REPUBLIKA E SHQIPËRISË
MINISTRIA E FINANCAVE
DHE EKONOMISË

STRATEGIC DEVELOPMENT PLANNING AND PERFORMANCE-BASED BUDGETING IN THE MEDIUM-TERM

TRAINING CURRICULUM FOR LOCAL GOVERNMENT OFFICIALS

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HELVETAS ALBANIA

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Abbreviations

BC	Budget Ceiling
CIP	Capital Investment Plan
DCM	Decision of Council of Ministers
FPT	Financial Planning Tool
GoA	Government of Albania
GLP	General Local Plan
GSM	Group for Strategic Management
INSTAT	Albanian Institute of Statistics
LGP	Local General Plan
LGU	Local Government Unit
MoFE	Ministry of Finance and Economy
MPPI	Management Process of Public Investments
MTBP	Medium-Term Budget Program
NSDI	National Strategy for Development and Integration
PC	Program Costs
PMT	Program Management Team
PMTL	Program Management Team Leader
PPP	Public Private Partnership
SDP	Strategic Development Plan
t	time, i.e. year

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Preface

The training manual “Strategic Development Planning and Performance-Based Budgeting in the Medium-Term” for Local Government Officials is part of a series of training curricula designed to respond to the training needs of local government officials on public financial management practices. It is the result of intensive efforts of several authors coming from different backgrounds. This manual together with the manual on “Annual Budget Preparation” and on “Annual Budget Execution and Evaluation” is based on an initiative undertaken by HELVETAS Swiss InterCooperation in Albania, under the Decentralization and Local Development Program (dldp). The preparation of this document has benefited from the consultations with various institutions, particularly with the Ministry of Finance, the Minister of State for Local Issues (up to the first part of 2017), and local government officials. The training manual was designed and prepared by the staff of Co-Plan, Institute for Habitat Development and dldp, who have benefited substantially from the international experience and technical expertise of Prof. Stefan Pfaeffli from the Lucerne University of Applied Sciences and Arts. The elaboration and publication of the training manual were made possible thanks to the financial support of SDC, the Swiss Agency for Development and Cooperation. To offer an exhaustive theoretical and practical framework on the public finance management at local level in Albania, we propose the organization of five training modules based on five training curriculums:

Training Module I	“Long and Medium-Term Strategic and Financial Planning”;
Training Module II	“Strategic Development Planning and Performance-Based Budgeting in the Medium-Term”;
Training Module III	“Annual Budget Preparation”;
Training Module IV	“Annual Budget Execution and Evaluation”;
Training Module V	“Financial Planning Tool”

For each of the training modules, the participants will receive the pertaining training materials, which include the training manuals, presentations, and the planned exercises. The purpose of this manual is to contribute in the capacity building aiming to strengthen local PFM practices in line with good international practices and the current legislation of Albania. The amelioration of local capacities can promote strategic and responsive budgeting as well as transparency and accountability on the use of budget resources. The current version of the curriculum, “Strategic Development Planning and Performance-Based Budgeting in the Medium-Term”, has been updated on the recent changes of the legal PFM framework; it considered strategic documents, and guidelines of the Ministry of Finance of Albania. The training program also delineates and analyzes the recent amendments to the laws on local self-government and on local self-government finance.

Introduction

Strategic development planning and the medium-term budgeting process are essential steps on the way to fulfilling the vision and the mission of general government. At both levels of government, local or central, strategic planning is realized based on documents that guide the national long-term development, National Strategy for Development and Integration and the local long-term development, Strategic Development Plan (SDP). For these strategies to be materialized, they must be supported by financial documents such as the medium-term budget plan and the annual budget of the local government unit or central government. For this reason, the budget process (in the short or medium-term) is a necessary step for every administration, local or central, public or private. It works similarly to a *"vehicle with a special purpose,"* by guiding the activity of local government toward the accomplishment of all the possible objectives with the given financial constraints.

The budget process must start with the **strategic policy planning**, which must become executable through the medium-term budget and the annual budget. With the passing of years, especially in the last three years, the concept of the local budget has changed. In the past, the budget was thought as a document that simply summarized the revenues and the expenditures of the local government unit. Nowadays, following the amendments to the general regulatory framework, the budget is increasingly being perceived as a multi-year planning instrument: an instrument which combines financial plans on revenues and expenditures with long-term oriented strategic policy plans of the local government unit.

