation.
- It facilitates performance-based budgeting for the medium-term with more planning realism.
- It improves transparency and predictability of policy making and strengthens accountability of policy makers for results.

2.3.1 TOP-DOWN AND BOTTOM-UP PROCESSES IN THE ELABORATION OF THE MTBP

Medium-term budgeting takes place every year; in this way, this is a permanent exercise. It is based on top-down and bottom-up processes (see: Figure 10).

FIGURE 10: MTB DEVELOPMENT ROUTE

	Top-down	Bottom-up
Expenditure Ceiling	Strategic solutions	Operational solutions
Program Policy Goal		
Program Policy Objectives		
Program Products	↓ Desired	↑ Feasible
Program Activities		
Program Resources		

Before LGUs start with the preparation of the MTBP, a short review process is highly recommended. The strategic framework for policy making at the local level and the macroeconomic framework are defined by the upper government level (central government); LGUs should consider this during the review process. The review of policies at local level includes a reflexion of the SDP together with the evaluation of achieved results in terms of objectives, products and activities.

In the top-down mode of MTBP elaboration, the following processes have to be carried out:

- Projection of all revenue sources of the LGU for a 3-year period (local taxes, unconditional and conditional transfer, donations, grants for ongoing projects, economic activity and foreign revenue where an agreement has been signed)
- Distribution of these resources to programs based on SDP priorities and program ceilings.

In the bottom-up mode of MTBP elaboration, the following processes have to be carried out:

- Planning of activities to meet the program goals.
- Cost estimation for planned activities for each program; integration of theses estimations into the MTBP. The expenditure budget must be fully in line with the ceilings.
- Forecasting of ear-marked resources for each program (fees, fines, conditional grants, etc.)

Top-down and bottom-up processes in the FPT

Let's have a look now on how these processes are implemented in the FPT without entering too much into the details. For the top down processes, consider the sheets for revenue estimation and the sheet for ceilings. For the bottom-up process, consider the budget request forms. Please, consult the relevant sections of the FPT manual for illustration of the following explanations! Bear in mind that the FPT is organised along functions for practical reasons. Programs are an aggregation of functions. LGUs are free how to aggregate functions in a program (see Figure 11).

Revenue estimation is carried out in a disaggregated manner, i.e. source by source individually. Consider the influencing factors for each revenue source!

The FPT uses one overall ceiling for each function and within the functions, three types of sub-ceilings are defined; the first one is for salaries and social insurance, the second for purchases of goods and services (consumption beyond staff compensation), the third is for capital investments. While the first and the second sub-ceiling are maximum ceilings for consumption, the third sub-ceiling constitutes a minimum requirement for capital investment. The capital investment ceiling is the residuum from the overall ceiling per function minus the two ceilings for consumption. The political authorities can guide strategic resource allocation per function with the overall ceilings; furthermore, they can steer the investment priorities and keep staff expenditures under control with the sub-ceilings.

With the budget request form, expenditure and earmarked revenues for programs are estimated in a disaggregated way. This process follows the functional classification, which is uniform in Albania. For each function, there is room for three activities. Consider the influencing factors for the expenditures per activity! These are inflation, structural changes and efficiency gains. The FPT asks you to disaggregate the expenditure per activity in two ways. Firstly, you should make a distinction between capital investment (or project) costs on the one hand and recurrent costs on the other hand; secondly, you should make a breakdown of the costs according to the economic classification, i.e. expenditures for salaries, other current expenditures, etc. For each activity, the BRF has a section for the estimation of revenue from fees, conditional grants and contributions; the latter two are dedicated to the activity, i.e. conditional grants and contributions earmarked revenue. Consider the five influencing factors for fees: volume increase of activity, improved use of fee potential, legal adjustments, increase of fee per unit and other factors. For the earmarked revenue, no such factors are considered. The estimation of these revenue sources is just based on information out of negotiations with the financing parties. In the upper part of the BRF, you find a compilation of the total of expenditure and direct revenue planned for this function and a check box that informs you whether your expenditure estimations are within the ceilings or not. The FPT automatically aggregates the information from the functional budget request forms to the program level. You find tables and graphs for gross and net expenditure per program in the output section of the FPT. The difference between gross and net expenditure are the fees and the earmarked revenue per activity or - in the aggregated form - per program.

2.3.2 STRATEGY ORIENTATION OF MTBP PROGRAMS

No Strategic Development Plan can be successful if it is not connected to budget processes. Traditional budget plans face difficulties to link strategic priorities with the available financial resources; this was due to two reasons:

- capital costs to be financed are too high compared to the possibilities of the LGU,

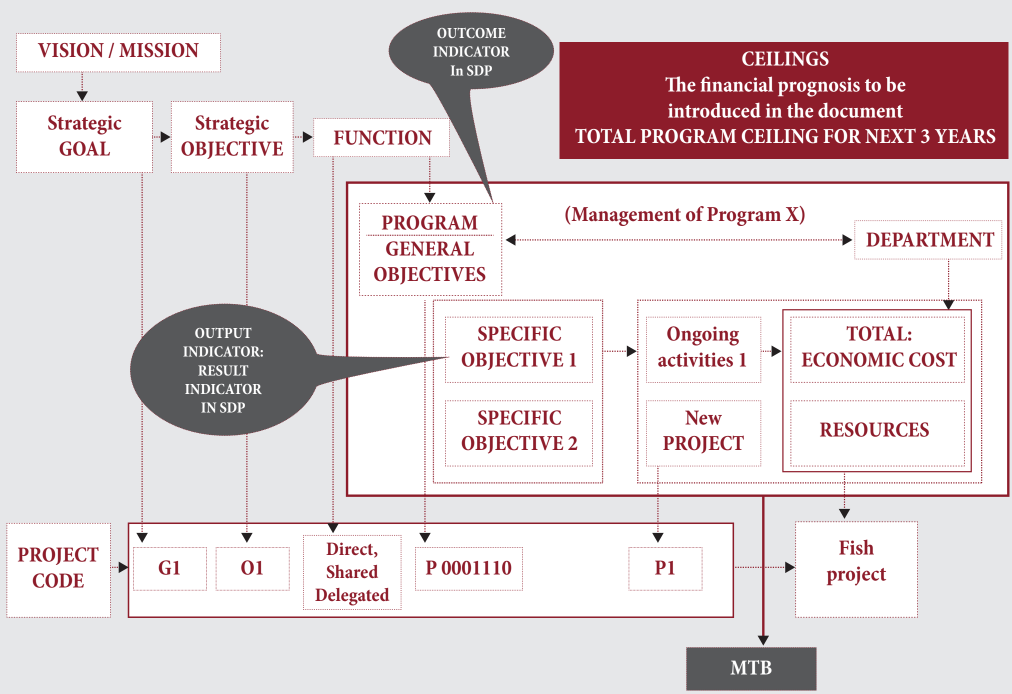
and

- some projects last longer than a one year period

With the MTBP, it is easier to direct resources allocation towards development objectives and priorities of LGUs. The MTBP facilitates strategy oriented budgeting, and multi-year projects can be better reflected in an MTBP than in an annual budget. In addition, as a result of its performance orientation, the MTBP is much more useful for budget evaluation than a traditional budget; it is much easier to assess the effectiveness and efficiency of resource utilisation now.

Figure 11 illustrates the relation between the SDP and MTBP. In this framework, each goal and objective of the SDP is integrated in a specific function of the local government unit. In addition, it is illustrated how functions enter into programs: A function (or several inter-related functions) constitute a Program of the MTBP. For further information on the relationship between functions and programs see section 2.4.1.

FIGURE 11: Strategic development plan and medium term budget



2.3.3 GROUP ON STRATEGY, BUDGET AND INTEGRATION AND ITS ROLE IN MTBP DRAWING

The set up of the Group on Strategy, Budget and Integration (GSBI) takes place before the elaboration of the MTBP starts. This group is established by internal mandate of the head of the local government. The composition of the GSBI is explained in Table 11.

TABLE 11: COMPOSITION OF GSBI

Composition of GSBI	Role within GSBI
Head of the local government unit	Member
Deputy head of Local Government Unit	Member
Head of each program	Chairman

Short reflexion:

Does the GSBI of your local government unit have an internal mandate? Is it formally approved by the head of the LGU? What is the function of the GSBI in your LGU?

In Table 12, the function of the Group on Strategy, Budget and Integration is explained.

TABLE 12: MANDATE OF GSBI

The GSBI
- submits a proposal for the program structure, the program management teams (PMT), and the PMT leaders (PMTL) to the local Council,
- plans the ceilings for each program,
- approves the program's expenditure plan when it is within the ceilings formally approved by the LGU council
- approves the mission statements for each program and the review of the program policies,
- approves the policy objectives and products for each program.

2.4 THE PROGRAM AS A KEY COMPONENT OF THE MTBP

2.4.1 RELATIONSHIP BETWEEN LGU FUNCTIONS AND PROGRAMS

LGU functions are uniform for all LGUs of Albania. The list presented in Table 13 enumerates all LGU functions. Certainly, not all LGUs have activities in each function; the scope of LGU activities depends on the nature and the size of an LGU.

BOX 4: NEW PROGRAM FOR ORA

Currently, the municipality of Ora does not provide a public urban transport service; therefore, there is no need to elaborate a public transportation program for Ora. But, if Ora plans to open such a service in the second year of the MTBP, then this program is needed for the MTBP already now. In this case, the local government unit will allocate no money for the first year of the MTBP, but for the following two years, planned allocation will be included in the new MTBP.

With the MTBP, LGU functions have to be amalgamated to programs in order to facilitate a more holistic view of policy making. The program concept is broader than the concept of functions. Each function belongs to one and only one program. However, a program can comprise more than one function, but there is no room for programs where there is no function. Finally, there is no function without a program. In the design of the program structure, LGUs have full discretion. To a certain extent, the program structure depends on the policy areas where an LGU wants to give special emphasis based on it SDP. For this and other reasons, the program structure of LGUs is not uniform. Also the size and the socio-demographic or topographic nature of a LGU have an influence on the program structure. The program structure should be meaningful; a program should combine policy areas, which are highly interrelated. Programs should have meaningful titles. Avoid empty formula titles such as "public services" which could mean anything. Please, bear in mind that by reducing the number of programs, the Council loses control over policy making in the LGU, and management will gain more discretion. However with too many programs, the holistic view gets lost. There is a trade-off between control at the level of details and control of the broader picture. Certainly, the number of programs depends on the size of an LGU as well. As a rule, a bigger LGU will have more programs than a small LGU. The law doesn't regulate the number of programs required.

Table 13 illustrates how functions can be merged to programs. To explain the idea, let's make an example. A program could be created with the title "Public Space Maintenance and Environment"; it could comprise the following functions: cleaning and greening, public lighting, environment, cemetery administration.

TABLE 13: MERGING FUNCTIONS TO PROGRAMS

FUNCTIONS	PROGRAMS
Public Administration	Planning, Management and Administration
Cleaning and Greening	Public Space Maintenance and Environment
Wastewater sewer	Water supply and Canalizations
Road Management	Local Infrastructure
Public Transport	Public Transport
Tourism	Culture, Leisure, Sports and Tourism
Urban Planning and Housing	Urban Planning and Housing
Public lighting	Public Space Maintenance and Environment
Economic Development	Economic Development and Employment
Forest management	Economic Development and Employment
Environment	Public Space Maintenance and Environment
Sports	Culture, Leisure, Sports and Tourism
Culture	Culture, Leisure, Sports and Tourism
Social Care	Social Services
Health care	Social Services
Civil Emergences	Public Order and Civil Protection
Education	Education
Other Public Services	-
Cemetery Administration	Public Space Maintenance and Environment
Short-term debt service	-
Long term debt service	-

Let's go to the FPT and check how functions are allocated to programs with this tool. It's very simple. The FPT uses two forms for this step. The first form is the program form: Just enumerate the types of programs with their names and the person responsible for each program (i.e. the program manager). The second form is called "organisation structure". It follows the functional classification. For each function, fill in the person and unit responsible for this function and select the appropriate program from the list that appears when you click on the arrow button in the row with the program names. This list is produced automatically from the program form. Please, check the FPT manual or the FPT for illustration.

Note the following exception: The "Planning, Management, Administration" Program is a mandatory program by law for all Albanian LGUs

2.4.2 USEFULNESS OF THE PROGRAM APPROACH

Short reflexion:

Participants are invited to discuss the following questions: What is a program and why having programs now? What are the components of a program?

What does the MoF Guideline say about Program?

Annex 1/1 of the guideline no. 7/1 dated 22.02.2010 "On local budget preparation" defines the program as: "A clearly distinguishable field of policy preparation and implementation within a Budget Institution". It includes all the work that accompanies this policy field and must be clearly distinguishable from other programs of the same budget institution.
The responsibility for the implementation of program policies and the achievement of program products lies with the Program Management Team (PMT).

Why a program?

In the daily practice, the program can be understood as a set of activities carried out by an organizational unit aiming to fulfil one or several inter-related LGU functions in order to deliver the services as defined in the program. The program concept offers the following advantages:

- **It facilitates SDP implementation:** With the holistic program approach, it's easier to substantiate the SDP in the medium-term and to put its priorities into concrete terms than with the traditional budget. Furthermore, the program combines financial planning with policy planning and provides comprehensive information.

- **It clarifies responsibility for results:** The program is managed by the Program Management Team (PMT) together with the program management team leader (PMTL). They are responsible for the elaboration of the program budget (including program goals and objectives, planned outputs and outcomes and the activities and finances needed); in addition, the PMTL together with its team is also responsible for implementation, i.e. for the results.

- **It facilitates strategy-oriented reporting and control:** Clearly defined programs with appropriate indicators and targets make reporting on progress easier; what was planned is compared with what was achieved and with what will be implemented next, based on the projects included in the MTBP.

- **It's a means for motivation:** Program-based budgeting can be a source of motivation for local staff. If programs are elaborated in a participative way by the entire PMT, possibly in collaboration with external stakeholders, intrinsic motivation and enthusiasm of staff is strengthened. In addition, local staff will implement the program more effectively, if they have a clear understanding of the program goal.

2.4.3 KEY COMPONENTS OF THE MTBP PROGRAM- THE PROGRAM PROFILE

The program profile includes the following seven elements: (1) program policy statement, (2) program goals, (3) program objectives, (4) program policy standards, i.e. indicators with targets (5) program pro¬ducts, (6) program activities, (7) program resources. There are two main reasons why programs are specified by these seven elements:

- disclosure of the program content for the public.

- enabling a realistic calculation of program expenditure and keeping it within the given ceilings for the budget.

In this way, the program has also the character of a promise or a contract. It is promised what will be delivered for the money awarded to a program.

(1) Program Policy Statement

The program policy statement is defined by the MoF as a "translation of policy priorities of the local government unit into action lines in order to achieve the desired changes"[6]. The Program Policy Statement must be clearly related to the strategic documents relevant for the LGU in the long-term or at least in the medium-term. These strategic documents might be the Strategic Development Plan, the Regional Development Plan, Sector Strategies and the Government Program. The clearer the program policy is defined, the higher will be the guarantee of a good link between the program policy and the program goals and objectives.

(2) Program Goals

A Program goal is defined as the desired and measurable result that must be achieved through LGU actions in the medium- or long-term. Program goals are outcome-oriented.

Example for a program goal:

The area of the city with a clean and safe environment is extended from currently 60% to 90% within the next three years.

(3) Program Objectives

Program Objectives are either defined as products generated through the activities of a program, or they are related to process efficiency. The objectives are specified in terms of time, quantity, quality and cost; they can be reached within a short- or medium-term period. Policy goals can be considered as intermediate steps on the way towards policy goals. Therefore, the achievement of the program goal depends on the achievement of program objectives. The clearer and more understandable program objectives are elaborated, the easier it is for the LGU to achieve them. Program objectives are output-oriented.

Example for a program objective:

Waste collection in the Municipality is extended from currently 2.000 tons to 5.000 tons within the next three years.

6) Ministry of Finance. (2012). Guidelines # 8 on standard procedures in preparing Medium Term Budget. Annex 3/1&4 on program policy review. Online: http://www.minfin.gov.al/minfin/pub/shtojca_4_rishikimi_i_politikes_se_programit_3280_1.doc

(4) Program policy standard

Program policy standards have two components: indicators and targets. They are linked to quantitative and qualitative parameters. Indicators define how program goals and objectives are measured, i.e. what exactly should be achieved, whereas targets define how much should be achieved. Program policy standards are used to guide program implementation more specifically and to facilitate monitoring and evaluation.

(5) Program products (program outputs)

Program products (or outputs) are the goods and services whose production is required in order to achieve program objectives and goals. Program products are the means for the achieving the program objectives.

(6) Program activities

Program activities are processes undertaken to produce the planned products. Each output may require at least one activity. Generally, more than one activity is needed to produce a product.

(7) Resources (Inputs):

Resources (inputs) are the financial, human and physical resources used to produce a product. When resources are calculated in financial terms, they are presented in the budget as expenditure items. In the program profile, information on revenue is included as well: fees, earmarked funds, tax money.

The logics behind the program profile are quite clear: Resources (inputs) are used to carry out the various activities aimed at generating the specific products (outputs) which are needed to reach a number of objectives for the fulfilment of a goal.

The feasibility of a program policy becomes clear when the policy is translated into results, activities (with time schedules) and inputs. The example of the waste management program presented in Box 5 serves as an illustration for a program profile.

BOX 5: PROFILE FOR WASTE MANAGEMENT PROGRAM[7]		
Waste Management Program		
Program Description	Provision of a quality waste management service for all the citizens of Ora Municipality	
Program policy	Achieve and maintain a high level of citizen satisfaction with the waste management service in Ora Municipality	
Program Goal	By the end of 2015, expand the coverage of the cleaning service from the current 60% to 90% of the territory of the city. By the end of 2015, expand the cleaning service coverage from the current	
Code as assigned by the Treasury Office	000 62 60	
Program objective: year t + 1	Provide a clean and safe environment by expanding the service coverage from 60% to 65%	
Program objective: year t + 2	Provide a clean and safe environment by expanding the service coverage from 65% to 70%	
Program objective: year t + 3	Provide a clean and safe environment by expanding the service coverage from 70% to 80%	
Product: year t + 1	2 000 tons of waste collected during the first year	
Product: year t + 2	3 000 tons of waste collected during the second year	
Product: year t + 3	Collection of waste from citizens and small businesses once/twice per week	
Activities	Provision of the cleaning service for an area of 5000 m^2	
	Purchase of 20 new containers for the organization of the service	
	Hiring of 3 new employees for the service	
	Purchase of a new vehicle for the carrying out of the service	
Resources	Expenditures	Staff costs (salaries and insurances)
		Material costs (operational and maintenance costs)
		Capital costs (capital projects)
	Revenues:	Fees
		Earmarked contributions
		Tax money required

7) Waste management (collecting, transport and processing of waste) may be part of the public services program, but being classified as a subprogram within this program.

2.4.4 SPECIFICATION OF PROGRAM OBJECTIVES

In order to make the MTBP clear, unambiguous and verifiable, it is required that the program objectives are specified in an appropriate way. You can use the check list of Table 14 as guidance when you have to describe the objectives for a program.

TABLE 14: SPECIFICATION OF OBJECTIVES IN 10 STEPS
1. Sort out the difference between objectives and goals before starting. Goals express your aspirations and objectives are like milestones.
2. SMART stands for Specific, Measurable, Attainable, Realistic, Timely
3. Do not try to use that order: M-A/R-S-T is often the best way to draw objectives.
4. Measurable is the most important consideration. You will know that you have attained your objectives because this element provides you with the necessary evidence.
5. Attainable is linked to "measurable". But, how can I decide if an objective is attainable?
a. You know that the objective is measurable
b. Somebody else has done it successfully before
c. It is theoretically possible (it is clearly not "not attainable")
d. You have the necessary resources, or at least a real chance to get them
e. You have assessed the eventual limitations (risks)
6. If the objective is attainable, it may not be realistic. You need to know:
a. Who is going to do it?
b. Do the employees have the necessary skills to carry it out?
c. Where will you find the funds?
d. Who will be accountable for it?
7. Being "Realistic" is about human resources/time/funds/possibilities.
8. The main reason an objective may be attainable but not realistic is that it is not a high priority. Often there is something else that needs to be done first in order for you to be successful.

9. You will know your objective is 'specific" enough if:
a. Everyone involved is able to understand it and they have the same understanding.
b. You have defined all the needed terms
c. The language it has been designated with is comprehensible.
11. Timely means setting deadlines. You must establish time schedules; otherwise the objective will not be measurable. The deadlines set must be realistic; otherwise the objective will become unattainable. T=M=R=S – without them, the objective cannot be a top priority.
11. You did a good job!

Source: www.natpact.nhs.uk (10 steps to SMART objectives)

GROUP WORK 2:
PROGRAM SPECIFICATION

Objectives of the exercise:

- familiarize with the program concept
- train the application of technical terms used for program specification

Assignment: Each working group will choose a program (different from the ones chosen by the other groups) and will identify its components as in the example given on diagram 9; more specifically:

• program policy; • program policy goal; • program policy objectives; • program policy products; • program activities; • program resources (revenues and expenditures)

Organizing of the group work: (2 groups according to the total number of participants):

Time of groups' preparation:	60 minutes
Working materials:	Flipcharts for each group
Reporting:	15 minutes for each group
Reporter:	1 person from each working group

Working groups may be composed of representatives of one local government unit (the unit they represent) but also by participants coming from two or more, possibly similar, local government units. For the development of the exercise it would be useful if each of the groups could use specific data related to the LGU they represent; in the cases a group is composed of representatives coming from more than one LGU, the judgment on the data to use is left to the participants.

Preparatory work for module 3: Participants are asked to bring the following items to the third course:

- a copy of the budget plan for the current year (approved or not)
- a copy of the council's decision on the local tax level
- a copy of the annual budget for the current year
- the SDP of the LGU (if available)
- the CIP (if available)
- a copy of the revenue analysis
- any other official or non-official document which could be useful for revenue planning in the budget (data on businesses, families, revenues potential etc).

3 LOCAL REVENUE AND LOCAL EXPENDITURE PLANNING

OBJECTIVE

Participants of training module 3

- understand why it is important to manage and forecast LGU revenues and how to do it
- are familiar with capital investment planning
- are empowered to participate actively in knowledge exchange on financial resources planning and management.

MODULE CONTENT

3.1 INTRODUCTION TO THE MODULE

The local fiscal reform undertaken in the last years was remarkable; its aim was not only the expansion of local autonomy, but also the increase of LGU's opportunities to improve community life. Therefore, LGUs are much more responsible for local finances now. Among the most important steps, it is worth to mention the transformation of some taxes from national taxes to local taxes; the transfer of the small business tax administration to LGUs can be considered as a first important milestone. Other taxes did follow: the Annual Registration Tax for Road Transport Vehicles, the Tax on the Property Rights Transformation on Real Estate, etc.

The fiscal reform undertaken during these years transferred the authority to set the tax level[8] for a number of taxes to local governments; furthermore, local governments have the right and the authority to define the procedures for local revenue collection and administrations and they must develop modalities for cooperation with the central tax agents and administration. Nowadays, Municipalities are responsible for drawing up, approving and implementing local fiscal policies within the requirements defined by law no. 9632/2006 and law no. 10117/2011 On Local Tax System.

Having to deal with limited financial resources and a rising demand for public services and quality improvements, government bodies at all levels are challenged to implement improved budgeting methods. One of the key questions at the beginning of the budgeting process is how much money can be mobilized for the budget. Accurate revenue estimation is important for two reasons; firstly, in order to define the overall amount for expenditure, and secondly, to maintain the fiscal discipline, i.e. to keep the budget in balance. In this module, we will address these concerns at least in part. The module covers revenue and revenue estimation aspects in the first part and continues with capital budgeting in the second part.

3.2 REVENUE PLANNING FOR LOCAL GOVERNMENT UNITS

The Constitution of the Republic of Albania provides that: "The units of local government are juridical persons. The units of local government have

8) For specific taxes/temporary taxes also the tax base, see chapter 3.2.3.1.

an independent budget, which is created in the manner provided by law"[9]
. Based on this constitutional right, Law 8652 dated 31.07.2000 on the "Organization and functioning of local government", defines in its Articles 15, 16 and 17 three sources of revenues for LGUs:

- own revenues,
- revenues from the central level, and
- external revenues.

In addition, article 113(c) of the Constitution grants a constitutional guarantee for the right of Local Councils:

- to collect revenue, and
- to spend the revenue necessary for executing their functions.

3.2.1 REVENUE PLANNING AS PART OF THE FINANCIAL MANAGEMENT OF AN LGU

The local budget is the basic policy planning and control instrument for all LGUs. At first glance, it may look like a presentation of planned figures for local revenue and expenditure; however, the budget is more than that. It fixes the amount of money the LGU will spend; it gives the reasons why to spend it and for what to use it. Furthermore, it specifies the timeframe when activities planned in the budget will be started and concluded. The budget establishes a clear and logical plan for resources allocation to programs reflecting the strategic goals and objectives of the LGU.

The budgeting process is a very important part of the overall financial management; it comprises revenues and expenditures regardless of their nature and source. Certainly, for the financial management of an LGU, the Local Strategic Development Plan still remains to be the high-level programming document guiding the LGU activities; but strategy needs to be transformed in concrete and targeted measures, and sufficient funding must be secured. Therefore, budgeting, implementation as well as monitoring &

9) Constitution of the Republic of Albania, Chapter III, Part "Local Government" / Article 111

reporting are indispensible for making strategy implementation effective. Revenue planning is right at the beginning of the budgeting process. When the GSBI prepares the program ceilings for the Medium Term Budget Programs, they cannot just consider the program needs and priorities; the GSBI must know how much money is available in each of the years covered by the MTBP. Only then, they can draw up realistic ceilings for each program.

The financial management cycle can be divided in four broad processes; these are strategic planning, budgeting, implementation, as well as monitoring, reporting and evaluation (Figure 12).

- **Strategic planning:** Elaboration and adoption of a long-term oriented umbrella plan defining the development goals and objectives for the LGU; it is based on a vision and on SWOT analysis. The strategic planning document is called Strategic Development plan SDP; one of the important functions of the SDP is guiding priority setting in the medium-term budgeting process.

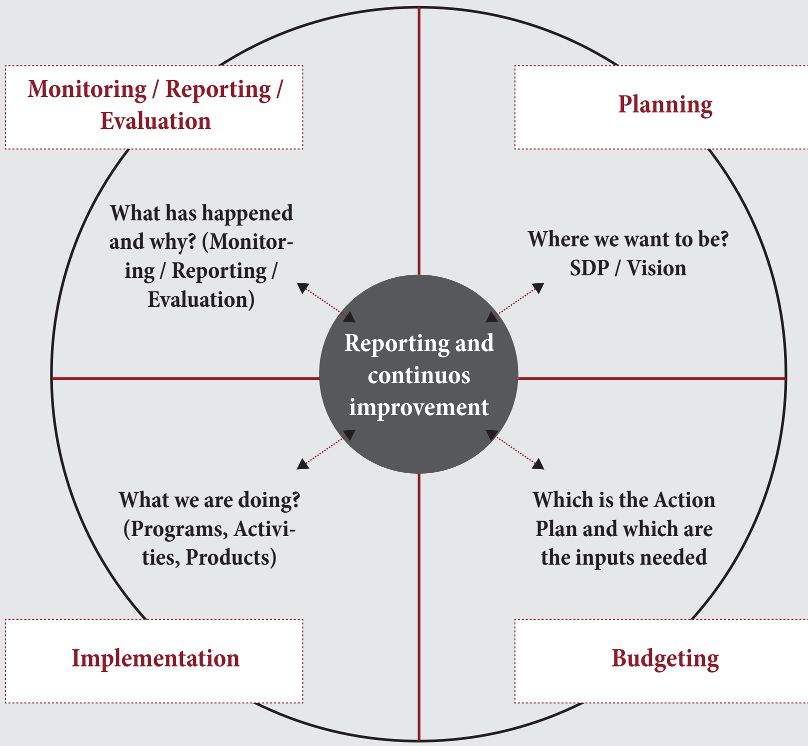
- **Budget preparation:** Estimation of LGU revenues for the planning period, balancing expenditure with revenues and allocating the resources to programs in accordance with strategic goals and current needs is part of budget preparation. It's is crucial that attention is given to efficient processes of service delivery already during budget preparation. Budget preparation is completed with formal adoption of the budget by the Council.

- **Implementation:** Execution of the budget and exercising control that resources are used as planned in the budget.

- **Monitoring and (formative) evaluation:** Revenues and expenditures are monitored through regular (financial) reporting; internal control watches over the rightfulness of spending activities, on the achievement of performance targets, and on potential risks; correcting actions are taken when needed.

- **Reporting:** Reporting on financial outcomes for external stakeholders via an annual report including the financial statements and a presentation of policy achievements; the report must be audited internally and externally.

FIGURE 12: Financial management cycle



3.2.2 REVENUE MOBILIZATION PRINCIPLES

It is the objective of LGUs to guarantee a good level of service quality at the lowest possible costs for all categories of taxpayers. A good financial manager helps and assists the LGU in achieving this objective of good governance. The community and the members of the Council have the right to ask questions and make recommendations on the best ways to generate income, reduce costs, prevent corruption and protect common property. The more effective financial management is organized, the more local government units are in a position to finance community priorities. However, it is unavoidable for LGUs to mobilize resources for the funding of their services and important projects; part of these funds must be collected on the territory of the LGU, i.e. from local citizens and taxpayers. There are a number of principles for revenue mobilization recognized as good practice Table 15.

TABLE 15: GOOD GOVERNANCE PRINCIPLES FOR REVENUE MOBILIZATION

Benefit Principle	Resources are allocated efficiently when user payments (i.e. fees) are equal to the service costs. Example: fees for waste collection. Please consider, that not all services can be financed based on the benefit principle, e.g. education, museums, etc.
Fairness Principle	Contributions to public services in the form of taxes are based on the ability to pay; this means that taxpayers with similar abilities to pay shall pay similar amounts (horizontal equity) and those having different abilities shall pay different amounts (vertical equity).
Principle of Neutrality	Taxes should not affect the efficiency of resource allocation in the private sector; this implies that each class of production factors (labour, capital, etc.) should be treated equally. Taxes should not favour any group or economic sector over another.
Accountability Principle	Revenue (and expenditure) must be clearly defined for taxpayers, it must be clear for taxpayers how much they have to pay and what the money is used for by government which will be held accountable for fulfilling.
Principle of Adaptability and Stability	Sufficient revenues are needed to finance basic services on a regular and continuous basis. Revenues must be sustainable and predictable so that LGUs are able to plan expenditures without disruption.
Autonomy Principle	LGUs need autonomy and flexibility to set their priorities. Dependence on revenues coming from other government levels should be minimized. Furthermore, this principle implies that resources from higher state level must be predictable, i.e. rule-based.
Principle of Minimized Administrative Costs	Estimation, evaluation, collection and administration of fees and taxes should not be time-consuming, neither for the government nor for the taxpayer.
Principle of Simplicity:	Tax assessment should be easy to understand; exemptions should be limited and have a clear reason.

3.2.3 OVERVIEW OF REVENUE SOURCES FOR LGUS

Without sufficient revenues, no LGU is in a position to fulfil all its functions assigned by law. Based on the current legislation (law 8652 dated 31.07.2000 On organization and functioning of local government, article 16, and law 9632 dated 30.10.2006 On local tax system) the financial sources of LGUs comprise the following:

- Local taxes
- Local fees
- Grants from the central level, which are:
    - Unconditional
    - Conditional
    - Regional Development Fund (Competitive grants used to finance capital projects)
- Other revenues over which local government units have total management discretion.
- Local borrowing
- Different donations or contributions

The annexes 1, 2, 3, 4, and 5 provide technical guidance on how to forecast LGU revenues.

3.2.3.1 TAX REVENUE

LGU revenues from local taxes include:

- Local taxes on small business
- Taxes on real estate in two components:
    - Tax on building
    - Tax on agricultural land

- Hotel occupancy tax
- Tax on infrastructure from new constructions
- Tax on passage of property on new constructions
- Annual used vehicle tax
- Rent tax
- Mineral rent tax
- Tax on the occupation of public spaces and areas
- Signboard tax
- Temporary taxes

Revenues of LGUs are generated by a number of local taxes over which these units have total legal management authority and can decide their rate based on the indicators provided by the law. In the revenue planning process, local units must rely on three basic indicators:

a) Tax categories – determined by law (e.g. property tax, agriculture land tax etc.)

b) Tax base – which is specific for each tax or fee and determined by law (or Local Council for specific taxes/temporary taxes); it is needed to estimate revenues from a specific tax and it comes together with an indicative tax value per unit (e.g. 100 lek/m2/year). In the case of the property tax, the tax base is the building surface in m^2.

c) Tax level – which means the amount of a tax per unit, expressed in absolute terms or as a percentage deviation of +10/-30% from the indicative value.

The tax obligation is calculated by multiplying the tax level with the tax base.

The tax system is composed of the set of all taxes in use within a state or at a certain state level. Taxes in use should fulfil in an optimal way specific tax requirements; these are enumerated in Table 16.

TABLE 16: FIVE CHARACTERISTICS OF A GOOD TAX SYSTEM
1. The tax base of a specific tax must be fixed; LGUs are entitled to set and change the tax level
2. The tax base must be transparent and rely on robust and available data.
3. Taxes should be easy to apply and administer.
4. The yield of the tax system must be sufficient to cover local needs; it should gradually grow over time to cope with expenditure growth; furthermore, tax revenue must be relatively sus-tainable and predictable.
5. The tax must be percieved as reasonable and fair by taxpayers.

Short reflexion:

How do you assess the tax system applied in your LGU when you consider the five characteristics presented in Table 16?

As we already mentioned, the right of LGUs to collect taxes is enshrined in the legal system of Albania. Table 17 presents the legal framework for local taxation in Albania.

TABLE 17: LEGAL FRAMEWORK FOR LOCAL TAXATION
Law 8652 dated 31/07/2000 on "Organization and functioning of local government"
Law 9632 dated 30.10.2006 on "Local tax system" as amended by law 10117 dated 23.04.2009; Law 10146 dated 28.09.2009; law 10073 dated 09.02.2009; law 10354 dated 18.11.2010;
Law 9723, dated 3.5.2007 "On National Registration Centre"
Law 9920, dated 19.5.2008 "On Tax Procedures in the Republic of Albania"
Law 9869 dated 04.02.2008 "On Local Government Borrowing"
Common Guidance (Ministry of Finance & Ministry of Interior) no. 655/1, dated 06.02.2007 "On Definition of Uniformity of Reporting and Procedural standards of the Local Fiscal System"
Decision of the Council of Ministers no. 1058 dated 21.10.2009 "For determining the minimum threshold of registration for Value Added Taxes"
Law 9936, 26.06.2008 "On the management of budgeting system in the Republic of Albania"

TABLE 17: LEGAL FRAMEWORK FOR LOCAL TAXATION
Guideline no 35, 5.11.2008 "On Implementation of Law No 9869, date 4.02.2005, "On Local Government Borrowing"
Guideline 7/1, 29.02.2012 "On local budget preparation"
Law 10487, 05.12.2011 "On 2012 budget"
Supplementary guideline 2/1, 15.02.2012 "On 2012 budget implementation
Supplementary guideline 7/2, 01.08.2012 "On Medium Term Budget Program preparation for 2013-2015"
Guideline 1, 11.01.2008 "On income tax"
Law 9975 dated 28.07.2008 "On national taxes"

What is the local council authority on this group of revenues?

Answer:

1. Within the limits provided by law 9632 dated 30.10.2006, amended by law 10117 dated 23/04/2009, the local Council specifies the small business tax rates based on the business subject, turnover and on the location in the city, within the limits of +10/-30% of the indicative rate defined by the law.
2. Local Council establishes temporary taxes that are in the general interest of communities; their rate, together with applicable tariffs, must not exceed the limit of +10% of the indicative rate of the small business tax, according to the table provided by the law. For example: if the small business tax for a small business is 50.000 lek/year, the level of all temporary taxes together with the local fees applicable shall not be more than 5.000 lek/year.

3.2.3.2 FEES (OR TARIFFS)

The local tax legislation grants the right for LGUs to charge fees for:

- Public services provided, such as:
    - Cleaning
    - Lighting

    - Greening, etc.

- Various public goods
- Administrative services
- Local public property utilisation right
- Issuing of licences, permits, authorisations and issuing of other documents on which they have full authority.

Although, in principle, fees should cover the cost of services used by beneficiaries, amendments by law 10117 dated 23/04/2009 specify that their level (all of them together) cannot be more than 10% of the indicative rate of the small business tax.

3.2.3.3 TRANSFERS

Transfer revenues are funds granted to LGUs in the form of conditional and unconditional transfers; the purpose of these transfer payments is to provide LGUs with adequate financial resources needed to fulfil their functions. Unconditional transfers are neither repayable nor earmarked. In contrast, conditional transfers (actually conditional grants) are used for co-shared functions and competitive grants are allocated within the regional development fund scheme for clearly defined capital expenditure projects. Both, conditional and competitive grants are earmarked.

LGUs are free how to allocate revenue from unconditional transfers; this revenue is guaranteed, based on a formula: Conditional grants are dedicated for shared functions and depend on the service level; competitive grants depend on the quality and adequacy of submitted project proposals for capital investment projects.

3.2.3.4 OTHER CLASSES OF REVENUE

The fourth class of revenues includes:

- Economic activities (fairs, sports activities, competitions, cinema)
- Selling of assets (such as property) owned by the LGU and allowed by law
- Renting of land, buildings and other local facilities

- Various contributions and sponsoring
- Fines
- Payments from subordinate institutions

3.2.3.5 BORROWING

Borrowing is an additional instrument for financing activities of LGUs; it can be used to cover operational expenditures (short-term borrowing) and for capital expenditures (long-term borrowing), in accordance with the limitations provided by law 9689 dated 04.02.2008.

3.3 KEY ISSUES ON REVENUE POLICY MAKING AND REVENUE FORECASTING

3.3.1 REVENUE POLICY MAKING

At the beginning of budget preparation, it is important to draw up and approve a policy that will guide the budget process. In order to develop this policy, some preparatory steps are needed; it is important to review and analyse the current financial conditions of the LGU and elaborate the revenue forecasts for the following years (Table 18).

TABLE 18: PREPARATORY STEPS TOWARDS REVENUE POLICY MAKING
Situation and development of revenues at least in the past two or three years and during the current year
Budget expenditures for the same period
Level of services provided
Inflation and relevant macroeconomic indicators
Forecasts of new revenue sources, of transfers from the central level and of other financing sources (donations)
Deferred expenses
Compiled projection of all LGU revenues for the three years covered by the MTBP

TABLE 19: GUIDING QUESTION FOR REVENUE POLICY MAKING
How much were revenues and expenditures in the past year?
Did actual revenue and expenditure match the planned figures?
Are revenues and expenditure for the current fiscal year in line with the forecasts?
How much is the proposed budget compared with the budget for the past and the current year? Is it higher or lower? Why?
What is the realistic forecast for revenues and expenditures in the future?
Will they be sufficient to cover the foreseen expenditures?
How high are LGU's revenues per capita? What about expenditures?
What is the ratio of LGU's own revenues to its total revenues?
What are the factors that have positively or negatively influenced the budget?
What is the ratio of operational expenditures to the budget?
What is the ratio of capital expenditures to the budget?

Local councils have some discretion in defining fiscal policies of the LGU within the limitations of the law. The law allows for certain flexibility in establishing the tax policy for specific categories of taxpayers. In chapter 3.2.2 (Table 15), we discussed some key principles for a good tax system; one of these principles is the "principle of fairness". We made a distinction between two forms of equity: horizontal equity and vertical equity. In the context of fiscal policies, "horizontal equity" means that within the same category of taxpayers, for the same activity, the same tax or fee is paid by everybody. In contrast, "vertical equity" means that not all taxpayers pay the same amount. Taxpayers with a higher paying capacity will pay more, and those with lower capacity will pay less. Under this logic, LGUs may apply different tax or tariff rates for the same tax or tariff depending on the taxpayer category.

BOX 6: DIFFERENT CLEANING FEES PER TAXPAYER CATEGORY

No.	Number of taxpayers	Taxpayer Category	Tax rate (Lek per unit and year)			
			Base year	Year t+1	Year t+2	Year t+3
1	**3000**	**Families**				
1.a	300	Receiving economic aid	100	0	100	100
1.b	200	Retirees	0	0	100	100
1.c	500	War veterans	0	0	100	200
1.d	100	Disabled people	0	0	100	100
1.e	1900	Other families	500	600	700	800

As demonstrated in Box 6, the tax burden is distributed differently per taxpaying categories, depend-ing on the ability to pay. This policy is based on the principle of vertical equity; five different levels of taxes are applied.

The following list (Table 20) presents possible measures in order to influence income distribution and/or revenue mobilization:

TABLE 20: POSSIBLE RE-DISTRIBUTION AND REVENUE MOBILIZATION MEASURES

- application of differentiated taxes for the different taxpaying subcategories within the same category (vertical equity),
- application of the bonus for advanced payments (10% of reduction for annual payments),
- reduction of -75% for specific taxes (law 9632 dated 30.10.2006, article 21, paragraph b),
- exclusion of specific categories of taxpayers,
- increasing or reducing the tax rate,
- improving the tax administration and tax collection,
- fraud prevention.

Further measures which are frequently used are: Families receiving social welfare will be exempted from the taxes in the first year; the registration of new businesses is free of charge, etc.

Each LGU must consider these or other possible measures for revenue mobilization when they draw up the fiscal package. However, by doing so, it could be problematic to overemphasize one of the good governance principles for revenue mobilization (Table 15) or of the characteristics of a good tax (Table 16) to the detriment of the others. The fiscal package should be well balanced and make sure that all requirements for a good tax system are respected.

Short reflexion:

Participants are invited to answer the following questions:

Questions for participants:

- Do you have an approved fiscal package for the coming 3-year period in your LGU? Did you have one in the past?
- What is the content of the fiscal package of your LGU regarding different groups of taxpayers?
- What is the impact of the fiscal package on revenues?
- Are there other favourable or unfavourable impacts of the fiscal package to be considered regarding the good governance principles of revenue mobilization or the characteristics of a good tax?

The example of the small business tax

LGUs are entitled to levy the small business tax. However, collection of this tax is quite demanding. It is particularly important that the database of LGUs on businesses on their territory is always updated and accurate (see Box 7).

BOX 7: SMALL BUSINESS TAX – IMPORTANT PLANNING ISSUES

- *The small business tax is paid by any enterprise with an annual turnover up to 8 000 000 lek. The tax rate is based on the turnover achieved and declared by the taxpayer; it is defined as follows:*
    - *Up to - 2 000 000 lek the tax rate is between 5 000 - 45 000 lek*
    - *2 000 000 – 3 000 000 lek the tax rate is between 45 000 - 60 000 lek*
    - *3 000 000 – 4 000 000 lek the tax rate is between 48 000 – 83 000 lek*
    - *4 000 000 – 5 000 000 lek the tax rate is between 73 000 – 98 000 lek*
    - *5 000 000 lek – 6 000 000 lek the tax rate is between 88 000 – 113 000 lek*
    - *6 000 000 lek – 7 000 000 lek the tax rate is between 105 000 - 128 000 lek*
    - *7 000 000 lek – 8 000 000 lek the tax rate is between 118 000 – 143 000 lek*
    - [10]
- *Since January 1st 2007, LGUs are directly responsible for the assessment and collection of this tax. Law 9632 dated 30.10.2006 defines the indicative tax rates, annex 5, and within this limit, local councils have the right to change the tax rates by +10/-30%. The tax's payment modality is organized in 4 instalments (April 20th; July 20th; October 20th and January 20th). The tax rate is according to the law and the Local Council has not adjusted it by +10/-30% (based on law no 10117 dated 23.04.2009).*
- ***Think about the following questions and share your experiences with the small business tax!***
- *Do you have accurate, complete and updated information about:*
- *all small businesses operating in your LGU*
- *the annual turnover for each business*
- *the business dynamics during the years (new businesses / closed businesses)*
- *the categorization of your unit according to annex 5 of law 9632 dated 30.10.2006 on small business tax level - You have to consider if your LGU is categorized in the first category, the second or the third, or if you are categorized as a Commune, based on the classification done by law 9632 On local taxes[11].*
- *the period over which the obligation is calculated*

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10) Based on law 9632/2006 on Local Taxes, the tax rate depends on the category of the municipality and on the type of business. There are three categories of municipalities and another category for communes. So, if a small business is categorized as "service" belonging to the second LGU category (i.e. Lezha), it will pay a lower tax rate than the same business belonging to the first category (i.e. in Durres). If the business is located in a commune, it will pay only ½ of the small business tax.

11) The law on Local Taxes classifies the LGUs in Albania in three categories: The

Financial Analysis for assessing fiscal policy

Financial analysis is a diagnostic process used to assess the state, the underlying trends and the healthiness of public finances in an LGU or another public entity. As a monitoring and evaluation instrument, financial analysis generates broad information on the development of revenues and expenditures; in addition, it considers the status of strategy implementation and assesses free capacities for the funding of new priorities. More and more, LGU's performance reports are based on indicators comparing actual figures with target values. Financial a nalysis includes this information in the assessment. There are two ways of carrying out financial analysis, ex ante or ex post. Ex ante analysis takes place before the fiscal package is finalized. The results of the financial analysis are used for drawing up a realistic fiscal package and for assessing the financial feasibility of a MTBP. Ex post, financial analysis is used to assess, whether the fiscal package and the MTBP including the annual budget were realistic and could be implemented as planned.

Technically, a good financial analysis considers not only one sole year; it explores the trends over several years and ponders the consequences of these trends for the future of LGU finances. The answers to the questions presented in Table 21 guide local staff in carrying out a comprehensive financial analysis. The insight of the financial analysis should be made available for all relevant stakeholders.

TABLE 21: KEY QUESTIONS FOR FINANCIAL ANALYSIS OF THE REVENUE SIDE

Key questions for revenue analysis:
To what extent do actual revenues match planned revenues?
What is the revenue per citizen? How much is it in similar LGUs? Can we do more?
How many taxpayers contributed to the budget? Distribution of taxpayers?
How is the structure of revenues?
What is the percentage of businesses that have not paid taxes?
What is the ratio between new and closed businesses?
What is the effect of inflation and of economic growth on specific classes of local revenue?
What is the portion of the budget consisting of own revenues, what is the portion of unconditional transfers?

first category (Tirana, Durres), the second category (Vlora, Fier, Berat, Sarande, Fier, Pogradec, Korçë, Elbasan, Lushnje, Gjirokaster, Shkoder, Kavaje and Lezha), and the third category for all the other Municipalities. For communes, the tax rate is calculated as ½ of the tax rate applied in a municipality classified as a district center defined by law no 9632, date 30.10.2006.

The answers to the key questions of financial analysis can be presented by using simple forms (see examples presented in Box 8). Certainly, it is needed to highlight and comment the most important findings of the financial analysis and to make recommendations.

BOX 8: FINANCIAL ANALYSIS FORMS

ORA Municipality					
	2008	2009	2010	2011	2012
Common local own revenues					
- unconditional transfer					
- own local taxes / rates					
- revenues accured from previous year					
Own local revenues					
Recuring expenses (own functions)					
Municipality Council					
Public administration					
Education					
Culture and sports					
Health					
Social aid					
Parks and cemeteries					
Cleaning and solid waste					
Public works					
Public transport					
Registry office					
All other expenditures					
Deficit/surplus					

YEARS	2008	2009	2010	2011	2012	2013
Local revenues / Total revenues	25%	32%	26%	28%	29%	29%
Local taxes & tariffs / Total revenues	22%	28%	22%	24%	27%	27%
Other local Financing Sources	2%	4%	3%	3%	2%	2%
Revenues from Central Level Sources	75%	68%	74%	72%	71%	71%
General transfers	12%	14%	21%	27%	25%	26%
Conditional transfers	63%	54%	54%	45%	47%	45%
of which						
Local functions	0%	0%	0%	0%	3%	3%
Central functions	63%	54%	54%	45%	44%	43%

3.3.2 APPROACHES FOR REVENUE FORECASTING

Financial analysis is a helpful preliminary step for revenue estimation. Revenue estimation can be short-term (one year) or medium-term (3-5 years) oriented. Long-term orientation of revenue estimation (more than 6 years) is hardly in use. Accurate revenue forecasting is crucial for defining the total of expenditures affordable for an LGU. Revenue forecasting should be carried out as an early step in the budgeting process. Based on these estimations, ceilings must be set up limiting spending per program area. These ceilings are required very early in the budgeting process, i.e. before budget preparation of expenditure takes place. In relation to the budgeting process, the forecast is mainly used to gauge the discrepancy between the foreseen revenues and expenditures, encouraging LGUs to take measures for closing the anticipated gap. Medium-term financial forecasts help identifying the trend of financial resources; this is an important precondition for improving the management of public finances.

Basically, four different forecasting methodologies exist; their applicability depends on the circumstances under which forecasting takes place[12]. Not all methodologies are functional in each case. These are the four methodologies:

(1) Expert judgment – This method is used for revenue (and expenditure) forecasting; it is based on the foresight of a person or expert. There is no specific technique applied with this kind of forecast; it depends on judgment, experience, expertise and familiarity with revenues and expenditure trends. This forecast method can produce reasonable and accurate forecasts and has a low cost. The technique is especially useful in case of structural changes, e.g. when the tax law is changed. Nevertheless, it depends on the subjective estimation of experts, it is difficult to crosscheck by third parties, and it might fail when this person leaves.

(2) Trend analysis – This technique relies on the changes of a specific source of revenue (or expenditure) over the years; this trend is calculated by means of statistical methods. Let's make an example: When we have identified the following revenue trend of small businesses $F = 1.1*(A+B+C+D+E)/5$ [13] , we can use this formula to forecast revenues based on historic values. This method can be used for all kinds of revenue (and expenditure) extrapolation as long as the (tax) environment remains stable. This approach is often applied in combination with expert judgment.

(3) Deterministic Forecasting – This forecasting technique is based on

12) Training Manual 2 on Financial Analysis (Modernizing Financial Management for Hungarian Local Governments)

13) "A" is the financial result in year (t-4); "B" in year (t-3); "C" in year (t-2); "D" in year (t-1), "E" year t, and "F" in year t+1.

a fixed relationship (formula) between observed variables (input) and estimated variables (output). Because of this fixed relationship, it's called deterministic. The identification of the correct formula could be considered as the stumbling block of this technique. However, in some cases, the formula is quite obvious as we see in the following example. When we have to calculate the revenues from fees for permits/licences, the analyst determines the number of permits/licences that will be issued in one year, based on historical data, and this data is multiplied by the fee for each licence. The result of this calculation is our expected revenue. This forecasting model is simple, direct and not expensive. However, the result depends on the quality of the formula and on the accuracy of the input variables; in our example, this is the expected number of licenses.

(4) **Econometric Forecasting** – This model of forecasting combines economic forecasting with statistical methods, based on a multidimensional model. The importance of this model is based on the fact that it takes into consideration the influence of various exogenous factors. Econometric models make it possible to simultaneously consider the effects of different variables such as population growth, business cycle, inflation, etc. These influencing factors may have an impact on a specific source of revenue, such as a real estate tax or a property tax, etc. The relationship between the influencing factors and the revenue is measured and tested, and it can be calculated based on statistical analysis. Econometric forecasting relies on a more realistic model than the simple approaches of trend analysis or deterministic forecasting; this is why in reality, it is often the case that several independent variables have an influence at the same time. The disadvantage of this forecasting methodology is its complexity and the assumption of a stable environment.

Unfortunately, there is always a risk with revenue forecasting even when recommended forecasting techniques are applied. It is not possible to fully avoid uncertainty. This is particularly the case in times of structural changes, when turbulences are frequent. How can we deal with this problem? Budget planning cannot wait. Decisions must be taken in time. However, it is recommended to make this uncertainty explicit in the MTBP. This can be done by using the scenario technique.

The Scenario Technique is one of the most important ways to deal with uncertainty in decision making. Scenario technique usually works with three options for the future: an optimistic, a pessimistic or a realistic scenario. Let's make an example: An LGU plans to build a road axis and prepares the budget under the assumption that a certain grant for its construction will be awarded. Later, it turns out that the grant is not (yet) available, this may cause problems for the LGU. Scenario technique can deal with this kind of uncertainty. While anticipating the possibility of missing grants, alternative expenditure or funding scenarios can be included in the budget. Local revenues can be planned based on the three scenarios. The pessimistic scenario assumes insufficient financial capacities compared with what is needed to reach the strategic goals and objectives. Under this scenario, decisions must be taken how to cut expenditure in order to keep the budget in balance. The realistic scenario assumes that LGU revenues will be sufficient for reaching the strategic priorities. The optimistic scenario assumes absence of negative factors and huge presence of positive factors. LGU finances will be abundant under the optimistic scenario and leave room for projects with a lower priority.

Concluding remarks on revenue estimation:

- Forecasting of revenue must be carried out in nominal terms, i.e. at current prices; this is required because the MTBP is presented in nominal terms as well. This means that inflation always matters when revenue is estimated for budgeting purposes.

- There is no single revenue forecasting technique that fits in every situation. Make your choice dependent on the nature of the revenue source you are going to estimate, the availability of data, the stability of the environment and the technical skills available in the LGU. Ask statisticians for help! Very often, it is useful to apply a mixed forecasting approach.

Organizing of the group work: (3 groups according to the total number of participants):

Time of groups' preparation:	30 minutes
Working materials:	Flipcharts for each group
Reporting:	8 minutes for each group
Reporter:	1 person from each working group

Study the FPT form on revenue estimation. Discuss for each class of revenues how to proceed. Which forecasting techniques would you apply for which source of revenue? Which information do you need to make your forecast and where can you find this information? Where do you see difficulties? How would you overcome the difficulties? – Try to cover each class of revenues; however, focus your discussion on the five most important revenue sources for your LGU.

Group exercise: Revenue estimation based on the FPT

3.3.3 Improving the use of the revenue potential

According to the principle of horizontal equity, it is required that the entire population of an LGU is treated equally when taxes or fees have to be paid. This is not always the case, unfortunately, and that is not only unfair for citizens paying their obligations properly; it's also costly for an LGU. Because the LGU loses money, it limits its possibilities for further developing the municipality and making it more attractive. Therefore, it is very important that LGUs take measures to improve the use of their revenue potential where required. The example presented in Box 9 shows why a policy for an improved use of the revenue potential is in the interest of citizens and what could be done to close gaps in the collection of revenues.

BOX 9: FORECAST OF THE REVENUE FROM THE PROPERTY TAX

During the consultations on the budget with interested interest groups of Ora Municipality, an in-creasing demand for the construction of a sports ground became apparent. This ground was asked for the third consecutive year, and citizens still see it as a main priority for youth education. In the budget for next year, the construction of this sports ground has not been included due to three investments started last year which needs to be continued and absorb all the available investment funds. While citizens' pressure intensified, one citizen stated that they were willing to contribute more for the construction of the sports ground, but only after having more evidence that Ora's funding possibilities were exhausted. In the subsequent meeting with the head of directorates, the Mayor asked the tax directorate to re-evaluate once more the revenue sources, especially the revenues from the property tax. As the tax directorate explained, the revenue from this source was particularly low as a result of lacking data for two districts of the city. A commission was established right away which started the re-evaluation of all properties under the jurisdiction of Ora Mu-nicipality. The re-evaluation was concluded within one month. One month later, the commission provided the tax directorate with all the information collected and it became clear that the tax directorate only had registered 40% of the buildings; therefore only 40% of the property tax potential could be used by Ora municipality. Based on the new data, ORA municipality could improve the revenue side of its budget substantially and make room for additional projects without any change in the tax rate.

The example presented in Box 10 illustrates the practice applied for the forecasting of this tax:

BOX 10: ILLUSTRATION OF HOW TO PLAN REVENUE FROM PROPERTY TAX

No	Buildings by function	No	Sip m²	Tax for m² (lek/m2) - law 9632	Total (000/lek)
	Buildings for trade and services:				
I	***Health, artisanal, communal services***	*1 300*	*10 000*	*150*	***1 500***
A	*Artisanal*	*650*	*5 400*		
B	*Professional*	*650*	*4 600*		
II	***Buildings for services, trade, etc.***	*500*	*20 000*	*150*	***3 000***
A	*Grocery, industrial, greengrocery, etc.*	*200*	*15 000*		
B	*Bars, Restaurants*	*300*	*5 000*		
III	***Buildings for production and construction activities***	*1 000*	*40 000*	*30*	***1 200***
A	*Construction*	*400*	*2 000*		
B	*Production*	*600*	*38 000*		
IV	***Residential buildings*** *(85% of potential)*)*	*21 500*	*500 000*	*500 000*	***5 400***
A	*Before 1993*	*12 000*	*300 000*	*10*	*3 600*
B	*After 1993*	*9 500*	*200 000*	*12*	*2 400*
C	*Excluded buildings*	*1 500*	*5 000*	*12*	*600*
V	*Others*		*40 000*	*30*	*1 200*
	Total I+II+III+IV+V		*0*	*0*	*11 100*
VI	***Land tax*** *1100 ha - 2400 ha (85%)*		*1 000*	*1400 lek/ha*	***1 400***
	Tax Total				***12 500***

**) It is planned to collect only 85% of the property tax for residential buildings and agricultural land in the first year. 1.500 buildings are exempted from this tax as an effect of Ora's tax exemption policy for female headed families.*

3.4 EXPENDITURE PLANNING

In the following section, we will address some special issues of expenditure estimation at first; additionally, we will have a look at expenditure estimation within the framework of the FPT.

3.4.1 SPECIAL ISSUES OF EXPENDITURE ESTIMATION

Medium term forecasts of expenditure must take into consideration: (a) the current expenditure level, (b) additional expenditures needed to ensure the same level and quality of service in the future (for example as an effect of inflation or a price increase of important input factors) and (c) additional expenditures, if the level or type of service will be enhanced. In addition, the potential for efficiency gains should also be analyzed (better procedures, lower prices for input factors, less administrative costs, etc.).

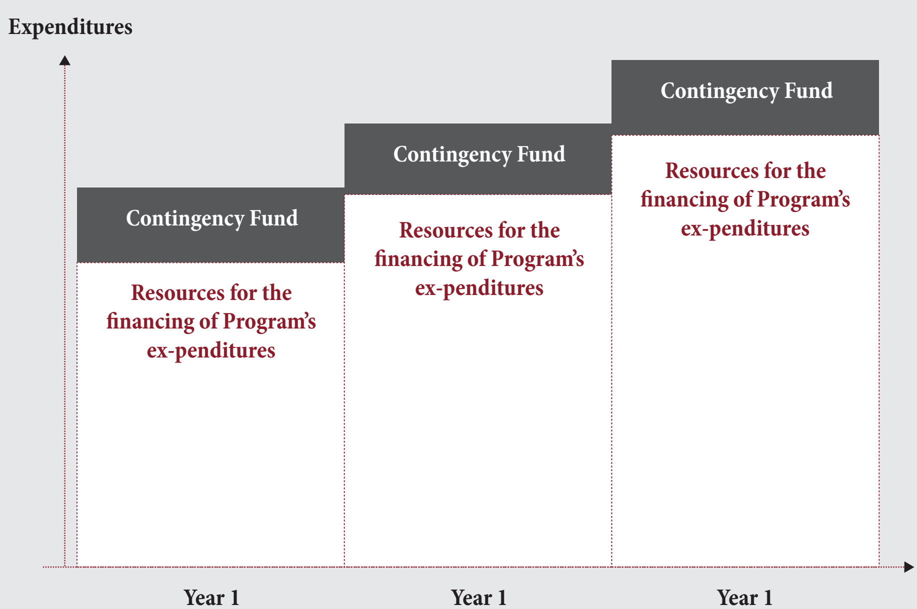
The costs of existing and new policies include in particular: (1) the costs for maintaining the current level of services, taking into account the expected changes in the number of users or beneficiaries, (2) new recurring expenditures originating from new facilities as an effect of terminating capital investment projects, (3) the costs of the on-going capital investment programs and (4) the expected costs of new programs or projects which are planned to be approved by the LGUs as a consequence of external factors (demographic movements, transfer of new functions) or internal policy decisions (improvement of the level of current services).

Short reflexion:

Participants are invited to discuss the four cost factors mentioned in the paragraph above and to find good examples from their LGUs.

Multiyear forecast must be based on careful, conservative assumptions in order to avoid overspending or shortcomings in revenue collection. Contingency funds should only be used in very exceptional cases, such as natural disasters or in a warranty claim (Figure 13). It is against the requirements of good governance and even dangerous to use the contingency fund as a buffer for immunizing a LGU against the negative consequences of inaccurate budgets. If contingency funds were used to offset overspending, the Council's budget sovereignty would be undermined and the budget would lose credibility. Ceilings would use their relevance. In case of overspending, in-year amendments of the budget must take place which can only be made by the Local Council.

FIGURE 13: Contingency fund within the MTBP



The expenditure figures of the previous year (t-1) are used as base value on which the annual and medium-term budget is built up. It's better to use the figures from the previous year as the starting point and not the figures from the current budget, because with the previous year, we can use actual figures; this is not the case with the current budget.

When we draw up the budget, we must take into consideration expected economic developments with an influence on the budget, such as inflation, economic growth, interest rates, demographic changes, etc. In addition to that, legal adjustments must be taken into account as well as possibilities for efficiency gains or more effective methodologies, etc.

Program Ceilings must be defined for each year covered by the MTBP; they are based on existing policies and on proposed policy changes and they must respect the limits of the aggregated revenue estimations for each year of the MTBP. The annual budget and the MTBP should be prepared in line with these budget intentions and limitations.

3.4.2 EXPENDITURE ESTIMATION BASED ON THE FPT

Basically, the same forecasting techniques can be applied for expenditures as for revenues (see section 3.3.2). It is strongly recommended to apply these forecasting techniques when you process the expenditure side of the FPT. You have to carry out this exercise outside of the FPT. The FPT cannot do it for you. It just supports you to compile the figures, and it shows the consequences of your estimates for the medium-term budget immediately. In addition, the FPT facilitates the application of scenario techniques as we have discussed it above.

Now, let's consider again how to use the FPT for expenditure estimation. We have already studied the budget request form of the FPT in module 2. But let's repeat the main features of expenditure estimation according to the FPT:

- Expenditures are estimated in an analytical way by pre-defined areas of activities following the functional classification.
- The FPT makes a distinction between ongoing activities and new activities and between recurrent expenditures and project or capital investment expenditures;
- The FPT considers the following influencing factors for expenditure forecasting: inflation, expected structural changes, expected efficiency gains;
- The FPT requires that estimated expenditure is disaggregated for each year according to the economic classification for each activity, i.e. identifying staff costs, expenditures for goods and services purchased, capital investment costs, etc;
- The FPT requires, that ceilings are respected for each function;
- The idea of the FPT is that line departments (or program management teams) are responsible for expenditure estimation of all functions assigned to them.

For further information, consult the FPT manual.

3.5 PRESENTATION OF REVENUE AND EXPENDITURE ESTIMATION

It is important that the estimations for revenues and expenditures over the three years covered by the MTBP are presented in a well structured way. The way of presenting the financial forecast should allow for easy understanding by stakeholders. At the same time, the presentation of the three year estimations should meet the information requirements of the Ministry of Finance.

The FPT automatically produces a series of ten tables and six graphs in its output section; these tables and graphs can be used for our purposes as follows:

- Overview of revenues in table F1.
- Compilation of expenditure in different ways:
    - according to the functional classification (F2 to F5),
    - according to the program classification (F6 to F9),
    - per type of activity, i.e. on-going and new (F10 & F11),
    - according to the economic classification (F12&F13)

The FPT presents the aggregated results in gross and net figures. Gross figures provide information on the amount of planned spending in total. Net figures show how much has to be paid with local tax money.

In addition, the FPT presents an overall financial statement (F14), i.e. total revenues, total expenditure and the overall profit or loss.

Short reflexion:

Participants are invited to discuss the following features of the output section of the FPT:

- Which are the questions addressed by each table and graph? Why are these questions relevant?
- Which of the tables or graphs would you present at a budget hearing for council members or at a press conference? Would you use some of the tables or graphs only internally? Which ones? Why?
- Would you present the information in a different way? How?

Please, bear in mind, the FPT compiles financial information only. The presentation of the MTBP must comprise policy information as well.

3.6 FISCAL INDICATORS FOR A QUICK FINANCIAL APPRAISAL

Fiscal indicators are useful for a quick appraisal of the state of health of public finances. LGUs can use fiscal indicators in four ways to analyze their budget: (i) compare current values with target values, (ii) compare values of the own LGU with neighbouring LGUs, (iii) assess current values of the LGU with values of the past, (iv) assess whether the values calculated for the MTBP meet the target values or are have a clear tendency for improvement if they were unfavourable in the past. The first three ways of use are relevant for ex post budget control, i.e. control after implementation of the budget. The fourth way of use is relevant for ex ante control, i.e. control during the preparation of the budget, and before implementation starts. As long as the fiscal indicator values are not satisfactory in the ex ante control for a certain year of the medium term budget, the budget is not in a good shape; measures must be taken then to improve the budget for this year. Target values for indicators should be defined in the financial strategy of an LGU.

The FPT calculates the actual figures for twelve fiscal indicators (see figure 32).

TABLE 22: FINANCIAL INDICATORS

Indicator	Interpretation
Overall expenditure / overall revenue	If overall expenditure is higher than overall revenue, LGU makes losses.
Tax revenue / overall revenue	The higher this ratio, the higher local independence on the one hand, but the higher the tax burden on the other hand. There exists a trade-off between the two concerns, that of independence and that of a low tax burden for local citizens.
Fee revenue / overall revenue	The ratio can increase when collection of the fee is improved. However, fees are harder to pay for citizens with low income.
Revenue from fines, assets, enterprises and surplus of last year / overall revenue	Fluctuation from one year to another is relevant for analysis.
Own revenue/overall revenue	Indicator for independence and fiscal strength of LGU
External revenues / overall revenues	Indicator for financial dependence of LGU
Tax revenue per inhabitant	Indicator for fiscal strength of LGU and of performance of tax collection
Fee revenue per inhabitant	Indicator for market orientation of LGU and of performance of fee collection
Capital investment per inhabitant	Extent of development orientation of local finances
Unconditional grants and transfers / overall revenue	Indicator for dependence of LGU
Interests /overall expenditure	Indicator for debt burden
Capital investment / overall expenditures	Indicator for development orientation of LGU finances

Source: FPT Manual

Short Exercise:

Calculate the financial indicators for your LGU and compare the values with the results for the LGUs of your classmates. Discuss the differ

The indicators presented in Table 22 are not the only possible choice. LGUs can define additional indicators especially for internal monitoring purposes or for assessing the performance specific service areas. However, in any case, the number of indicators should be kept low; if not, there is a risk that relevant indicators become less important when the number of indicators is too big. The GSBI should watch careful over the selection of financial indicators.

We can distinguish two types of indicators. The first type is static; it is used to assess a situation for a defined period of time. The second type is dynamic; they are used to measure changes over the time. Examples for both types of indicators are presented in Table 23.

TABLE 23 : EXAMPLES OF STATIC AND DYNAMIC INDICATORS

Static Indicators	Dynamic Indicators
1. Transfer revenue / total revenues of a year	1. % change of transfer revenue compared to the previous year
2. Tax revenues / total revenue of a year	2. % change of total of expenditure compared to the previous year
3. Operational expenditure / total expenditure of a year	3. Rate of capital expenditures change compared to the previous year
4. Capital expenditure / total expenditure of a year	5. % change of revenue per head compared to the previous year
5. Total of expenditures/ population of LGU	

Indicators are devised by a step-wise approach; we distinguish seven steps: (1) selection of relevant indicators, (2) definition of unit of measurement, (3) definition of reference period, (4) data collection and calculation of indicators, (5) data analysis and interpretation, (6) presentation of results.

Step 1: Selection of relevant indicators

The selection of specific indicators for monitoring depends on the specific problem you want to analyse. Avoid introducing new indicators without a specific purpose. Each indicator you use should be tailored to the question under review.

Step 3: Definition of unit of measurement

Decide, whether you better use absolute values (or value changes) or percentage values (or % changes). Which kind of measurement is more appropriate?

Step 4: Determination of reference period

The reference period must match the question under review.

Step 5: Data collection and calculation of indicator

Data must be collected from reliable sources. For example, if you need to calculate revenues per head, data on the number of inhabitants must be accurate. Usually, they are taken from the Registry Office. If you need to measure the potential of the vehicle annual registration tax, data should be available at the Regional Directorates of Road Transport Service. However, if you are interested in devising an indicator related to the building tax, the data you may be incomplete. The RERO does not have a complete inventory. In this case, you may either be content with partial data on property or collect information from alternative sources (e.g on-site visits).

Step 5: Analyze and interpret the indicators

One issue could be the analysis of a trend, the other the analysis of deviations from the trend. The examination of both aspects could be useful for assessing the impact of influences from the environment or for appraising the success of policy interventions in the past or to draw conclusions on future developments.

By analyzing revenue trends, the effect of inflation must be considered. Make it clear whether your indicators are defined in nominal or in real terms (see the example in Box 11).

BOX 11: NOMINAL OR REAL TERMS

Revenues	Percentage growth in nominal terms	Inflation rate	Percentage growth in real terms
Property tax	10%	2%	8%
Cleaning Fee	8%	2%	6%
Small business tax	11.3%	2%	9.3%

Step 6: Presentation of the results

Indicators must be presented in an easily understandable format. It is helpful for quick understanding to present values in the form of charts, tables, or figures. A recommended way for indicator presentation is the "traffic light system" with green, orange and red colours. However, to make the traffic light system operational, the green, orange and red zone must be clearly defined in advance. If indicators get into the red zone, the elaboration of corrective measures must be mandatory.

Group exercise: Estimation of various revenue sources

GROUP WORK 3:

REVENUE MOBILIZATION AND ESTIMATION

The following group work is dedicated to the mobilization and estimation of two classes of local taxes which proved to be particularly challenging to collect; these are the Small Business Tax and the Building Tax. In Box X, we present the starting situation in the city of Ora. This is followed by the description of assignment for the group work.

BOX 12: UNUSED TAX POTENTIAL IN ORA

"The city wants to change"

Ora Municipality is located in the south-western part of Albania with a population of 10.000 inhabitants; the average size of household is 4 people. The city was established times ago based on light industry, which is nowadays in complete decline. Many households left the city and very few new ones have moved to it. According to the building census of 2009, there are 2.500 residential buildings; 1.500 were built before 1993 and 1.000 after. Every building has an average area of 50 m². In the current year, the association of women in need asked the municipal council for exemption from the building and cleaning tax for 100 fe¬male headed households in need living in buildings constructed before 1990. The request was granted by the council.

The municipality counts 100 businesses; 80 of them are small businesses. The small businesses can be sub-divided as follows: 40 businesses are in the services and handicraft field; 10 businesses belong to green¬grocery; 10 are industrial trade businesses and 20 are bars and restaurants, each with an area of 30 m². In addition, there exist 20 large businesses operating in the productive sector.

The budget of Ora still depends to a large extent on unconditional transfers, which are mainly used to cover the operational costs of the LGU. Ora's own revenues are mainly generated by small businesses. During the last years, the Municipality organized some meetings with the community. It was found out that the community expects more from the LGU. The improvement of road infrastructure turned out to be a top pri¬ority. The financial situation of Ora is difficult; however, the tax office reported that 30 small businesses didn't pay the small business tax. In 2010, the tax office started to improve the management of the small business tax and the building tax. Unfortunately, the effects of these efforts were disappointing for 2011. For this reason, new measures were taken to improve the database. An inspector identified all private businesses; at the same time, he was able to re-estimate their cash-flow. It turned out that 90 businesses still have to pay their taxes for 2011; in addition, there are 1.500.000 lek still to be paid by 30 businesses for 2010. It became obvious that the difficult financial situation of Ora would improve if all small busi¬nesses paid their taxes and at least 90% of households paid the building tax and cleaning fee.

A working group of the municipality identified 5 local infrastructure facilities with a total need for invest¬ments in the order of 2.500.000 lek:

- *Park rehabilitation*	*300 000 lek*
- *Water-supply rehabilitation*	*700 000 lek*
- *School street rehabilitation*	*800 000 lek*
- *Placement of 10 containers*	*300 000 lek*
- *Installation of electrical grid in District 1*	*400 000 lek*

Thanks to improved LGU revenues, the Municipality is in a position to finance (considering all its sources) 800.000 lek in the first year, 900.000 lek in the second year and 800.000 lek in the third year.

Objective of the exercise

The exercise is dedicated to revenue mobilization and forecasting,

- guiding LGU staff on how to use relevant information for tax estimation,
- training the skills for revenue calculation, and
- encouraging LGUs to update their database.

Assignment for the group work

Based on the example presented in Box 12, using the data on households and businesses as well as the tax base characteristics for each category of taxes, make a forecast of the revenues for the small business tax, the building tax and the cleaning fee. Use the rates for taxes and fees of your LGU for the current year.

Organizing the group work

Working groups	2
Time of preparation:	45 minutes
Working materials:	Flipcharts for each group
Reporting:	10 min. / working group
Reporter:	1 person / working group

Each working group may be composed of representatives from the same LGU or of representatives from similar LGUs. Each working group will choose a different tax; the revenue should be forecasted at least for one year.

Additional instructions for the group work:

Before starting with forecasting, do not forget to do or to answer the following:

- Assess available data
- What does the law on this tax provide?
- What is the approved national and local policy for this tax?
- Who are the taxpayers?

- Which data are needed? Are they available, reliable, complete and updated?
- If not, what can be done?
- Draw the right planning format
- Fill it in

Model solution

After having evaluated the entire structure of taxpayers, the tax office compiled the following revenue plan for the small business tax (Table 24) and the building tax (Table 25):

TABLE 24: CALCULATION OF REVENUES FROM THE SMALL BUSINESS TAX

No.	Business category	Activity Type	Number of facilities	Turnover of the facility	Tax rate	Sum
1	Retail	Bar – Café	10	< 3 000 000	45 000	450 000
2	Services	Electronic maintenance	60	< 3 000 000	45 000	2 700 000
3	Wholesale	Grocery	10	< 4 000 000	60 000	600 000
4	Production	Dairy	10	< 4 000 000	48 000	480 000
	Total		**90**			**4 230 000**
	Tax arrears from last year		*30*			*1 500 000*
	Total		**120**			**5 730 000**

The case presented above illustrates the small business tax revenues panning when its rate is the same as the one provided by the law. However, the Municipal Council has the right to change the tax rate by +10/-30% and, in case it is applied, the revenue forecast is estimated according to the tax's approved rate.

TABLE 25: CALCULATION OF REVENUES FROM THE BUILDING TAX

No	Buildings by function	No	Sip m2	Tax Rate lek/m2	Amount in (000/ lek)
I	**Building for private health, local crafts business and other services**	**40**	**2 000**	**100**	**200 000**
A	Local crafts business	40	2 000	100	200 000
B	Professional	-	-	-	-
II	**Buildings for services, trade, etc.**	**40**	**800**	**100**	**80 000**
A	Grocery, greengrocery, etc.	10	200	100	20 000
B	Bars, Restaurants	20	400	100	40 000
C	Industrial	10	200	100	20 000
III	**Production & construction activities**	**20**	**400**	**20**	**8 000**
A	Construction	-	-	-	-
B	Production	20	400	20	8 000
IV	**Residential building**	**2 500**	**125 000**	**5**	**675 000**
A	Before 1993	1 500	75 000	5	375 000
B	During and after 1993	1 000	50 000	6	300 000
	Total I+II+III+IV				**963 000**
	Planned potential 90% of households (675 000)				- 67 500
	Exempted categories	**100**	**5 000**	**5**	**- 25 000**
	TOTAL				**870 500**

3.7 CAPITAL BUDGET AND CAPITAL INVESTMENTS PLAN

3.7.1 INTRODUCTION

The Capital Investment Plan (CIP) is an important financial management instrument. When local government units define a concrete long-term strategy for development, the translation of this strategy into concrete "actions" will be done through a capital project planning process; participation of all relevant stakeholders is crucial in this process again. Although local government units may have elaborated a long list of capital projects in the SDP already, it is not verified whether all these projects are feasible until they are further crosschecked financially and technically. The Capital Investments Plan CIP fills this planning gap.

Although different LGUs use different practices for planning and implementing capital projects, in this training session, we will provide a model approach which is easy to implement at local level. In addition, we will encourage discussions among the participants how best to organize the process, when and how it should be carried out, how we can make it successful, which are the obligations of local government units, how to evaluate capital projects, how to financed them, etc. Furthermore, we will address more basic questions, such as: what is a Capital Investments Plan; why is it necessary for LGUs; which are the advantages in implementing it; how to prepare a CIP, etc.

3.7.2 THE IDEA BEHIND THE CAPITAL INVESTMENTS PLAN

The Capital Investments Plan is a multiyear planning instrument, usually 4-5 years, which is drawn by LGUs (or governments of other state levels) and which identifies capital projects and their financing possibilities covered by the planning period. The CIP identifies all the local public properties or assets that will be rehabilitated, renewed or reconstructed or newly constructed; the year in which the intervention will take place; the amount (in lek) foreseen to be used for each project and the proposed financing method. In most of the cases, this information is provided in an overview table where capital expenditures for each year are presented, grouped by programs, sectors or financing method.

The Capital Investments Plan should not be confused with a capital investments budget, because a capital investments budget outlines the first year of the Capital Investments Plan. The main difference between a capital investment budget and CIP is that capital investment budget is a legal document that authorizes the funding of specific projects during the specified fiscal period. Linked with the MTBP, the CIP defines the projects that should be considered within the MTBP. The capital investment projects within the CIP are part of the program outputs planned in the MTBP. The CIP is a legitimate management instrument because the citizens have approved it, although it might be only formally; for this reason donors and investors may feel confident that projects will be supported by the community. However, an investments plan is not a static document. It must be reviewed every year in order to reflect changes in LGU's priorities as well as unexpected events or situations. It includes the maintenance, repair and rehabilitation of the existing infrastructure and of the new facilities and installations, comprising assets such as buildings, roads, parks, electric power grids, water distribution systems, sewage system, waste dumps, urban transportation systems, IT-systems, etc.

3.7.3 USEFULNESS OF CAPITAL INVESTMENT PLANS

For LGUs, the CIP may be useful for a number of reasons:

- <u>A Financial Management Instrument</u> – One of the main concerns in drawing a CIP is prioritizing present and future needs and projects in accordance with the financial possibilities and limits of the local government unit. The CIP must be based on realistic forecasts for the project costs and financial possibilities of the LGU. Therefore, the CIP has nothing to do with a "wish list". Expanding LGU's focus beyond the direct capital costs for projects and including operational and maintenance costs in the evaluation of projects reduces the risk of unexpected tax increases in order to cover the higher fixed costs.

- <u>More efficient resource utilization</u> – Multiyear project planning facilitates coordination of projects, taking into consideration also the technical capacities for project implementation of LGU staff. Furthermore, the early prioritization improves predictability of investment projects; LGUs are in a better position to identify economic ways of economic project implementation.

- <u>Strengthened collaboration and improved communication within the LGU (among sectors) and between LGUs</u> – a CIP strengthens the coordination of capital investment projects within the LGU and between LGUs. If a municipality communicates its plans to other LGUs, there is a possibility for common action, sharing costs and reducing the risk of duplication.

- An Orientation Document – The CIP includes a clear description of LGU's capital investment projects planned for the near future. Certainly, this is useful information for them members of Council. In addition, citizens and businesses are better informed; they can express their opinion about what is planned and take private decisions based on better planning information.

- Enhanced acceptance of CIP – the inclusion of the community in the selection of priority projects can strengthen public support for the projects, eliminating or reducing the negative effects of conflicting group interests. At the same time, the CIP also creates cost awareness of citizens.

It is key that when the CIP is elaborated in addition to the SDP at the one hand and the MTBP on the other hand, the planning system is not over-determined or suffers from contradictions. Avoiding this risk requires coordination, harmonization and regular updates of the various plans. If the CIP is well prepared and built on consensus, program management teams can draw from this plan when they pre-pare their budget requests for the MTBP and the GSBI can make sure that the list of projects included in the MTBP is well balanced from a strategic point of view.

3.7.4 STEPS IN DRAWING UP A CAPITAL INVESTMENT PLAN

For the elaboration of the CIP, a stem-wise procedure is recommended. Although the different steps of this process are similar across all LGUs, it may differ from one LGU to another depending on the size of the LGU, its policies in involving the community, its organizational structure, financial conditions, etc. Planning of the CIP can be organized in 10 steps. The first three steps are needed when the process is launched for the first time or when it is changed (these steps are presented in italic letters); step 4 to 10 must be taken annually. An overview of these steps is presented in Table 26; each step is further described below

TABLE 26: STEP-WISE ELABORATION OF CIP

Number	Step
1	Set up project organization
2	Lay down rules and procedures
3	Elaborate forms and instructions
4	Assess needs for capital investments
5	Gauge financial capacities
6	Identify and prioritize projects
7	Calculate the costs
8	Evaluate financing options
9	Prepare the first draft of the CIP
10	Submit CIP for approval

Step 1: Set up the project organization – the project organization must be set up by the LGU; it is responsible for the process management of CIP drawing. This process is presided by one of the heads of the LGU (the Mayor or the deputy) and the heads of Program are members. In the context of Medium Term Budget Program, this structure is identical with the Group on Strategy, Budget and Integration (GSBI). If a LGU has 7 programs, the working group preparing the CIP will have 8 members (Mayor or deputy plus 7 heads of programs).

Step 2: Lay down rules and procedures – The GSBI should work with clear rules and procedures how to conduct the process of CIP elaboration. These rules and procedures should be in line with standards of good budgeting. Possible rules and procedures are illustrated in the example from Ora (Box 13).

BOX 13: RULES AND PROCEDURES FOR CIP ELABORATION

CIP rules and procedures of Ora

(i) The CIP will be drawn for a 4-year period

(ii) The Municipality will develop a CIP and review it every year. Projects of the CIP are in line with the SDP.

(iii) The Municipality will approve every year a capital budget based on the CIP. The capital budget is part of the MTBP and the annual budget. The Municipality will harmonize and coordinate the capital budget with the opera-tional budget.

(iv) If capital investment projects must be urgently included in the annual capital budget, due to demographic changes or developments in the local economy, and these projects were not part of the CIP, it is required that these projects are costed and appraised in the same way as projects of the CIP.

(v) The Municipality will identify the foreseen costs and potential sources of financing for each capital project pro-posed before it is submitted for approval to the Local Council. The operational costs originating from new capital projects will be projected and included in the operational budget.

(vi) The Municipality will evaluate very accurately how the funds from donors and central government for capital investment projects match the CIP priorities and how these projects affect the operational budget in the future.

(vii) Debts for financing capital investment projects must be repaid before the end of their operational life.

(viii) The Municipality will ensure community involvement in the elaboration of the CIP.

Generally, the rules and procedures related to the Capital Investments Plan is a process that must be reflected and reviewed every year together with the CIP review. Dysfunctional rules and procedures should be amended on a regular bases.

Step 3: Elaborate forms and instructions – Instructions are needed on the calendar for CIP elabora-tion and on the required form of data input. Usually, the process of CIP elaboration is organized as a preliminary step to budget preparation in departments. Overload of local government staff should be avoided by sequencing of the process in an intelligent way; furthermore, there should be enough time for proper analysis and for participative processes. (For the formats of data required for CIP elaboration, please consult the "Manual for drawing up a Capital Investment Plan" by Co-PLAN, 2010).

Step 4: Assessment of capital needs – This step is dedicated to assessing needs or problems rather than concrete projects. Together with assessing the needs, ask for the causes behind the needs and for the consequences if nothing is done. For the purpose of assessing capital investment needs, the following sources may be utilized:

- **Assessment of the state of public infrastructure based on an infrastructure inventory**: As a consequence of decentralization, LGUs became responsible for local public infrastructure, such as roads, parks and buildings, etc. in recent years. Now, it is highly important that LGUs update and complete the inventory on LGU infrastructure and take stock of the characteristics and real conditions of these assets, identifying their location, age, size; structural condition, their way of construction, type of material used. Furthermore, a time-schedule should be proposed for interventions needed, costs of replacements or reparations needs to be estimated and sources for financing identified.

- **Policy plans**: Strategic development plans, urban space management plans, environment plans, plans on economic development, housing, transportation, water-supply, sewage system, waste management, parks etc.

- **Surveys on current concerns of citizens**: Civil surveys are effective in measuring citizens' priorities concerning capital needs and the ways they could be financed. E.g. a survey conducted in the community may reveal that citizens' main priority is the creation of a park for their children rather than the construction of a road and that they might be willing to finance part of the project costs.

In addition to analyzing the sources of information mentioned above, needs assessment offers the opportunity for direct participation of citizens. Methods in use for citizen participation are public hearings, interaction with focus groups, media debates, etc. A more indirect form is stakeholder analysis. Usually, needs assessment takes two to three weeks. Certainly, the outcome of this step is a "wish list" of the LGU. Therefore, this result needs to be further processed in the following steps of CIP elaboration.

Step 5: Gauge financial capacities – Before LGUs start working on drawing up the CIP, it is very important to gauge LGU's financial capacities. Let's have a look at the financing options of LGUs for capital investments.

(a) *Revenues from disinvestments* – LGUs can generate revenues by selling assets such as LGU owned buildings or land. However, these revenues are available only once.

(b) *Planned operating surplus* – which is the net operating surplus resulting as the difference between the total of revenues and the operational expenditures. Operational revenues include revenues from taxes, local fees (tariffs), unconditional grant and revenues from shared taxes. Additionally, it includes leasing fees, rents and interests received. For what concerns local taxes and fees, we draw attention on the fact that the current legislation gives full authority to LGUs for planning and management them. Operational expenditures include all expenditures except the expenditures for capital investments.

(c) *Capital reserve fund* – This fund is based on savings reserved for the funding of replacement investments. Thus, if the useful life of a capital investment is 15 years, every year 1/15 of the value of this asset should flow into the fund. After 15 years, the fund will be big enough to finance the replacement investment.

(d) *Borrowing* – We make a distinction between short-term and long-term borrowing[14]. In principle, LGUs can finance capital investment projects through long-term borrowing. In case of financing projects through borrowing, LGUs make debts; therefore, debt servicing will be needed in future, i.e. paying interest rates and repaying the debt in instalments. Please consider what the Albanian the law provides:

   i. Payments for the annual service of borrowing (the debt service) cannot exceed 20% of the arithmetic average of the total revenue from local taxes and tariffs, shared taxes and unconditional transfers in the three fiscal years previous to the year in which borrowing is foreseen.

   ii. The ratio of the previous fiscal year operating surplus with the debt service to be paid each year for a long-term debt must be not less than 1.4:1.

   iii. The ratio of the stock of debt with the own source operational

14) Law 9869, dated 04.02.2008, "On local borrowing" article18

revenues, shared taxes and unconditional transfers must be not higher than 1.3:1. (Law 9869 date 04.02.2008 "On local borrowing" Article 18).

(e) *Transfers from central government* – including competitive grants (regional development fund) and unconditional transfers.

(f) *Grants from donors*

(g) *Public-Private Partnership PPP* – In the case of PPPs, the investment is based on a mixed funding, one part is funded publicly, the rest privately. Public-private funding has some advantages: (i) the risk is shared with the private sector, (ii) the public sector draws from the private sector experience on how to minimize costs, (iii) innovative and efficient service provision is stimulated, and (iv) both sectors engage in cooperation. However, with PPPs, there are also disadvantages, such as dependence, higher operating costs because the private sector wants to be compensated for the risks, furthermore, it wants to make profit.

The capital budget remains the "Achilles heel" of local government units. Being successful in rudent policy making is closely related with careful financial resources management. Figure 14 serves as an illustrated overview on how to finance the capital budget.

But what can local government units do to enhance their financial scope for capital investment projects? LGUs have four complementary action lines they can follow to reach this goal:

(i) re-evaluate the program expenditures plan and reduce superfluous expenditures

(ii) increase fiscal capacities e.g. by improving tax and fee collection

(iii) look beyond program boundaries and eliminate expenditure duplications

(iv) review the projects/products costs

FIGURE 14: How to finance the capital budget[15]

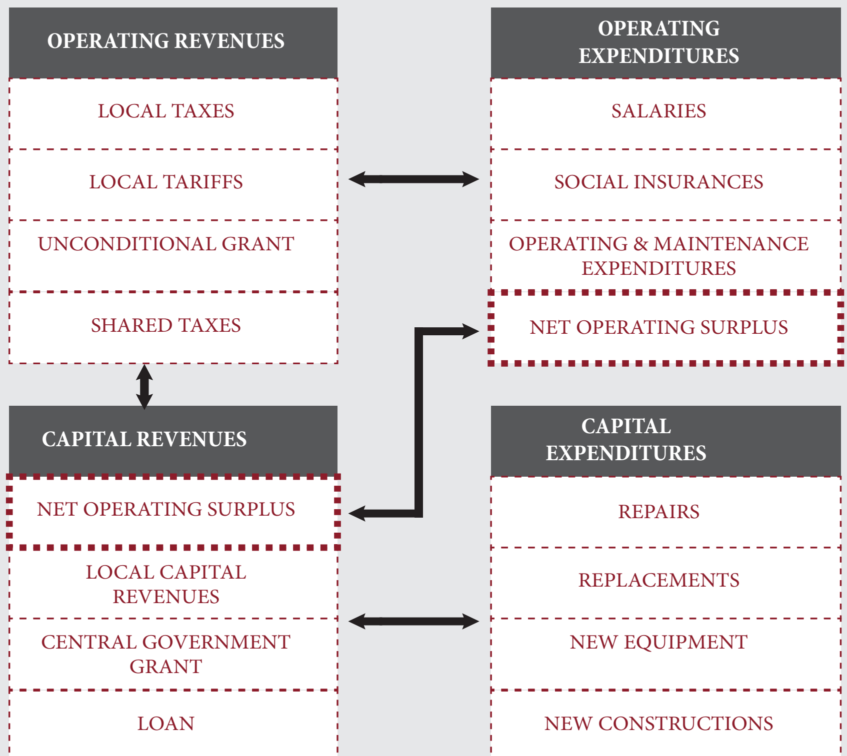
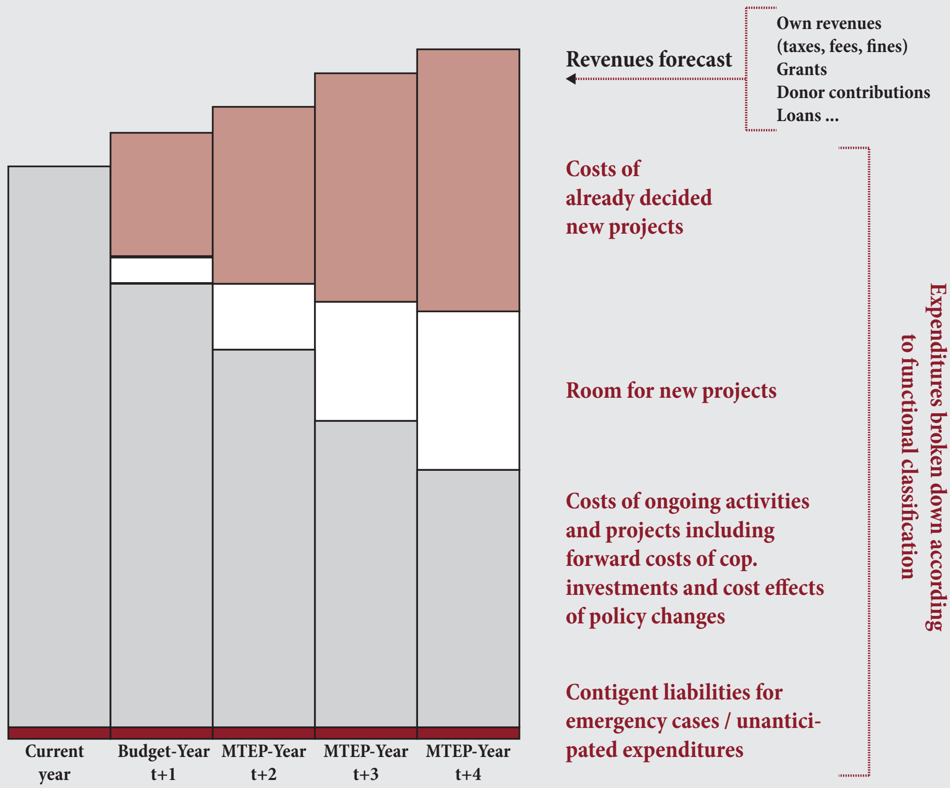


Figure 15 illustrates how to determine the scope for financing capital investment projects in a medium-term context. The logics start with revenue estimation for each year (all classes of LGU revenues). In a next step the costs for on-going activities and projects must be estimated (as well as the costs for already decided new projects if this is the case). It is assumed that the costs for on-going activities and projects go down because of finalized projects. When the revenues can be increased year for year and the costs for on-going activities and projects go down, we will see more room for new projects from where we are now the more we go into the future. This growing scope for financing new projects in the future must be used in an intelligent way when we draw up the CIP and the MTBP.

15) "Manual for Capital Investments Plan drawing" – Co-PLAN / 2008, revised 2010, p. 22

FIGURE 15: Evaluation of capital budget within the MTBP framework[16]



See: Schiavo Campo (1999), Managing Government Expenditures

Step 6: Identify and prioritize capital projects – Before dealing with prioritizing capital investment projects, let's first ask the question what is a capital investment project. Annex 5 of the guideline no. 7/1 dated 22.02.2010 "On local budget preparation" provides a clear answer to this question (see: Box 14).

16) Schiavo-Campo, S. (2007). Toward a Mediumterm Expenditure Framework. http://siteresources.worldbank.org/PSGLP/Resources/MTEFsSchiavoCampo

BOX 14: WHAT IS A CAPITAL INVESTMENT PROJECT?

Based on Guideline no. 7/1 dated 29.02.2011, "On Local Budget Preparation" Annex 5 "Public investment is made by or on behalf of the public sector and is performed through investment projects. An investment project, as part of a public expenditures program, is a group of activities projected to generate specific products within a deadline.

We will consider as an Investment Project the capital expenditure that:

- Results in an increase of assets
- Has a duration longer than one year
- Has a value of more than 1.000.000 lek

For prioritizing capital investment projects, Co-Plan (2010) suggests in its Manual for drawing up Capital Investment Plans that three broad areas are analyzed in a logical order of priority:

(1) *Assessment of projects currently being implemented case-by-case*: Already started projects which will not be finished in the current year will be included in the next CIP.

(2) *Evaluation of the existing infrastructure conditions*: Identify important and urgent needs for infrastructure rehabilitation

(3) *Evaluation of additional capital investment needs:* e.g. urban development projects, creation of green areas, social housing, creation of new parking spaces, etc.

While ongoing projects out of area (1) enter quasi automatically in the CIP, this is not clear for area (2) and (3). For these two areas, additional guidance for selecting projects is needed. Helpful criteria for selecting capital investment projects are presented in Table 27.

TABLE 27: DECISION MAKING CRITERIA FOR PROGRAM SELECTION

List of criteria for selecting capital investment projects	
The project must be an own function of the LGU or a shared function	Urgency of project
The project must contribute to the achievement of strategic objective/s	Project status ("new" or "ongoing")
Number of beneficiaries or size of benefitting area	Distribution of costs over time and among categories of taxpayers
Impact on local/regional economy	Generation of revenues from the project and possibility to re-cover the costs
	Interdependence with other projects
	Financing possibility by external financial sources (donors, government, businesses)

The decision-making criteria presented in Table 27 can be used in two ways, (i) in a quantitative way and (ii) in a qualitative way.

i. If the criteria are used in the quantitative way, you just consider whether the criteria are met or not. The more criteria are met by a program, the higher its priority. Please note, that in this case, criteria a) and b) must be considered as killer criteria. If these two criteria are not fulfilled, then the project doesn't qualify.

ii. If the criteria are used in a qualitative way, the question is not whether criteria are met or not, but how well. The better a criterion is fulfilled, the more points (1-5) a project will get per criterion, and the more points a project gets, the higher its priority is assessed. In addition, it is possible to give relative weights to the criteria. The weights of all criteria used must be 1. Please not, that in the qualitative assessment mode, it is not necessary that criteria b) is a killer criteria. However, criterion a) will not alter its character.

Step 7: Calculate the costs: – Costing of projects is a difficult but indispensable step for three reasons: firstly, to check its affordability, and secondly to assess the cost/benefit ratio. The third reason: Costing of projects is a legal requirement. Annex 5, "Procedures for public investments management" of Guideline 7/1 dated 22.02.2010 "On local budget preparation" states "…no capital project will be part of Medium Term Budget Program if it is not coasted." It is not enough to calculate the direct project costs but also the additional operational costs, which will become recurrent costs, originating from this project. Ways how to calculate the costs of project will be discussed in module 4.3 of this training handbook.

Step 8: Evaluate financing option - Identification and evaluation of alternative financing options includes the assessment of own revenues (taxes, tariffs, etc., and net operating surplus), grants from central government, borrowing, funds from donors, public-private partnership, etc. Which way to choose is a difficult question and needs careful analysis. Legal restrictions (e.g. re. borrowing), economic deliberations (e.g. interest rates, expected inflation and economic growth), or solvency, risk diversification and independence are important aspects to reflect before a decision is taken.

Step 9: Prepare the draft CIP – After having concluded successfully all the previous steps, the working group for capital investment planning prepares the documentation for the CIP which includes all the information related to capital projects including strategic relevance, priority-level, urgency, direct and recurrent costs, financing.

Step 10 – Submit CIP for approval – When the CIP is submitted to the local Council; it is the moment to present it additionally to a bigger audience of interested stakeholders.

3.7.5 STAKEHOLDERS INVOLVED IN THE PROCESS

Citizens' participation in the process of capital investments program planning may take place in different forms. Surveys can be used to gauge priorities of citizens. A citizens' commission may be established to review project requirements and make recommendations. Encouraging community's active participation in the process of CIP elaboration is important for several reasons:

The active involvement of the community is necessary to improve transparency and ensure information sharing. People must understand how decisions are made and how the budget is prepared. They also have the right to know how scarce resources are used. Information sharing creates trust between government and the community; this facilitates the revenue collection process. When people see that financial resources are used to finance their priorities, they will probably be more open for co-financing. Stakeholder involvement is particularly important for capital projects identification and prioritization. The more open this process is organized for the community and groups of interest, the more LGU's objectives will match priorities of the community. Now, let's consider and compare the strengths and weaknesses of four different approaches for civil society participation: the public hearing, the civil survey, focus groups and stakeholder analysis (see:)

TABLE 28: PARTICIPATION APPROACHES COMPARED

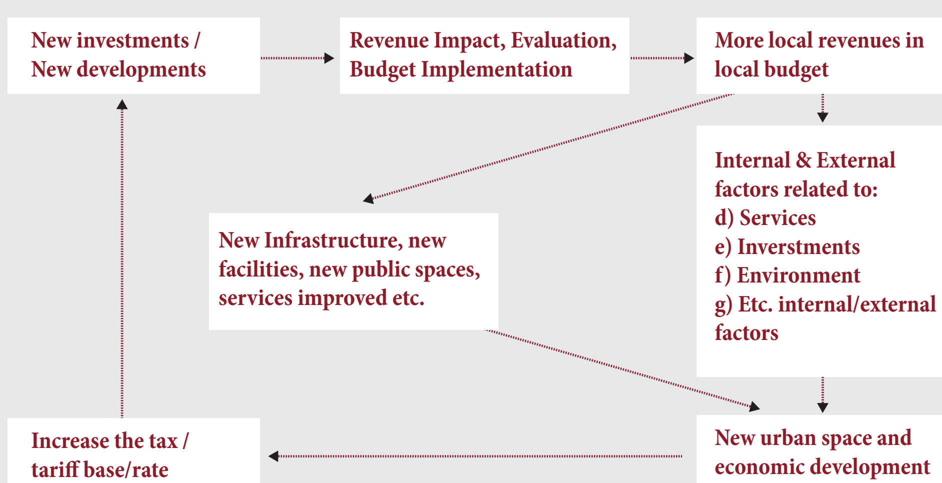
List of criteria for selecting capital investment projects	
Public Hearing	**Advantages**: Being the most common method, the public hearing is organized as a formal meeting open to all interested actors; this s usually the last possibility for citizens to give their input on proposals before approval by the local elects. **Disadvantages**: It is not an adequate forum for dealing with complex ideas or detailed information. In addition, public hearings can be dominated by individuals or groups with special interests.
Civil surveys	**Advantage**: Fast and reliable way to get accurate and quick feedback from the citizens. **Disadvantage**: High costs. Leads to an inflation of wishes.
Focus groups	**Advantages**: They are used to find out how capital investment projects are perceived by citizens or to provide information for a specific group of citizens on a particular project and to demonstrate the interest of local elects in citizens' opinions. **Disadvantages**: They are not a means to mediate disputes or to achieve consensus on critical issues.

TABLE 28: PARTICIPATION APPROACHES COMPARED

Stakeholders analysis	**Advantages**: Stakeholders analysis reveals the attitudes of persons or organizations who can be affected by a program or who can affect a program. It reveals where support for a program can be found, where resistance and how to design a program to make it attractive for major stakeholders. **Disadvantages**: Requires time and expertise; costly approach

Conclusion: The Capital Investments Plan is a very important instrument in the hands of local gov-ernment units for different reasons. Firstly, the issues covered by the CIP are particularly tangible and highly attractive for participative planning approaches. Local governments can therefore strengthen their links with the citizens when they are open for participative capital investment planning. Secondly, capital investments can have a highly positive impact on the local economic development and stimulate economic growth. If this is the case, the LGU enters into a positive spiral as follows: Better local infrastructure is a precondition for enhanced local economic development: When the local economy is doing well, the local tax base increases; this has a positive impact on local tax revenue, allowing for better local infrastructure, etc. This positive circle is illustrated in Figure 16.

FIGURE 16: Development of lgu based on CIP



GROUP WORK 4:

SELECTION OF CAPITAL INVESTMENT PROJECTS

Introduction:

Remember the example of Ora "The city wants to change" (Box 12). The working group pointed out that there are at least five capital investment projects that need to be financed in the 3-year period, namely:

- Rehabilitation of the park	300 000 lek
- Rehabilitation of water-supply	700 000 lek
- Rehabilitation of the school street	800 000 lek
- Placement of 10 containers	300 000 lek
- Installation of electricity grid in District 1	400 000 lek

The municipality may finance (from all sources) in the first year 800 000 lek, in the second year 900 000 lek and in the third year 800 000 lek.

Objectives of the exercise:

a) Train the use of methodologies for project prioritization,

b) Train the use of methodologies for allocating capital investments over time

Assignment:

Discuss the list of projects identified in Ora, set the priorities for the medium term and prepare a pro-posal for the distribution of the projects possibly over the next three years. Apply methods studied in module 3 and use the forms presented in Table 29 and Table 30. Time available: 40 minutes (30 minutes of preparation and 10 minutes of reporting)

TABLE 29: PROJECT PRIORITIZATION FORM

Nr.	Projects	FULFILLED CRITERIA								
		Number of Beneficiaries	Economic Growth	Linking to priorities	Urgency	Prevents emergency	Ongoing project	Geographic distribution	Time of costs covering	Total points
1										
2										
3										
4										
5										

TABLE 30: CAPITAL INVESTMENT DISTRIBUTION OVER TIME

Nr.	Description of the Investment	Value of the Investment	Distribution of the Investment		
			2012	2013	2014
1					
2					
3					
4					
5					
	Value of Capital Investments/year		800 000	900 000	800 000

Preparatory work for module 4:

(1) Instructions on local fiscal policy development regarding local taxes and fees (based on law no 9632/2006 on local tax system and law no. 10117/2011): Participants will consider the implications of the instructions for the fiscal package and annual budget and are asked to calculate the expected revenue from the small business tax.

(2) Participants are asked to identify specific revenue and expenditure policies currently being pursued in their LGU.

4. PROGRAM BUDGETING

OBJECTIVE

Participants of training module 4

- are enabled to translate strategic goals and objectives into program goals and objectives, products and activities
- are familiar with input planning and costing of program outputs and activities

CONTENTS OF MODULE 4:

4.1 INTRODUCTION TO MODULE 4

The MTBP serves as a means for continuously implementing the SDP; the SDP is the relevant strategic policy framework for medium-term budgeting. Based on the SDP, LGUs elaborate or review their activities including objectives and expected results, and identify suitable ways and actions for policy implementation in the medium term. The MTBP is an integrated financial and policy plan covering a 3-year period; it translates the strategic objectives into concrete projects within the medium-term planning period. Medium-term budgeting starts with a review of the results of the previous year (t-1), the estimated indicator values for the current year (year t). On the other hand, the department of finances makes a three-year forecast of the revenue from all relevant financial sources (regardless of their nature) in order assess the overall resources available over the entire planning period of the MTBP. Based on these three pieces of information, i.e. strategic priorities, assessment of the current status of strategy implementation and availability of financial resources over the planning horizon, the spending ceilings are elaborated and then decided in a top down process for each program and for each function. These ceilings are communicated to the line departments and to the program management when the bottom-up budgeting process is launched in these units. Within the pre-defined ceilings, the program management has relative freedom to prepare the medium-term plan for functions under the responsibility of a program. However, program management is always obliged to put the medium term oriented program budget in line with strategic priorities while respecting fiscal discipline and other legal requirements.

In this session, we will keep on building on the key principle which says:

"If resources have been provided, activities will be undertaken; if activities are undertaken, products will be generated; if products are generated, objectives will be achieved; if objectives have been achieved, the local government unit has made a progress in the achievement of strategic objectives and goals"

The MTBP is not a "magic stick" leading to a higher level of resources but a means to estimate and distribute available resources in a realistic way and in accordance with the priorities of the LGU.

The elaboration of a program budget will be the main focus of this module. Program budgeting uses a clear conceptual framework. The main elements of this framework are: strategic objectives, programs, products, activities, inputs and results.

4.2 STRATEGY ORIENTED BUDGETING FOR RESULTS

The budget is an indispensable financial management instrument; it determines the level of expendi-ture for programs and activities. However, policy making is complex; it involves different actors in and outside of LGUs. Nevertheless, it is crucial that program policies take into account the economic and fiscal reality of a LGU. The program budget should reflect exactly the approved policies; it should make them operative.

If policies are defined only during the annual budgeting process, then it is likely that there is too much emphasis on short-term considerations neglecting or even ignoring long-term objectives. Daily activities and issues of the day are over weighted to the detriment of strategic priorities. Of course, there are activities, which do not impact the achievement of strategic objectives in a pronounced way, such as different inspections of product quality, administration of parking lots, etc. Nevertheless, these activities can be supportive for reaching specific strategic objectives. As an example, cleaning can be an important activity in a LGU supporting the strategic objective to transform the city into a "attractive place to live, work visit and enjoy". As long as any activity is needed, it must be included in the appropriate program and its budget.

4.2.1 HIERARCHY OF PLANNING AND REPORTING INSTRUMENTS

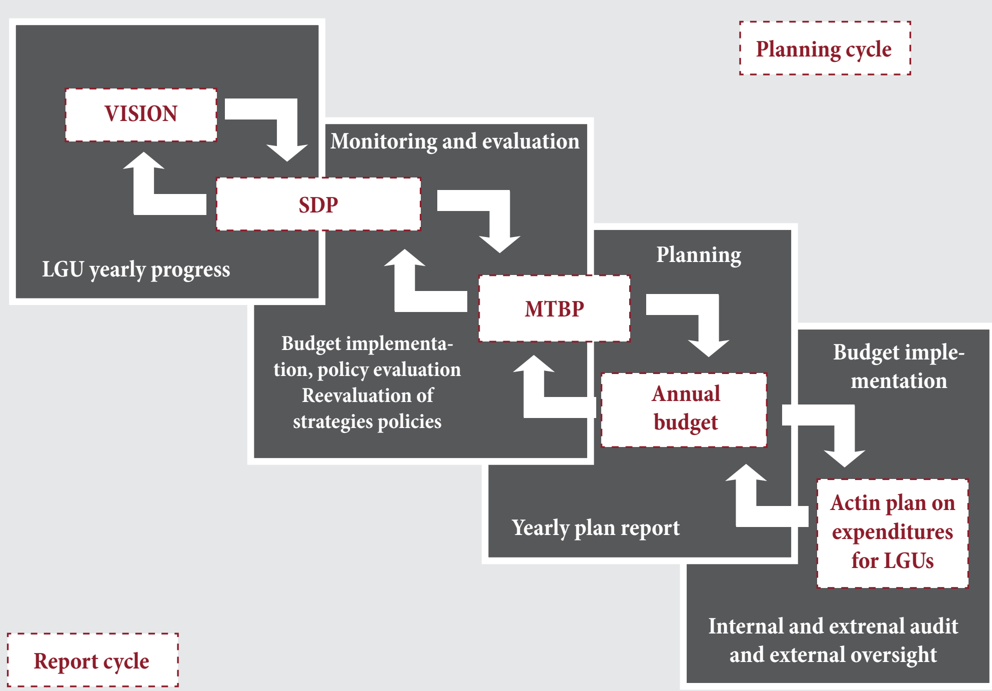
Within the hierarchy of policy planning instruments, the SDP has the top position: Usually, the SDP covers a period of 10 to 15 years; it is not reviewed every year. The SDP figures as a reference point when the MTBP and the annual budget are prepared in the annual budgeting process. During this process, strategic policy objectives and specific program objectives are translated into procedures and activities needed to reach strategic goals. Furthermore, measurable results are agreed which determine the frame for program monitoring and evaluation.

The MTBP provides clear information on the funds available for each program and on the planned program outputs and outcomes over the next 3 years. Therefore, the MTBP establishes annual action plans not only for the LGU as a whole but also for each single program unit. In addition, the MTBP stipulates individual responsibilities of program management and staff for correct spending as well as for results to be achieved.

Strategic objectives identified in the SDP will be achieved through careful planning of the MTBP and annual budget together with the annual action plan and through the implementation of these plans.

Figure 17 shows the relations between different levels of planning and reporting. The upper part of this figure illustrates the planning cycle from the long-term over the medium to the short term. The lower part is dedicated to reporting and evaluation.

FIGURE 17: Hierarchy of planning and reporting instruments



In Table 31, technical terms used for program budgeting are defined and illustrated with an example.

TABLE 31: TERMS, DEFINITIONS AND EXAMPLES USED FOR PROGRAM BUDGETING

Terms	Definition	Examples
Vision	Describes where the LGU will be in the future, based on shared values of all stakeholders involved. Guiding idea for future development.	Ora Municipality will be an important economic and educational regional centre; it will be developed in harmony with its history, culture and people and considered as an attractive place to visit and to live and work.
Strategic Development Goal	Strategic development goals (strategic goals) determine the long-range direction of the LGU.	A city with contemporary standards in public services, which encourage and support the development of local economy in harmony with the environment.
Strategic Development Objective	Strategic development objectives (strategic objectives) are broad definitions of what a LGU sets out to achieve in the medium term in order to realize its vision. They have to be SMART	Standards of good service delivery are met.
Program Goal	The desired and measurable result of a specific policy area in the medium term.	Increase the number of households connected to the sewage system from 15000 in 2010 to 25000 in 2013.
Program Objective (annual) for the first year	The desired result (target) for the first year of MTBP	The number of households connected to the sewage system is increased from 15000 to 19000.
Program Objective (annual) for the second year	The desired result for the second year of MTBP	The number of households connected to the sewage system is increased from 19000 to 22000

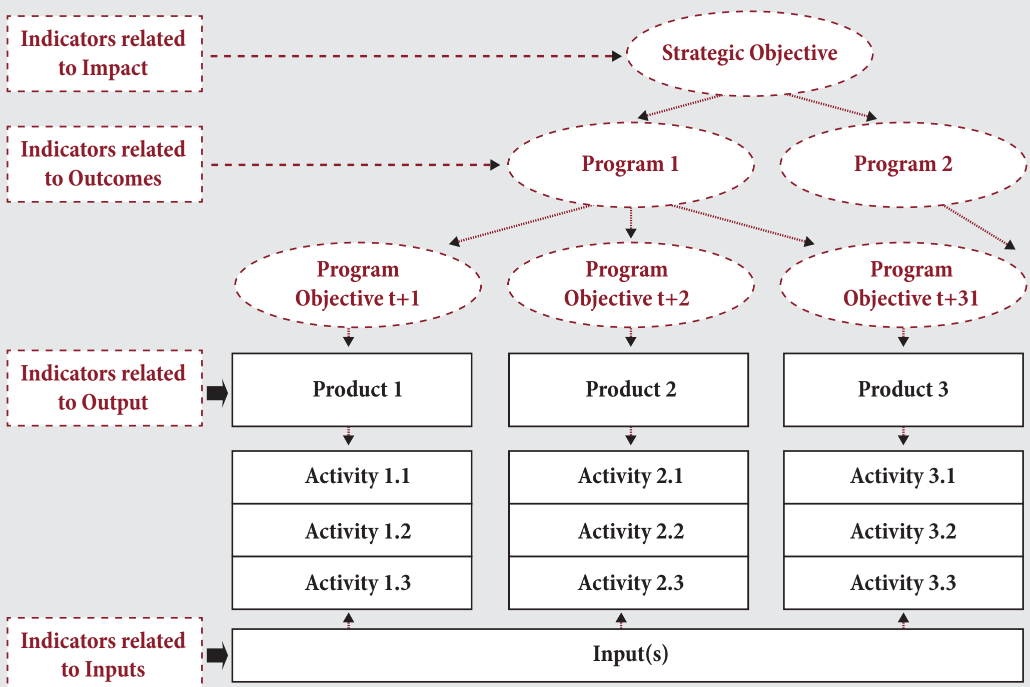
TABLE 31: TERMS, DEFINITIONS AND EXAMPLES USED FOR PROGRAM BUDGETING

Program Objective (annual) for the third year	The desired result for the third year of MTBP	The number of households connected to the sewage system is increased from 22000 to 25000	
Products	The final product provided	20 km of the water supply system renovated; 18 km of sewage system finished.	
Activities	Activities and actions undertaken to provide the output	Renovation of the pumping station in the city,	Installation of the new technology for system maintenance
Spending Unit	Organizational unit responsible for correct budget execution and for achieving planned results for that unit.	Department or administrative office or public service enterprise, utility, etc	

4.2.2 FROM GOALS TO ACTIVITIES

The strategic development goals are the backbone of the SDP. To put flesh on the bone, these goals must be transformed into activities. Therefore, activities should always be designed and carried out in a goal oriented way. In addition, the implementation of the SDP via the MTBP and the annual budget should take place in a verifiable manner. Therefore, indicators are needed that allow you to assess whether the SDP is implemented successfully or not. We distinguish between four types of indicators: (i) impact indicators related to strategic objectives, outcome indicators related to program objectives, output indicators related to activities, and input indicators related to resources used (see Figure 18).

FIGURE 18: Break down of strategic objectives into activities and stage-related indicators



The funding of a SDP is a big challenge for local government units. Under the condition of limited budgets, LGUs are required to make big efforts to improve the resources management practices; effective and efficient processes are needed in order to achieve the strategic goals and objectives step by step. The best impact alternatives must be used and costs must be kept at a minimum.

When capital investment projects are selected for the MTBP, three criteria are crucial:

- The weight of the project in the prioritization process
- The direct capital costs and the recurrent costs as an effect of the project
- The availability of additional funds for the project

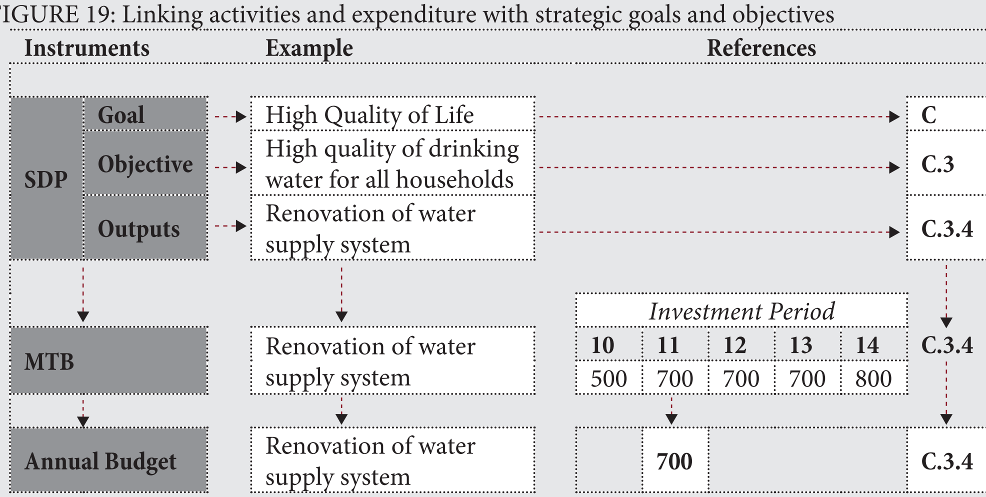
The first of the three criteria is dedicated to the usefulness of the project, i.e. its importance and urgency, etc.; the second and third to the affordability of the project. Furthermore, when the second criterion is compared with the first, you can assess the relationship between the benefit and cost of the project.

During capital project selection, LGU staff must identify the period in which project implementation will start and be concluded. Thus, there are two categories of capital projects, one-year and multi-year projects. The implementation of multi-year projects can reach beyond the period covered by the MTBP.

In the case of multi-year projects, the budget of each year is affected. In each year, the project costs to be incurred in this year and the funds to cover them enter into the budget. For each implementation year, these annual project costs and the revenues needed have to be reflected in the MTBP. In the case of a multi-year project, project costs enter in each annual budget of the implementation period in a proportional way. To give an example, if the costs for a three year project is 1 million 500 thousand leks, the corresponding cost fraction enters in each annual budget, e.g. 300 thousand lek in the first year, 700 thousand in the second and 500 thousand in the third. These annual project costs are also reflected in each affected year of the MTBP.

Figure 19 illustrates with an example how to link strategic goals and objectives with expenditures for multi-year projects in the MTBP and annual budget using a reference system. The purpose of the reference system is to enhance transparency on the purpose of a specific spending item. It serves as a guarantee that the money is spent in accordance with strategic goals.

FIGURE 19: Linking activities and expenditure with strategic goals and objectives



4.2.3 THE RESULTS-ORIENTED PROGRAM PLANNING APPROACH

The SDP is conceived as the guiding planning document of a LGU; it determines the direction and way of local development. But, how will LGUs break down strategic goals to program policies? Let's first analyze the water supply example of Figure 19 and then transfer the logics to further policy areas.

TABLE 32 ANALYSIS OF THE WATER SUPPLY EXAMPLE: PROGRAM POLICY DESCRIPTION

Item	Example
Strategic development goal	High Quality of Life for the community
Program	Water Supply and Canalization
Program goal	Safe and reliable operation of water supply and sewerage
Program objective	Provide high-quality potable water for all city households by 2014
Impact result	Increased citizen satisfaction with potable water from 80% to 95% by 2014
Outcome result	• Reduced number of people getting sick due to contaminated water from 50% to 30% by 2014 • Increased collection of potable water fee from 79% to 90% by 2014
Products	• Uncontaminated, potable water made available for 95% of households • Water meters installed for 95% of households by 2014
Activities	• Reparation of the existing water tank • Maintenance of water filtration plant • Installation of 1.000 water meters
Resources / inuts	Financial, human and material resources used for the planned activities

Group Work

GROUP WORK 5:

ELABORATION OF A PROGRAM POLICY DESCRIPTION

Objective of the Exercise:

- Further familiarize participants with the relationship between the SDP and the MTBP and annual budget.
- Train practices of policy description used for program budgeting and draw from the experience of participants

Assignment:

Participants are invited to elaborate the program policy description for one of the following policy areas: local infrastructure; cleaning; pre-school education or street and sidewalk maintenance.

Working groups	2
Time for preparation	50 minutes
Time for reporting	10 minutes/working group
Reporters	1 person per group
Supporting materials	SDPs of two local units
Necessary materials	Flipchart
Bonus	Model on Education (Guidance of MoF) Best practice

4.2.4 LIMITATIONS BY PROGRAM CEILINGS

Each program will be prepared in accordance with the expenditures ceilings established for the medium term. Program Management Teams (PMT) must identify and evaluate all existing and new program products on a case-by-case basis, taking into account the limitations of the program expenditure ceilings.

The FPT, developed for LGUs in Albania, uses for classes of ceilings: (i) the overall ceiling, (ii) the ceiling on salaries and social insurance, (iii) the ceiling on consumption (excluding salaries and social insurance), (iv) the minimum level for capital investments (which is the difference of (i) minus (ii and iii). Please, bear in mind that the FPT operates at the level of functions for practical reasons; therefore, these ceilings are set for each function. However, a program is an aggregation of functions. It must respect the functional ceilings.

4.2.5 DISTINCTION BETWEEN PROJECTS, ON-GOING OR NEW ACTIVITIES AND PRODUCTS

We should make a clear distinction between projects, activities and products. Products are goods or services delivered by the government units to external parties, such as citizens, local businesses etc. In contrast, projects are extraordinary activities (of an LGU) with a clear beginning and end. Projects can be capital or non-capital. They are used for improving service delivery or funding activities. When projects are planned and carried out, project related activities are needed. However, in most of the cases, LGUs carry out on-going activities on a regular basis. Both, projects and on-going activities enter into the MTBP and annual budget; of course, the same is true for new recurrent activities for new services. The examples below illustrate the distinction between projects, activities and products.

TABLE 33: EXAMPLES OF CAPITAL AND NON-CAPITAL PROJECTS, ACTIVITIES AND PROGRAM PRODUCTS

Item	Sub-Item	Example
Projects	**Capital investment projects**	• Renovation of a road • Procurement of a waste collection truck • Installation of it network • Rehabilitation of the local museum • Planting of 100 new trees in the city

TABLE 33: EXAMPLES OF CAPITAL AND NON-CAPITAL PROJECTS, ACTIVITIES AND PROGRAM PRODUCTS

	Non-capital investment projects	• Special trainings for staff • Improvement of business processes • Placement of 20 banderols in the city for the youth day • Placement of pedestrian crossings • Placement of 30 road signboards • Introduction of the MTBP process in a LGU • Introduction of parking fees
Activities	**Activities related to capital investments**	• Planning of investment projects • Cost estimation • Elaboration of feasibility studies • Preparation of tender documents • Publication of tender procedures • Tendering • Announcement of the winner • Signing of the contract • Supervising the implementation • Testing • Taking over
	On-going activities	• Street cleaning • Civil registration • Waste collection • Distribution of drinking water • Budgeting, accounting, reporting, M&E • Tax collection
Program products		• Collected waste / properly disposed or recycled wastes • Streets lighted • Children trained • Drinking water delivered • (New) exhibition at the local museum

GROUP WORK 6:

DEFINITION OF PROGRAM PRODUCTS

Objective of the exercise:

Train the techniques used for describing products and for activity planning in the context of programs.

Assignment:

Participants are invited to define program products for two programs, cleaning and pre-school education, and to identify activities needed for the products of these programs. Specify the program outputs in SMART terms.

Working groups	2
Time for preparation	50 minutes
Reporting time	10 minutes/working group
Reporters	1 person per group
Material needed	Flipchart, Marker

Sample solutions of the exercises are presented below (Table 34 and Table 35).

TABLE 34: PUBLIC SERVICES PROGRAM, CLEANING AND WASTE MANAGEMENT SUBPROGRAM

Program Name	Public Services – Cleaning and Waste Management
Program description	Provision of a quality service for all the families and businesses living and operating in the municipality
Program Policy	Enhance quality of life and attractiveness of city by keeping it clean.

TABLE 34: PUBLIC SERVICES PROGRAM, CLEANING AND WASTE MANAGEMENT SUBPROGRAM

Program Policy Goal	By 2014, cleaning service will be provided for 95% of the city area instead of the 60% in 2011; 85% of taxpayers will benefit from it in 2014 instead of the 72% in 2011.
Program Policy Objectives	Year t+1: • Increase the quantity of collected and transported waste from 2000 to 3000 tons. • Expand service provision map for cleaning from 120.000 m2 to 200.000 m2 • Increase the number of beneficiaries from 4000 to 10000 households • Expand the area for the provision of street sweeping from 100.000 m2 to 200.000 m2 Year t+2: • Increase the volume of transported waste again by 1000 tons from 3000 to 4000 tons Year t+3: • Increase of the number of families receiving the service from the current 10.000 to 14.000
Target for year 1	• Collected and transported waste: 3000 tons
Program Products	• Tons of waste collected from families • Tons of waste collected from • New containers for waste collection in service
Activities related to the product	• Collection of waste from households and businesses • Sweeping of streets according to cleaning plan • Maintenance of technologic vehicles (2 inspections per year) • Procurement of 20 new containers for the service • Procurement of a new technological vehicle for waste collection • Hiring of 3 new employees for the cleaning sector
Inputs	• Staff salaries, social insurances, operative expenditures, per diems, etc.

TABLE 35 PRE-SCHOOL EDUCATION PROGRAM

Program Name	Pre-school Education
Program Description	Provision of pre-school education for all children of 3-6 years of age
Program Policy	Guaranteeing of free pre-school education service for all children of 3 to 6 years of age
Program Policy Goal	80% of children of 4-6 years of age benefit from a free pre-school education by 2014
Program Policy Objectives	Year t+1: • Increase the percentage of children enrolled in pre-school education from 65% to 70% by 2011 Year t+2: • Increase the percentage of children enrolled in preschool education from 70% to 75% by 2013 Year t+3: • Increase the percentage of children enrolled in preschool education from 75% to 80% by2014
Target for year 1	• Percentage of children enrolled in preschool education in 2011: 70%
Program Products for the year 1	• Pre-school education • New kindergarten • New textbooks
Activities related to the product	• Execution of the teaching process for 70% of children of 3-6 years of age • Construction of a new kindergarten by 2011 • Printing of 300 textbooks
Inputs	Staff salaries, social insurances, operative expenditures, per diems, capital investment costs, etc

4.3 COSTING OF ACTIVITIES AND PROJECTS

Reliable cost estimations are crucial for budgeting. This is true for the MTBP as well as for the annual budget. For practical reasons, a distinction is made between cost estimations for on-going activities and for now activities and projects. In the case of on-going activities, the cost estimation can rely on figures from the past to a certain extent. However, in the case of new activities and projects, these figures from the past are missing. In this case, there are two options: (i) the products can be procured from the private sector at market prices, or (ii) the products are produced by the public entity itself. If products are going to be produced autonomously, a careful internal costing process must take place. In any of the cases, it is highly recommended to cross-check cost estimations with partner LGUs operating under similar conditions.

4.3.1 COSTING OF NEW ACTIVITIES AND PROJECTS

When we estimate costs for new activities or projects, we have to specify the desired output and the activity required to produce it. We will demonstrate this idea with the example of the reconstruction of a street. The capital investment project has the following features and needs activities as described below:

Project output:	Street A reconstructed within the time planned as laid down in the approved budget
Activity	Asphalting of 2200 m² of street A
Standards:	Street of 200m of length, 10m of width, 1m-large sidewalks on both sides

When we estimate the costs for our project, we have to consider the total costs. The total costs consist of direct and indirect costs. Direct costs are related to the project in the narrower sense, i.e. planning and construction costs in our example. Indirect costs are related to managing the project. However, it is highly recommended to allocate the indirect costs in a rather schematic way. Overambitious costing approaches for the indirect costs are unrewarding. Costing of new activities and projects is a task of the PMT.

4.3.2 COST ESTIMATION FOR NEW PROGRAM ELEMENTS STEP BY STEP

When we estimate the costs for new program elements, which are not procured from the private sector, we have to do this in a systematic process, step by step. The approach is described in the overview of Table 36. Further details on cost estimation will follow further down.

TABLE 36: STEPS IN PROGRAM COSTING

Step 1	Describe the program objectives in a clear and verifiable way.
Step 2	Describe the products and its specifications in a measurable way: quality, quantity, frequency, and place of delivery if relevant. These specifications are needed for each year covered by the MTBP.
Step 3	Define activities for each product and identify the activities that contribute to more than one product at the same time.
Step 4	Estimate staff costs: • Number of working days per staff category • Rates per staff category • Salary cost per staff category • Social insurance costs Consider expected structural changes of salaries per staff category or social insurance costs!
Step 5	Calculate costs for purchases of goods and services. Use data provided by finance and budget office on operational expenditures (electricity, telephone, travels, services, per diems, vehicle maintenance, taxes, stationary, overtime payments, computer equipments, toner, spare parts, etc. Operative and maintenance expenditures).
Step 6	Sum all costs
Step 7	Compare program cost PC to budget ceiling BC (and costs of similar LGUs) • If PC $\leq$ BC implement program activities • If PC > BC review activities and reconsider the respective costs (choose the best alternative: least resources for best result)

For new activities or projects, two processes are key for costing:

- Identification of activities needed to produce the desired products, and
- Costing of identified activities.

4.3.2.1 SUB-PROCESS FOR ACTIVITY IDENTIFICATION

The steps presented in Table 37 can be used as a checklist for activity identification. It is one of the aims of this checklist to eliminate unnecessary activities, which make the process of service delivery longer and more expensive. By streamlining processes, efficiency gains are made; with the savings made, it is possible to generate additional services, i.e. more value for money.

TABLE 37: STEP-WISE ACTIVITY IDENTIFICATION

Step 1	Prepare a systematic list of activities for each product
Step 2	Identify activities used for several products and allocate cost share
Step 3	Eliminate all unnecessary activities, simplify processes
Step 4	Define alternative activities for achieving the same objectives, if possible
Step 5	Elaborate final list of activities needed for each product

Example: Planning of products and activities for the road infrastructure service

Local Government Unit:	*Ora Municipality*		
Program:	*Road Infrastructure*		
Strategic Objective	*Modern road network within 2014*		
Program Product	*Maintenance of 20km of internal roads by 2014*		
Activities related to the product	*Year t+1*	*Year t+2*	*Year t+3*
- *Conducting the study*	*1*		
- *Establishing the maintenance sector with 5 maintenance employees.*	*2 employers*	*3 employers*	-
- *Current maintenance expenditures*	*2000000*	*2200000*	*2500000*
- *Periodic Inspections*	*12*	*12*	*12*

4.3.2.1 SUB-PROCESS FOR INPUT PLANNING AND ACTIVITY COSTING

The identification of the inputs required for each activity is crucial for estimating program costs. Again, a step-wise approach is recommended for input identification.

Step 1

Specification of planned products (output): type, quantity and quality.

Example: Organization of 5 training workshops for program management teams

Step 2

Identification of activities required to produce the product

Example: Presentation of new procedures, facilitation of group discussions, coaching of working groups

Step 3

Input identification (type, classification code, units of measurement, quantities needed

Example:

Inputs	**Unit of measurement**	**quantities needed**	**Code**
Preparation	days		
Consultants	days		
Facilitators	days		
Pencils	item		
Folders i	tem		
Pocket calculators	item		
Conference room	total amount		
Fuel	litre		
Per diems	item		

Step 4

Exploration of potential for savings: Is there an option for efficiency gains by making the process leaner? Can part of the material needed be used from elsewhere without incurring costs.

Step 5

Calculation of input quantities per year

Example: Calculation of training material packages per year:

- the number of people participating in one workshop
- planned number of workshops per year

An estimation of inputs is needed for each year of the 3-year period covered by the MTBP. Consider figures and experiences from previous years or from other LGUs, where available!

Step 6

Cost estimation per unit of input

Cost estimation per unit depends on the type of input factor. The estimation of per diems is based on the contract. For goods and services that are periodically purchased, the current market price enters in the cost calculation. However, bear in mind that if you buy at large quantities, you can ask for price reductions.

Step 7

Complete activity costing

If we have identified the units needed per input factor and the costs per input unit, the costs per input category are determined. By summing up the costs per input category used for a specific activity, activity costing is completed.

The idea of activity costing is illustrated in Table 38 for two activities identified as important in the cleaning and waste management program presented in Table 34.

TABLE 38: ACTIVITY COSTING (EXAMPLE)

Activity	Inputs for the activity	Costing
Cleaning of streets by 3 new employees	• number of working days per year per employee • costs per workday • equipment and materials per employee	222 working days x 3 employees = 666 working days x 1000 lek/workday = 666.000 + (3 x 2000 lek equipment/employee) = 672.000 lek/year
Purchase of new containers for the service	• number of containers • price per item	20 containers x 1000 lek/item = 20.000 lek

4.3.2.2 DIRECT AND INDIRECT COSTS

With the calculation of all operational costs for all products belonging to a program, program costs are not yet fully costed. Program costs are the sum of these operational costs (direct costs) together with the administrative costs (indirect costs) of a program. The full costs of a program (or an activity) include both, the direct and indirect costs. This is not an easy exercise. We have to find out how much overhead time is needed for a certain activity, i.e. the time required from staff in general administration (human resources management, IT, accounting office, etc.) in addition to management time required from the PMT. Furthermore, it even includes the time needed from the Mayor's office to push a certain policy through Council.

The assignment of indirect costs to product lines is often discussed in textbooks at length. Practical experience shows that it is better to assign overhead costs in a simple and schematic way based on practicable and appropriate indicators. By doing so, indicators could be used such as office space used, number of staff used for a task, etc. Certainly, this approach is never fully satisfactory. However, it is not rewarding to struggle for absolute accuracy in this domain.

4.4 IMPROVED CLARITY OF THE RELATIONSHIP BETWEEN PROGRAMS AND STRATEGY

It is one of the challenges of strategy oriented program budgeting to make the relationship between strategic development goals and the program elements clear and transparent for government, council members, the administrative staff, and for all interested citizens. For this purpose, a coding system was developed which clearly points out how strategic goals are implemented by programs and how program activities and products are justified by strategic development goals. When this approach of codification is properly applied by the budgetary institutions and overseen by the control institutions, we have a guarantee that the activities of the public administration are fully in line with the strategic development plan.

Let's have a look how it works.

If the LGU laid down five strategic development goals in its SDP, these five goals will get the code G1; G2; G3; G4 and G5. For each Goal, several strategic objectives can be classified (we specified that there can be up to 2 strategic objectives for each strategic goal, thus there cannot be more than 10 strategic objectives). In this case, each strategic objective will be assigned an ordinal number from 1 to 10. Therefore, if we say:

Goal 1 (G1)	Strategic goal: High quality of life
Strategic Objective 1 (O1)	The strategic objective will be "High-quality of potable water for all households"
Program P0004530	Water-supply service program
Project p4	Project No. 4

FIGURE 20: codification approach in use

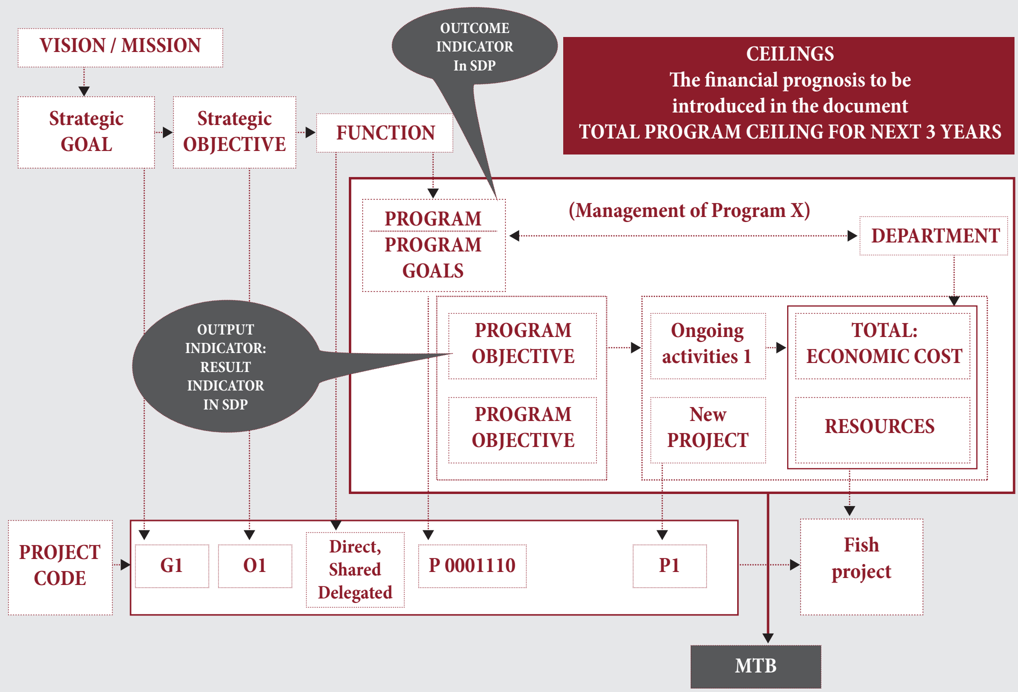


Figure 20 illustrates the approach of codification used in the framework of SDP/MTBP. We start from the left with the code for strategic goals and objectives, move to the code of the functional classifica-tion, then to the program code and finally to the codes for the projects or activities.

Let's again take the example of the water supply program, which includes a capital investment project called "Rehabilitation of water-supply system" (project No. 4 – p4); it will be categorized as part of "Water-supply service" program with the code '0004530' and will belong to the strategic objective No. 3 (O3) of the strategic goal number 3 (G3). Therefore the full code of this project will be: G3O3P0004530p4.

Figure 21 provides additional guidance on how to use the codification approach for an overview of projects.

FIGURE 21: PRACTICAL EXAMPLE ON HOW TO USE THE CODIFICATION APPROACH

Local Government Unit: Bora Municipality

VISION:

Bora will be an important economic, educational and regional exchange centre that will develop in harmony with the city's history, culture and people, becoming, with its outstanding natural environment, an attractive place in which to live and work and to visit.

Goals	Objectives	Programmes linked to Strategic Objective	Projects / Outputs	No.	Value (000/ lek)
GOAL 1: Bora with an attractive local economy and dynamic business environment, where support and encouragement is provided to the production, trade, tourism and service businesses operating successfully within the regional markets	**G1: O1:** Increase by 20% the total number of businesses operating within the Industrial Zone by 2008 compared to 2007	**G1: O1: P0010140**	**G1:O1:P-G0010140:p1:** Improvement of the electricity supply within Industrial Zone	**1**	**35 000**
			G1:O1:PG1:p2: Improvement of street lighting within Industrial Zone	**2**	**15 00**
	G1: O2: Increase from 3 to 8 the number of mechanisms that pro-vide services and support for SMEs within the city by 2010	**G1: O1: P004530**	**G1:O1:P-G0004530:p1:** Establishment of a 'One-Stop-Shop' Bora Municipality	**3**	**10 000**

GROUP WORK 7:

ACTIVITY AND PRODUCT COSTING

Objectives of the Exercise:

- train the identification of program products activities
- make familiar with activity and product costing

Assignment:

Participants are invited to identify products and activities for two programs, the cleaning and the local infrastructure program. Additionally, examples of these products and activities should be costed in a transparent way. The solution to this assignment should be in line with Guideline 7/1 dated 22.02.2010 "On the preparation of local budget" and its annexes and Guideline 8/1 dated 02.03.2011 on Program Ceilings and Program Expenditures Plan (PEP). The forms can be found in the annex.

Working groups	2
Time of preparation	60 minutes
Reporting duration	20 minutes/working group
Reporters	1 person per group
Supporting materials	Strategic Development Plan of 2 local government units
Bonus	Best practice / WINER

In order to successfully carry out the fifth training course participants are asked to bring with them:

- A copy of a completed program developed for their LGU; the program should be ready for presentation at the beginning of the fifth course.
- Models, practices or recommendations for SDP progress evaluation and reporting.

5 MONITORING & EVALUATION IN RELATION WITH MTBP PRESENTATION

OBJECTIVES

Participants of module 5

- are familiar with good practices for MTBP presentation
- enabled to use effective procedures and instruments for indicator based reporting
- have the necessary skills for SDP and MTBP monitoring and evaluation

MODULE CONTENT

5.1 INTRODUCTION TO THE MODULE

Performance management offers two advantages. Firstly, it facilitates the strategic orientation of planned activities within an organization and the agreement on performance targets by linking strategic objectives with results. Secondly, it provides a means to monitor and evaluate the work and progress made by LGUs and the associated staff. Having better control over the achievement of performance goals and objectives is the general aim of monitoring and evaluation. Monitoring and evaluation (M&E) can be used for all types of management responsibilities, e.g. the strategy, the implementation approach, the activities, internal processes, input and costs, output and outcome achieved.

When we talk about evaluation, we should make a distinction between two classes of evaluations: formative and summative evaluation. Formative evaluation is dedicated to the continuous analysis of the reasons for deviations of achieved results from planned results. In contrast, the more in-depth appraisal of the effectiveness of what we do, measured against the strategic development goals is called summative evaluation. While formative evaluation focuses more on inputs and outputs, summative evaluation assesses outcomes and impacts. When we talk about monitoring and evaluation further down, we usually mean formative evaluation. Formative evaluation can be carried out on a regular basis, e.g. three times per year or annually, whereas summative evaluation makes sense only after a longer time period. There is a longer time horizon needed before the effectiveness of an intervention in terms of outcome and impact goals can be measured.

Performance reports provide information on the achievement of results, i.e. on the production of public services and on implemented processes. Based on these reports, monitoring and formative evaluation can take place where achieved results are compared with the targets. We carry out M&E in order to better understand and manage the implementation of the budget and to make improvements where needed. With M&E, LGUs get the answers to the following questions:

- How well are we working?
- Have we achieved what was planned?
- Are citizens satisfied?
- Do we have expenditure under control?
- Where do we need to improve?

The answers to these questions are needed to make intelligent decisions on what needs to be done.

More specifically, we will make the following distinction between monitoring and evaluation (see also below, Box 15):

Monitoring is a continuous process of collecting and analysing information on the budget implementation and comparing achieved results with planned results. Monitoring information is mainly based on budget reports, interim and final reports.

Evaluation questions the budget ex-ante and ex-post. With the ex-ante budget evaluation, we assess whether the budget is prepared in an appropriate way. Ex-post, we assess, whether the budget was executed appropriately. More in-depth questions can be asked by evaluations reaching beyond the available routine information used for monitoring. One question for ex-ante or ex-post evaluations could be whether lessons from the past were learned.

With M&E, we want to find out whether LGUs have made progress towards the achievement of goals and objectives. Furthermore, positive and negative factors affecting budget implementation are identified.

BOX 15: THE OECD DEFINITION FOR M&E

The OECD defines monitoring and evaluation as follows:

"*Monitoring*"- is a continuous function that uses the systematic collection of data on specified indicators to provide management and the main stakeholders of an on-going development intervention with indications of the extent of progress and achievement of objectives and progress in the use of allocated funds.

"*Evaluation*" - is the systematic and objective assessment of an on-going or completed project, pro-gram, or policy, including its design, implementation, and results. The aim is to determine the rele-vance and fulfilment of objectives, development efficiency, effectiveness, impact, and sustainability. An evaluation should provide information that is credible and useful, enabling the incorporation of lessons learned into the decision making process of both recipients and donors."

Taken from Kusek, J.Z. & Rist, R.C. (2004). Ten Steps to a Result Based Monitoring and Evaluation System: A Handbook for Development Practitioners. Washington DC: World Bank, p. 12.

Do local government units monitor today? How is this process implemented?

Almost all local government units implement M&E procedures already today to a certain extent. However, in many local government units, the M&E is limited to the presentation of numerical data on planned and achieved financial indicators based on the economic classification. In contrast, reporting on the achievement of strategic objectives remains uncharted water. Certainly, financial reporting is crucial and the observance of fiscal discipline is absolutely unavoidable. However, today, we start using performance oriented budgets; therefore, we should be in a position to provide performance reports on the achievement of output goals now as well. Members of the council as well as citizens require deeper insight in the implementation of the budget nowadays, covering financial aspects as well as output information. This additional information on outputs needs to be monitored and evaluated in a similar way as the financial information; otherwise, performance budgeting is not complete and does not tap its full potential. Performance budgeting would be incomplete and not fully functional.

5.2 CONCEPT AND BENEFIT OF MONITORING AND EVALUATION

"If you don't measure results, you cannot distinguish success from failure; if you cannot make out success, you cannot evaluate the results; if you do not see success, you cannot learn from it; if you cannot identify failures, you cannot correct it; if you are able to show your results, you can gain public support; everything that is measured, can be achieved"

People monitor and evaluate everyday: for example, they decide in which shop to buy food for their family, in which school to send their children, through which agency to make financial transfers, in which bank to deposit their savings, etc. When they make judgements and decide on something, they evaluate. In a professional environment, M&E is carried out in a more technical way than that.

In practice, M&E are two closely related processes, sometimes overlapping yet always complementary. The terms 'monitoring and evaluation' are often used together and almost presented as an integrated concept. However, M&E are two separated activities; they are not identical.

5.2.1 MONITORING – HOW AND WHY?

Monitoring is a continuous and systematic process of collecting and analysing information on the implementation of a budget where achieved results are compared with planned results. In the monitoring process, special attention is given to the implementation of projects, to programs of special interest, and to the observance of financial discipline. It is the purpose of monitoring to have current and reliable and information at hand for successfully steering the implementation. Monitoring facilitates early identification of implementation problems; this information is needed for solving such problems in an early stage. Monitoring relies on reported data from the budget implementation process and on direct observations; it compares these findings with planned targets and project milestones, and it analyses deviations. More specifically, monitoring answers the question if the available resources are sufficient, if they have been used efficiently and if the LGU is progressing in synchrony with the plan.

In addition, monitoring provides a valuable source of information for evaluation; it can serve as the first step of the evaluation process presenting systematic information on achieved results regarding inputs, processes and outputs based on measurable indicators and clear targets per indicator.

Monitoring includes indicators related to outputs/products, inputs/resources, and activities/processes. It is a prerequisite for successful monitoring that the monitored indicators are clearly defined when the MTBP is prepared; furthermore, these indicators must be defined in a measurable way. Additionally, monitoring indicators must be directly linked with the goals and objectives of the SDP.

Monitoring may fail when indicators are not systematically defined during the MTBP planning stage or when data collection and reporting is deficient. Data collection and reporting is deficient when required data are lacking or when there is a mismatch between the available data and the required indicator-related data. One of the reasons for such deficiencies could be that indicators are not defined in a practical way. When indicators are defined, feasibility of data collection must always be considered very carefully. Sometimes, indicators are defined in a way that data needs to be generated first; this could impose too high additional costs.

One of the aims of monitoring is making difficulties of budget implementation explicit. A major problem of budget implementation arises when collection of local revenues is not sufficient or when expected grants are not awarded; under these circumstances, planned activities must be re-evaluated and there may be a need to postpone or cancel some activities. In such cases; monitoring will make out that these activities are missing and point to the gaps in revenue collection as well.

5.2.2 EVALUATION – HOW AND WHY?

We described formative evaluation as the continuous analysis of the reasons for deviations of achieved results from planned results. Formative evaluation makes one step more than monitoring. Monitoring is identification of deviations and making them explicit; whereas formative evaluation is explaining the deviations and giving recommendations for improvements.

However *formative evaluation* can reach beyond the analysis of deviations of results from what was planned by the budget. Ex-ante budget evaluation is used to assess whether the budget is prepared in an appropriate way. This could mean that we question (i) the realism and the plausibility of the revenue estimation, (ii) the strategic orientation of the budget ceilings, (iii) the content of what is planned in each program, (iv) the adequacy of planned implementation processes and cost estimations, (v) the relevance and measurability of program indicators, (vi) the distributive effects of the budget (e.g. regarding gender equality), (vii) the affordability of the budget (i.e. maintenance of fiscal discipline), (viii) the comprehensiveness of the budget documentation, its layout and intelligibility and public availability of the documents. Ex-post, in addition to deviation analysis, we assess, whether the budget was executed appropriately, i.e. in a lawful way e.g. respecting procurement regulations, and in full transparency. A special question for ex-ante and for ex-post evaluations could be whether lessons from the past were learned.

In the case of a *summative evaluation*, strategic questions are addressed, such as whether a program is still needed (relevance of objectives) or whether the program focus should be modified (accentuation of objectives) or whether its approach should change (appropriateness of methodology). It takes place as a mid-term or final evaluation of the implementation of a SDP, and it is considered as a strategic review process evaluating the development course of a LGU. Furthermore, summative evaluation is used to assess the effectiveness, efficiency and sustainability of an intervention measured against the objectives set. In this way, program evaluation is indispensable from time to time in order to provide clarity on the impact, efficiency, and sustainability of a program. With respect to programs, summative evaluations may mainly focus on the following issues:

- Relevance – Is the program still in line with strategic priorities of the LGU and of sector strategies of the central state; does it still meet the current needs of target groups?
- Effectiveness –To which degree are the program objectives achieved? What are the reasons if objectives are not achieved?
- Efficiency – Are inputs (time and human and financial resources) used in an economic way without causing waste?
- Impact – Does the program have the desired impact on LGU's long-term goals?

5.2.3 MONITORING AND EVALUATION COMPARED

In Table 39 below, monitoring and evaluation are further compared:

TABLE 39: MONITORING AND EVALUATION COMPARED

	Monitoring	**Evaluation**	
		formative	**summative**
What?	Continuous process of collecting information on budget execution comparing achieved results with planned results and controlling the observance of financial discipline.	Analysis of deviations detected during the monitoring process and making proposals on how to overcome major implementation prob-lems. Ex-ante evaluation checks the appropriateness of a budget proposal. Ex-post evaluation examines whether a budget was executed in an appropriate way (e.g. respecting procurement regulations) in addition to the deviation analysis. Furthermore, formative evaluation should control whether lessons from previous assess¬ments were taken.	Review of the impact of programs / projects at the end of a program / project or: Question the current re-levance of program objec-tives and the methodology applied for on-going pro-grams / projects.

TABLE 39: MONITORING AND EVALUATION COMPARED

Why?	Having newsworthy and relevant infor¬mation at hand on the state of affairs and progress made in budget execution Identification of prob-lems during the imple-mentation of a budget or more specifically of a program or project Have useful information at hand for better steer-ing the budget imple-mentation and solving problems at an early stage if needed.	Understanding the rea-sons of program devia-tions in order to take counter¬measures if needed. Ensure that pro¬grams are relevant effective, efficient and sustaina-ble and the budget is affordable when the budget is prepared Make sure that learning while working takes place and that lessons are learned	Assess the achieve¬ment of strategic objectives and goals at outcome and im-pact level. Revaluate activities, products and strategic ob-jectives. Partial review strategy and underlying as-sumptions. Reassess strategic al-location of resources.
When?	Monitoring is a con-tinuous process. The frequency depends on the level of activity (daily, monthly, quarterly, annual, etc.).	In-year or end of year	At mid-term of an inter-vention (program / project) or at the end of it.
How?	Monitoring may be per-formed by local staff based on internal infor-mation or by council members or interested citizens based on reports or findings from direct investigations.	Analysis of available documents and evidence (MTBP, monitoring re¬ports, annual reports, additional findings and observations) and dis-cussing it with the con-cerned parties (respon-sible staff, concerned citizens where relevant). Elaboration of action plans when needed and submit it to the con-cerned decision making body.	Preferably by independent experts.

5.3 EFFECTIVE WAYS OF MONITORING AND EVALUATION

It is the task of the Program Management Team (PMT) to define a set of indicators that is useful for moni¬toring the implementation of programs and projects. The set of indicators must be later approved by the GSBI.

In module 3, two types of indicators were identified: static and dynamic indicators. Both classes of indicators could be useful as steering information. Examples for both types of indicators are presented in Table 40.

TABLE 40: SAMPLE OF STATIC AND DYNAMIC INDICATORS

Static Indicators	Dynamic Indicators
% change of transfers year t/t-1	% change of transfers year t/t-1
% change of revenues from taxes year t/t-1%	% change of revenues from taxes year t/t-1%
% change of revenues from rates year t/t-1	% change of revenues from rates year t/t-1
% change of expenditures year t/t-1	% change of expenditures year t/t-1
% change of capital expenditures year t/t-1	% change of capital expenditures year t/t-1
% change of expenditures/inhabitant year t/t-1	% change of expenditures/inhabitant year t/t-1

5.3.1 FEW BUT RELEVANT INDICATORS

In practice, a clear limitation of the number of indicators per program does not exist. However, ca-pacity of human brain to absorb quantitative information is limited. Information overkill must be avoided. Therefore, the number of indicators should be kept low.

Probably more important than the number of indicators is their relevance. Indicators should answer the right questions. Therefore, it is very important to evaluate first the information needs of LGUs. Let's make an example!
A too abundant list of indicators on local revenues will make the steering process more complex and the information provided may not be relevant. For example: some indicators on local revenues may be: a) % change of revenues from rates year t/t-1; b) % change of revenues from taxes year t/t-1; c) % change of revenues from tariffs year t/t-1 etc. Is this relevant information? Or is it more relevant to know: a) local revenues / inhabitant and capital budget / inhabitant?

When the Program Management Team elaborates the indicators for a budget or a program, they should consider the relevance of the information and make a choice of the most relevant ones. The number of indicators should be limited to 3 per program objective. This should be sufficient information provided it is relevant and accurate; therefore indicators should be put in SMART terms. If indicators are designed in a suitable way, this facilitates informative report writing very much as well. Table 41 illustrates how program indicators should be linked with products and provided with targets for each year covered by the MTBP.

TABLE 41: ILLUSTRATION OF INDICATORS LIKED TO PROGRAM PRODUCTS

Nr	Products	Indicators	Result of pre-vious year	Result of current year	Result within the MTBP period		
			'09/'10	'11/'10	'12/'11	'13/'12	'14/'13
1	Trainings for the administrative staff	No. of beneficiaries	50	45	60	70	90
2	Obligations cash-in	No. of taxpayers	3000	2500	3200	3400	3500
3	Street cleaning	No. of beneficiaries	10000	10000	12000	13000	13500
4	Greening of public spaces	m^2 of green area / inhabitant	2.4	.5	3	3.3	3.8
5	Planting of new trees	No. of planted trees	100	130	150	200	250
6	Pre-school service	No. of children	100	120	140	160	200
7a	Potable water supply	No. of households benefiting from the service	4000	4200	4800	5200	5900

TABLE 41: ILLUSTRATION OF INDICATORS LIKED TO PROGRAM PRODUCTS

7b	Potable water	% of satisfied and very satisfied citizens	50	52	57	62	70

5.3.2 CAREFULLY SELECTED FINANCIAL INDICATORS

It is particularly important to have always reliable and up to date financial information at hand. Continuous monitoring of the financial health of an LGU is crucial for its well-being in the long-term. This information must be transparent and presented in an easy readable and comprehensible way for insiders and outsiders of the LGU. Therefore, well-chosen financial indicators are indispensable. They make the evaluation of LGU's resources management more substantial. Open and understandable financial information is one of the most important prerequisites for making governments accountable to citizens. Table 42 presents a selection of relevant financial indicators which are used by the Financial Planning Tool FPT.

TABLE 42: LIST OF USEFUL FINANCIAL INDICATORS

Indicators (in value terms or in %)

Revenues	**Year t-1**	**Year t**	**Year t+1**	**Year t+2**	**Year t+3**
Overall expenditure / overall revenue					
Tax revenue / overall revenue					
Fee revenue / overall revenue					
Revenue from fines, assets, enterprises and surplus of last year / overall revenue					
Own revenue/overall revenue					
External revenues / overall revenues					
Tax revenue per inhabitant					
Fee revenue per inhabitant					

TABLE 42: LIST OF USEFUL FINANCIAL INDICATORS

Expenditures				
Capital investment per inhabitant Interests /overall expenditure Capital investment / overall expenditures Capital investment per inhabitant				

5.3.3 A SYSTEM OF PERFORMANCE INDICATORS

Each budget program must have its system of performance indicators. For each indicator verification is needed if goals and objectives have been achieved based on results achieved. This sounds com-plicated but it isn't. Already today, local government units apply quite a lot of monitoring and evaluation indicators in their daily practice; however, these indicators are often hardly reflected in budget reports. In addition, consistency is frequently lacking from one year to the other. Currently, indicators are mainly used for monitoring revenues and expenditures, cash-flow movements, investment progress, served public areas, served customers and so on. An efficient monitoring and evaluation system considers the same set of indicators for a period longer than only one budget year; it is appropriate to use indicators as long as a specific objective is still relevant.

Now let's have a look at indicators in a more systematic way. We can distinguish three dimensions of indicators:

- The first dimension refers to the level of effect: we make a distinction between input, output, outcome and impact indicators.
- The second dimension of indicators refers to the manner of effect: we make a distinction between quantitative and qualitative indicators.
- The third dimension of indicators refers to process quality. We make a distinction between efficiency and effectiveness of processes. You could also add sustainability as an additional process quality.

In Table 43 these three dimensions are demonstrated with examples.

TABLE 43: SYSTEMATIC OVERVIEW OF INDICATORS IN THRE DIMENSIONS

Indicators related to:	Description	Examples
	LEVEL OF EFFECT	
Inputs	Resources needed to carry out a process or to achieve a target product. Financial and human resources are included as well together with equipment, energy or any other production factor used to implement a program or to provide a service.	Financial resources, staff, employees, workers, necessary equipment, materials used, etc.
Outputs	Desired products or services delivered.	• km of constructed streets • km of maintained streets • tons of collected waste • km of finished canalizations, etc.
Outcomes	Objective and tangible effect of the intervention	• reduction of the number of newly infected persons by a disease • % of new businesses generated by the construction of the new road • Drop of criminality rate
Impact	Subjective effect of the intervention perceived by beneficiaries or the general public	• % of citizens satisfied by the cleaning service • % increase of citizens feeling safer
	MANNER OF EFFECT	
Quantity	Amount, how much is produced?	• the quantity of collected waste per year • m2 of green area added per year • number of new trees planted per year • number of children enrolled in preschool education institutions
Quality	Achievement of service standards, services tailored to citizens needs	• number of consumer complaints • percentage of citizens satisfied with the cleaning service • percentage of students satisfied with the teaching level

TABLE 43: SYSTEMATIC OVERVIEW OF INDICATORS IN THRE DIMENSIONS

	PROCESS QUALITY	
Efficiency	Resources used (usually in terms of costs) or time needed per unit of goods or services delivered.	• Cost/ton of collected waste • Cost/m² of maintained road • Cost/m3 of produced water
Effective-ness	Achievement of strategic goals or objectives	• reduction of the number of bacterial diseases as an effect of the reconstruction of the water-supply system • reduction of the number of accidents as a result of street reconstruction • percentage of clean streets

5.3.4 HOW TO CONSTRUCT GOOD PERFORMANCE INDICATORS

The success of M&E directly depends on the quality and meaningfulness of selected indicators. Table 44 provides guidance on how to construct good performance indicators.

TABLE 44: GUIDELINES FOR CONSTRUCTING GOOD PERFORMANCE INDICATORS

Requirements for good performance indicators

- **Relevance** – Indicators must be connected with assessed activities and reflect desired goals and objectives.
- **Importance** – Indicators must provide important information on program products and on the achievement of policy goals and objectives.
- **Accuracy** – Information used for indicators must be accurate.
- **Usability** – Indicators must be easy to use and analyse.
- **Unambiguity** – Indicators must reflect the issue for which they are being applied; it must be easy to qualify each change of the indicator value as desired or undesired.
- **Timeliness** – Indicators must measure the necessary information in time.
- **Clarity** – Indicators must be clear and comprehensible not only for local staff but also for citizens.
- **Low cost data collection** – Costs for data collection must be low.

5.3.5 SPECIAL CHALLENGES OF SDP MONITORING

In the process of strategy related MTBP elaboration, implementation, monitoring and evaluation, there are two specific issues that must be taken into account; both are related to the dependence of LGUs from external authorities: (i) strategic priorities outside of LGU competences, and (ii) unpredictability of external funds.

(i) Strategic priorities outside of LGU competences: The SDP includes all projects that are carried out within the jurisdiction of a LGU, regardless of whether they are part of LGU functions or not. In contrast, the MZBP only takes into consideration the projects that are covered by LGU functions. Here are some examples: The construction of an electrical substation can be a project included in the SDP as long as this project is relevant for the local development, but it cannot be part of the MTBP as long as it is not a function of LGUs. In this case collaboration and coordination among all the actors involved in power supply and local economic development is needed. During the monitoring and evaluation process, when progress in the implementation of the SDP is considered, local staff must exchange detailed information with the responsible bodies outside of the LGU, at central state level, which have the authority to implement strategic priorities (specific projects) on the territory of the LGU, as with the Department of Education which is responsible for building new schools, or the Department of Public Health for the renovation or reconstruction of health care centres etc.

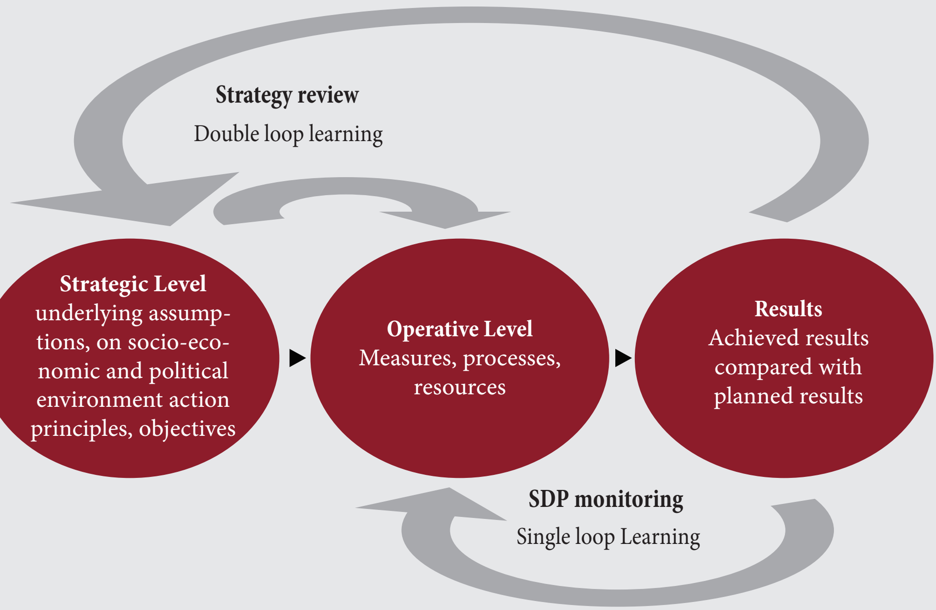
(ii) Unpredictability of external funds: Financing of capital projects by the regional development fund through competitive grants and donors is crucial for the implementation of strategic projects laid down in the SDP. However, the downside of these external funds is their unpredictability. In the M&E process, implementation problems, caused by rejected grant applications, should be openly addressed. When projects included in the MTBP could not be implemented because of lacking external funds, M&E must make this fact explicit. Council members and other interested citizens should be informed how much of what was planned was implemented and why a planned project was cancelled or postponed.

5.3.6 SINGLE LOOP OR DOUBLE LOOP LEARNING

M&E is not an end in itself. It is useless as long as there is now follow up. Therefore, monitoring should be organized as a learning process. If the lessons are taken from these learning experiences, we have a process of continuous organizational learning and improvement established within the LGU. We should make a distinction between single loop and double loop learning. Single loop learning is continuous, whereas double loop learning takes place only at longer time intervals and only on the basis of an intensive process of reflection, conversation, and discussion (see Figure 22).

When LGUs monitor and evaluate the implementation of the MTBP, they assess their progress on the way towards strategic goals and objectives. Monitoring (together with formative evaluation) is the first step; it measures progress at output level. The second step is summative evaluation; it assesses the outcome and impact of a program. Based on the findings of the summative evaluation, a re-evaluation or re-formulation of strategic goals and objectives of the SDP can take place. Figure 22 shows precisely the difference between monitoring of the SDP (single loop) and strategy review based on summative evaluation (double loop). SDP monitoring (together with formative evaluation) can take place every year; here, achieved results are compared with planned results, and the findings can be reported in a special section of the MTBP document. The new MTBP should include corrective measures in case of major deviations of what was planned and achieved during last year. When the second step, strategy review, is taken, LGUs will re-evaluate the progress made in a broader sense. This progress is measured in a summative evaluation against strategic goals and objectives, where outcome and impact indicators are used. In addition considering the findings of the summative evaluation, strategy review questions the causes of deficiencies to be addressed by policy measures and the effects of policy interventions. Furthermore, strategy review re-assesses the relevance of strategic goals and objectives from the present point of view as well as the appropriateness of the intervention approach. Based on the findings of the strategy review, the current development strategy is confirmed, or it is agreed that there is a need for adjustment.

Figure 22: Monitoring and review of Strategic Development Plan



Pfaeffli, S. (2010) Budgetierung im oeffentlichen Sektor, Bern: Haupt

5.3.7 MONITORING, SUMMATIVE EVALUATION AND STRATEGY REVIEW COMPARED

Let's compare again the three terms of monitoring, evaluation in the summative sense, and review. These terms are interlinked, but we should avoid mixing them up (see Table 45).

TABLE 45: DIFFERENCES BETWEEN MONITORING, EVALUATION AND THE REVIEW PROCESS

Features	Monitoring	Summative Evaluation	Strategy review
When is it performed?	Continuously	At the end of a project or of a legislative period	At half-time or towards the end of a SDP time horizon or when major changes occur
What does it measure?	Achievements of the on-going implementation of projects, programs, sector policies in terms of input and output indicators	Appraisal of successful implementation of project, program, sector policy from a strategic perspective in terms of outcome and impact indicators; identification of important impediments and need for strategic changes at project, program or sector policy level	Success of implementation of current strategy in broader terms and appropriateness of this strategy
Who is involved?	The LGU staff	LGU staff, customers, concerned NGOs, concerned ministries	LGU staff, Mayor, Coun¬cil members, interested citizens, business community, NGOs; neighbour LGUs etc.
Who carries it out?	LGU staff	Preferably conducted by independent, external evaluator	Facilitated by consultant, LGU must have ownership
What sources of information are used?	Internal documents; monthly and tri-annual reports, findings from on-site visits and from meetings, etc.	Internal and external documents, statistical findings, surveys, impact evaluation reports	Findings from summative evaluations, annual reports, external documents, intensive discussions and consultations
Who uses the result?	PMTL, GSBI and respective staff. In an aggregated form, council members are informed annually.	Mayor and council, the PMTL, GSBI and respective staff, beneficiaries, other external stakeholders	Mayor and council, the PMTL, GSBI and respective staff, beneficiaries, other external stakeholders
How are the results used?	Making small but continuous improvements (at operational level) in preparing and implementing the MTBP	Readjusting projects, programs or sector policies in order to improve overall effectiveness.	Making of strategic adjustments

Currently, there is no standard approach of budget program performance monitoring and evaluation. Each local government unit must develop its own approach of performance monitoring and evaluation for each specific program included in the MTBP. The form presented in

Table 46 provides a M&E template which can be easily applied by LGU staff. It corresponds with the logics of the MTBP where strategic objectives of the SDP are linked with functions, program policies, program objectives, program products and performance indicators in a systematic way.

TABLE 46: MONITORING FORM

Program Title:						
Strategic Objective:						
Program XXXX1: (Function):						
Program Policy:						
Program Policy Objective	**Product(s)**	**Performance Indicators**	**Target (s)**			
			Year t	**Year t+1**	**Year t+2**	**Year t+3**
P1O1: XXXX	P1O1p1:	1)				
	P1O1p2:	2)				
		3)				
P1O2: YYYY	P1O2p3:	4)				
		5)				
	P1O2p4	6)				
		7)				
P2O1: ZZZZ	P2O1p5:	8)				
		9)				

Example: In module 4 we developed two budget programs (cleaning and preschool education), and we identified all elements of a program profile: program title, program policy, policy goal, policy objectives and policy products. Based on this framework, we will further specify the content of the cleaning program and demonstrate how the framework can be used for monitoring (see Box 16).

BOX 16: HOW TO MONITOR A PROGRAM USING PERFORMANCE INDICATORS

	Public Services Program; Sub – Program: Cleaning Service
Strategic Goal:	***High quality of life for citizens***
Strategic Objective:	*To improve the quality of life in a clean and safe environment by increasing waste collection from 60% (2011) to 90% by the end of 2013.*
Function:	*Cleaning Service*
Program Code	*000 62 60*
Service Goal	*To provide a clean and safe environment in the following three years by expanding the service by 30% and increasing its frequency*
Objectives	*To increase waste collection from the current 2000 tons to 5000 tons by the end of 2013* *To collect garbage every day*
Indicators related to Inputs (resources)	*Number of technologic vehicles for the cleaning service: 2 vehicles*
	Expenditures for the cleaning service: 10 million lek/year
	Number of containers for the service provision: 200
	Number of workers needed for the service
Indicators related to Outputs (products)	*Volume of collected waste (2000 ton)*
	Number of families receiving the service 4000
	km of cleaned streets against the total: 25/37 km
	Served area of the city (85% of the total area)
Indicators related to Outcomes (Result)	*Satisfied and very satisfied citizens: 90%*
	Reduce of the number of complaints: from 200 to 100
	Number of deviations from the waste collection schedule
	Volume of uncollected waste
Indicators related to Efficiency	*Cost/ton of collected waste: 10.000 lek/ton*
	Cost of waste per household/year: 2000 lek/household
	Volume of collected waste/worker or truck

GROUP WORK 8:

DEVELOPMENT OF INDICATORS

Objective of the Exercise:

- provide participants with skills in constructing and selecting good performance indicators for MTBP monitoring and evaluation
- encourage participants in creating the necessary monitoring and evaluation format
- provide local staffs with skills for constructing and selecting performance indicators for other budget programs
- build successful monitoring and evaluation practices for LGU staff

Assignment:

Based the format presented in Table 46, each working group is asked to construct good indicators for program monitoring. One group will elaborate indicators for the Public Services Program (e.g. supply of drinking water), the other group for the Preschool Education Program.

Working groups	2
Duration of preparation	60 minutes
Duration of reporting	10 minutes/working group
Reporters	1 person per group
Bonus	Best practice/Winner

5.3.8 MONITORING IS NOT ENOUGH

Monitoring is a necessary controlling step but it is not sufficient. It is simply not enough to collect data on budget or program implementation and to compare actual figures with planned figures in well-elaborated monitoring reports. There are at least three additional steps needed to make the controlling system work. We have already been talking about formative evaluation, i.e. systematic analysis of the major deviations of actual figures from planned figures and the elaboration of proposals for corrective measures. This is the second step. In the third step, decision makers come into play; they should discuss the findings of the formative evaluation and of the proposals for corrective measures on a regular basis and in a timely manner, and they should take decisions on the follow-up when needed. Finally, the forth step is verification that measures which had been decided upon were implemented in a correct way. In addition, the responsibilities for each step should be clearly defined in each LGU.

5.4 RECOMMENDATIONS FOR MTBP PRESENTATION AND REPORTING

A medium term budget program, in the way it was explained in this training course, is more than a financial planning document. It serves as a policy document, action guide and communication tool. Therefore, the structure and the layout of the budget document are particularly important. If the budget document is well designed, it explains what an LGU is going to do. In this way, the budget serves as a comprehensive display of the LGU goals, objectives, activities, projects and services. Based on better information, the relations of the Mayor with major stakeholders are strengthened; this includes citizens, members of the local council, LGU administration, institutions at regional or central level, and donors. Improved budget transparency can be reached when budget presentation fulfils a number of technical requirements which are explained in the following section.

5.4.1 TABLE OF CONTENTS

The table of contents provides a quick overview on how the budget is structured and where particular information can be found. Most readers will not study the entire budget document; with the help of the table of contents, selective readers can pick out easily the issue of their interest. In addition, the elaboration of a table of contents helps structuring the elements of the budget document in a meaningful and logical way.

5.4.2 BUDGET MESSAGE

A budget message is an important piece of information for local elects that encourages discussion on the budget. As a minimum, it includes a general summary of the budget, the planning assumptions, medium term development objectives and the way these objectives are addressed. The language of the budget document should be easy to read. The budget message is the first chapter of the MTBP.

5.4.2.1 VERSIONS OF A BUDGET MESSAGE

The budget message may appear in long and in a short version:

- in the form of a full budget message (long version) – this is a comprehensive explication of the budget in a narrative
- in the form of a covering letter (short version) – this is a one- or two-page budget summary written by the Mayor of the local government unit.

5.4.2.2 CONTENT OF THE BUDGET MESSAGE

In the long version, the budget message will include:

- A list of the most important achievements and results of the local government in the previous years
- A summary of changes (increases/reductions) in the budget during the previous years
- A short description of the main budget challenges and goals for the next budget period
- A clear description of the main goals and projects for the following years
- The key factors influencing the budget
- A brief summary of the main categories of revenues and expenditures
- A short explanation of the causes of expected revenue and expenditure changes in the planning period covered by the budget
- Information on the effects of the budget on the financial indicators over the entire budget period compared with figures for last and planned figures for current year.
- A summary of the objectives and major activities planned for each program

In the case of a short version of the budget message, not all elements mentioned above will be included in the budget message. In this case, the lacking information should be included in separate sections of the budget document.

5.4.2.3 BUDGET MESSAGE DRAWING IN FOUR STEPS

When you draw the budget message, a systematic way of procedure is recommended. There are at least four steps to go. Plan enough time for each step.

Step 1: Identification of key decisions and policies included in the budget

Start the preparation of the budget message with a short review of the existing strategies. Consider the Mayors' guidelines for budget preparation as well as the priorities underlined in these guidelines. Additionally, review all funding requests handed in by the PMTs and spending units. Take out the most important information on current challenges and needs from these documents.

Step 2: Review major budget issues for the current year

Review important activities and projects covered by the previous budget and executed in the current year. Consider what is in the capital investment plan. Analyse what is already under way and what is planned for the near future.

Step 3: Identify key issues and for presentation

Identify the key issues you want to highlight in the budget message, e.g. improved productivity; better service delivery; no new taxes and rates for citizens; service expansion to new areas of the municipality, etc. Explain the reason for a specific budget structure; explain changes of the funding level.

Step 4: Preparation of the budget message

Select carefully the elements you want to include in the budget message from the materials prepared in the previous steps. Include the economic and financial data necessary to present the budget program.

5.4.2.4 PRESENTATION TECHNIQUE

The layout of the budget document has a huge influence on the attitude of the public vis-à-vis the budget. A poor presentation – overloaded tables and incomprehensible texts – can make the reader lose focus and interest. For most people, it is very difficult to understand long tables filled with numerical information. Charts are a very helpful tool for information sharing; they are especially useful for explaining reasons or trends behind the budget or for highlighting distributive issues of the budget, e.g. to illustrate the composition of revenue or expenditure, the share of capital investment of total expenditures, etc. When tables with numerical information are used in the budget message, keep these simple and avoid information overload. A table as illustrated in Table 47, displaying revenues or expenditures per LGU program, could be a good example on how to do it well

TABLE 47: SUMMARY OF PLANNED EXPENDITURES PER PROGRAM

Nr	Budget Programs	MTBP Years			
		2011	2012	2013	2014
1	Administration, planning, management				
2	Cleaning service				
3	Maintenance of city streets, sidewalks, greening, lighting, cemeteries and décor.				
4	Road infrastructure				
5	Culture and tourism				
6	Pre-university education				
7	Sports and youth				
8	Social housing and policies				
	Total				

Finally, if you want to be sure that the budget message is well received, use simple language and illustrate new projects and planned initiatives! Be aware of the fact, that photos of the LGU or of people help promoting a positive emotional response.

5.4.3 FURTHER IMPORTANT BUDGET INFORMATION

Four additional pieces of information must be included in the budget document: (i) a detailed overview of planned expenditure and revenue, (ii) detailed information on the tax level and on changes of fees, (iii) a separate budget portrait for each program, (iv) an overview of the major findings of the strategic M&E process. In addition to that, further issues are sometimes included in the budget as well; they are mentioned at the end of this paragraph.

5.4.3.1 OVERVIEW OF PLANNED EXPENDITURE AND REVENUE IN DETAIL

A detailed overview of planned expenditures and revenue covering last year, current year and the entire planning period covered by the budget as required by law is an indispensable part of the budget document. It is recommended to illustrate the detailed financial information of the budget with charts. The financial planning tool FPT generates a number of useful charts automatically.

5.4.3.2 PLANNED TAX LEVEL AND CHANGES OF FEES

The level of taxes is an important policy variable with a strong influence on the local budget. At the same time, the tax level affects each household and all small businesses of the LGU. In a similar way, fees are relevant for the budget as well as for households and businesses. Currently, LGUs can modify the level of taxes and fees only in a limited way. Nevertheless, taxpayers must know which tax policy is under way, and the local council must adopt this policy. In addition, it would be useful to know if the LGU plans to take measures to better exploit the tax potential in the near future, or if it is planned to make tax exemptions for special groups of the local community.

5.4.3.3 BUDGET PORTRAIT FOR EACH PROGRAM

The budget portrait for each program should present the following information in a standardized format: program title; program objectives; major tasks of program; planned projects for implementation in the budget years; planned expenditure for last year, current year and the years covered by the budget with details for the main items of the economic classification (i.e. salaries, other current expenditures, capital investments); main sources of revenues; indicators for performance measurement with targets for last year, current year, each year covered by the budget.

5.4.3.4 MAJOR FINDINGS OF THE STRATEGIC M&E PROCESS

The MTBP is used to monitor and evaluate the implementation of the strategic development plan. Therefore, a special section of the MTBP should be dedicated to the findings of this strategic M&E process. This information is needed if you want to verify whether the new MTBP responds to the findings of the strategic M&E process. When this information is made available and transparent, the monitoring and control loop becomes complete.

5.4.3.5 FURTHER ISSUES

Further issues to include in the budget:

- Table of assets of the LGU
- List of debts with creditors

Further issues that can be included in the budget:

- Data on population and on identified trends
- Data on employment and unemployment
- Data on the number of businesses operating in the LGU
- Business trends of the 3 last and 3 coming years

ANNEXES MODULE 3: TEMPLATES FOR REVENUE FORECASTING

ANNEX 1: REVENUE FORECAST IN THE MEDIUM TERM

Economic Framework of Local Government Units					
Nr	**Types of Revenues**	**2010**	**2011**	**2012**	**2013**
I	**Local Taxes**	**0**	**0**	**0**	**0**
1	Property Tax	0	0	0	0
1.a	Building Tax	0	0	0	0
1.a.a	Housing				
1.a.b	Business				
1.b	Tax on Agricultural Land				
2	Tax on Small Business				
3	Tax on the Impact on Infrastructure				
4	Hotel occupancy tax				
5	Tax on the occupation of public spaces and areas				
6	Vehicle Registration & Circulation annual tax				
7	Hotel occupancy tax				
8	Tax on passage of real estate property				
9	Tax on the exercise of hunting and fishing				
10	Animal slaughter tax				
11	Temporary tax...				
II	**Local Fees**	**0**	**0**	**0**	**0**
1	Cleaning fees	0	0	0	0
a	Families				
b	Businesses				
c	Institutions				
2	Greening Fee	0	0	0	0
a	Families				

Economic Framework of Local Government Units					
Nr	**Types of Revenues**	**2010**	**2011**	**2012**	**2013**
b	Businesses				
c	Institutions				
3	Lighting Fee	0	0	0	0
a	Families				
b	Businesses				
c	Institutions				
4	Potable Water fee	0	0	0	0
a	Families				
b	Businesses				
c	Institutions				
5	Transport Permit/Licence Fee				
6	Administrative Services Fees				
7	Fees for..				
III	**Non-tax revenues**	**0**	**0**	**0**	**0**
1	Revenues from economic activities				
2	Revenues from asset selling				
3	Revenues from rents				
4	Revenues from Sponsoring/Donations				
5	Revenues from fines				
6	Revenues from kindergarten fees				
7	Revenues from crèches fees				
8	Revenues from dorm fees				
9	Revenues from sports/cultural activities				
10	Other non-tax revenues				
IV	**Other revenues**	**0**	**0**	**0**	**0**
1	Unconditioned transfer				
2	Revenues from related Loan Agreements				
3	Conditioned Transfer				

ANNEX 2: PLANNING OF THE CLEANING FEE

Nr	Taxpayers	Unit of measurement	Calculation basis	Rate (lekë/ year)	SUM (000/ lekë)
I	Families	No. of Families			
1	Families in social welfare	No. of Families			
2	Families having invalid, veteran members	No. of Families			
3	Female headed households	No. of Families			
II	Total number of trade units	No.			
1	Dairy, meat, fish	No.			
2	Grocery, greengrocery	No.			
3	Industrial articles	No.			
4	Bars	No.			
5	Restaurants, discos, games of chance	No.			
III	Handcraft and services	No.			
1	Small business	No.			
2	Businesses registered for VAT	No.			
IV	Freelance professions	No.			
V	Units of production	No.			
1	Small business	No.			
2	Large businesses registered for VAT	No.			
VI	Construction units	No.			
VII	Physical persons, transport	No.			
VIII	Peddlers	No.			
	Total of businesses				
IX	Lucrative institutions	No.			
X	Cultural, sports, exhibitions, fairs facilities	No.			
XI	Facilities, halls, offices	No.			
XII	Dorms, hospitals	Units			
XIII	Hotels, motels	Rooms			
XIV	Debtors				
	Total				

ANNEX 3: PROPERTY TAX FORECAST

Nr	Buildings by function	Area in m2	Tax Rate for m2 in lekë	Sum in (000/lekë)
I	Buildings for private, health, handcraft and other services			
a	Handcraft			
b	Professional			
II	Buildings for services, trade, etc.			
a	Grocery, greengrocery, etc.			
b	Bars, Restaurants			
III	Buildings for production and constriction activities			
a	Construction			
b	Production			
IV	Residential buildings			
a	Before 1993			
b	During and after 1993			
V	Others (under reconstructed or unutilised facilities)			
	Total I+II+III+IV+V			
VI	Agricultural land tax			
	Total of assets land + buildings			

ANNEX 4: PARKING FEE FORECAST

Nr	Vehicle type	No. of Vehicles	Fee level (lek/hour/day)	Sum (000/lek)
1	Minivan 1 + 8			
2	Car 1 + 4			
3	Truck 3.5 ton			
4	Truck 3.5 - 8 ton			
5	Truck over 8.5 ton			
6	Bus			
	Of these			
	Busses of other districts			
7	Parking lots			
	Total			

ANNEX 5: LIGHTING FEE FORECAST

Nr	Taxpayers	Number	Fee level	Sum (000/lek)
1	Families			
a	Families in social welfare			
b	Social categories			
2	Business			
a	Large business			
b	Small business			
3	Institutions			
4	Private institutions, offices			
	Total			

ANNEX 6: POLICIES RELATED TO LOCAL GOVERNMENT UNIT REVENUES

No.	Types of revenues	Basic year 2010	2011			2012			2013		
			New sources	Collection rate	Norm increase/ reduction	New sources	Collection rate	Norm increase/ reduction	New sources	Collection rate	Norm increase/ reduction
I	**Local Tax**										
1	Property Tax										
1.a	Building Tax										
1.a.a	Housing										
1.a.b	Business										
1.b	Tax on Agricultural Land										
2	Tax on Small Business										
3	Tax on the impact on infrastructure										
4	Hotel tax										
5	Tax on the occupation of public spaces and areas										
6	Vehicle Registration & Circulation annual tax										
7	Hotel occupancy tax										
8	Tax on passage of real estate property										
9	Tax on the exercise of hunting and fishing										
10	Animal slaughter tax										
11	Temporary tax...										
II	**Local Fees**										
1	Cleaning Fee										
2	Greening Fee										
3	Lighting Fee										
4	Transport Permit/ License Fee										
5	Potable Water Fee										

6	Administrative Services Fee										
7	Fees for …..										
III	**Non-tax Fee**										
1	Revenues from economic activities										
2	Revenues from asset selling										
3	Revenues from rents										
4	Revenues from Sponsoring/Donations										
5	Revenues from fines										
6	Revenues from kindergarten fees										
7	Revenues from crèches fees										
8	Revenues from dorm fees										
9	Revenues from sports/ cultural activities										

ANNEX 6/1 – REVENUES AND EXPENDITURES WITH CONTINUOUS HIGH GROWTH (IN % COMPARED TO THE PREVIOUS YEAR)

	2009	2010	2011	2012
Revenues				
Expenditures				

ANNEX 7: CAPITAL BUDGET PLANNING IN LOCAL GOVERNMENT UNITS

	CAPITAL BUDGET FORECAST	2009	2010	2011	2012	2013	2014
I	CAPITAL REVENUES						
1	Planned operating surplus						
2	Revenues from asset selling						
3	Borrowing						
4	Deferred capital reserve						
5	Unconditioned revenues						
6	Conditioned transfer for investments						
7	Aids or Donations						
	TOTAL						
II	CAPITAL EXPENDITURES	2009	2010	2011	2012	2013	2014
1	Reparations / Replacements						
2	New equipment						
3	Construction - assemblage						
4	Land						
5	Studies/Projections						
6	Capital Reserve						
	TOTAL						

ANNEX 8: EVALUATION OF CAPITAL PROJECTS (1-5)

No.	Description of the Investment	Number of Beneficiaries	Economic Growth	MET CRITERIA						
				Linking to the priorities	Emergency nature	Prevents an emergency	Ongoing project	Geographic distribution	Time for costs coverage	Total of points
1	Purchase of containers	4000	2	3	4	5	5	4	3	26
2	Purchase of technologic vehicle	3000	1	3	4	5	5	5	2	25
3										
4										
5										

Note: For the evaluation, a five point scale is used: 1 – very poor; 2 – poor; 3 – satisfactory; 4 – good; 5 – very good)

ANNEXE 9: BALANCING OF CAPITAL COSTS IN THE MEDIUM TERM

Nr.	Description of Capital Investment	Quantity	Investment Amount	Investment distribution					Comments
				2010	2011	2012	2013	2014	
1	Purchase of technologic vehicle for the cleaning service	1	4 000	0	0	2 000	0	0	
2	Purchase of containers for the cleaning service	20	2 000	0	1 000	500	500	0	
3	Reconstruction of Republika street	100 m^2	1 000		200	300	300	200	
4	Rehabilitation of water supply system	500 m^2	3 300	500	700	700	700	700	
5									
6									
	Amount of Capital Investments/ year		**11 100**	**500**	**1 900**	**3 500**	**1 500**	**900**	

ANNEX 10: OVERVIEW OF REVENUE SOURCES FOR CAPITAL PROJECTS

Nr	Description of Capital Investment	Investment Amount Year t	Investment Amount current year	Revenues source Year t					
				Revenues	Unconditioned Grant	Conditioned Grant	Donor	Borrowing	Total
1	Purchase of containers for the cleaning service	2 000	1 000	200	300	0	500	0	1 000
2	Reconstruction of Republika street	1 000	200	100	0	100	0	0	200
3	Rehabilitation of water supply system	3 300	700	0	0	0	0	700	700
4									
	Total Amount	**6 600**	**1 900**	**300**	**300**	**100**	**500**	**700**	**1 900**

STRATEGIC DEVELOPMENT PLANNING
and PERFORMANCE BASED BUDGETING IN THE MEDIUM TERM