The Albanian legislation, specifically the article 32 of the law no. 68/2017 "On Local Self-Government Finance," provides that *"the Chairman of the local self-government unit is responsible for preparing the Strategic Development Plan of the local self-government unit, which is approved by the council of the local self-government unit."* This strategic development plan must cover at least a 5 years' time period and consider the local, the national, and the regional potentials for development. The identification of these potentials must be realized through specific projects with the respective cost forecasts. Following, the point 2c) of the same article prescribes that the SDP *"is implemented through the Medium-Term Budget Program of the local self-government unit."*

When this curriculum was drafted, some municipalities did not yet have a Strategic Development Plan. However, some of the municipalities have completed or are completing the preparation of the General Local Plan (based on the law no. 107/2014 "On Territorial Planning," as amended and on the DCM no. 408/2018 "On the Approval of the Territorial Development Regulation," as amended), which comprises, among other documents, the Territorial Development Strategy (TDS). Although the TDS has a more limited scope than the SDP, the latter still identifies the strategic priorities and investment projects related to them. As in the case of the SDP, these strategic priorities and investments must be connected to the medium-term budget program and must be reflected in the annual budget. Hence, it is clear that the strategic development planning is closely linked to the medium-term budget planning of the local self-government unit.

Medium-term budgeting requires the use of improved approaches of public finance management by the local self-government units. These improved budgeting approaches involve: (a) broad knowledge on financial management by the local officials; (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 the most 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.

The main goal of this training curriculum is to clarify and teach the local employees how to use the local budget instruments (annual and medium-term) as tools for the implementation of strategic development plans.

Box 1: Main goals of the training curricula

- To understand the broad performance-based budget process in the medium-term, as connected with the Strategic Development Plan;
- To make use of advanced public finance management practices for local budgeting;
- To comply with the current legislation on local finance management;
- To combine top-down and bottom-up approaches for the medium-term budget process;
- To apply innovative revenue estimation techniques for improving the use of the local revenue potential;
- To facilitate the implementation of development oriented local policies through budget programs/functions with strategic objectives;
- To balance the prioritized medium-term policy goals with the available resources;
- To apply performance management instruments using performance indicators at program level and;
- To monitor and report the preparation and the implementation of the budget in accordance with the strategic objectives of the local self-government unit.

The training manual “Strategic Development Planning and Performance-Based Budgeting in the Medium-Term,” on which the training course for local officials is designed, covers the following fields:

1. Strategic development planning;
2. Medium-term budget planning;

3. Performance-based budgeting;
4. Local revenue and expenditure planning;
5. Monitoring and evaluation.

From a methodological standpoint, the training courses on “Strategic Development Planning and Performance-Based Budgeting in the Medium-Term,” “Annual Budget Preparation (ABP),” and “Annual Budget Execution and Monitoring (BEE)” are designed for interactive use, which implies the active involvement of all participants. For this reason, the training will alternate between sequences of theoretical lessons given by lecturers/trainers with sequences of problem-based learning, case studies in groups, as well as presentations and discussions.

The participants are required to carry out follow up work for the solution of assignments or study cases after each course day. The assignments reflect real-life experiences, by the authors of the training module or by the local officials themselves. For each course day, participants have to invest two to three additional workdays for preparation and follow up work.

1. The budget system of local government units

Objective:

The participants in the training are supposed to:

- Be informed on the existing legal framework for the preparation of the Medium-Term Budget Program (MTBP) and Annual Budget (AB);
- Be able to explain the advantages of medium-term budgeting;
- Be familiar with good budgeting practices;
- Be aware of the role of each actor in the medium-term budget process, including preparation, approval, execution and control, i.e. the role of the Chairman of the local unit, of the local Council, of the Department of Finance, of the line directories, and of the Council.

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

Module Content:

1.1 Introduction to Module 1
1.2 Legal framework for the budgeting system in Albania
1.3 Basic aspects of budget preparation
    1.3.1 What is the local budget? What is its goal?
    1.3.2 Important terms and definitions used for the budget process
    1.3.3 Requirements for a proper budget
    1.3.4 Types and formats of local budgets
    1.3.5 Budget classification
    1.3.6 Special issues on budget classifications

1.1 Introduction to module 1

Democratic local governance is based on the right of individuals in a certain territory to govern their lives, in an independent way, through institutions that are directly elected by them. One of the basic characteristics of building up local governance, not only in Albania but also in other countries, especially in those with a tradition of extreme centralization, is the principle of decentralization. The decentralization principle is an essential concept through which the local government is established and functions. Decentralization is defined as a process, which transfers the authority and responsibility, for certain functions, from the central government to the local self-government units, and is in turn guided by the principle of subsidiarity.[1] It is implemented through the constitutional principle of local autonomy and sanctions the existence of a self-governing local power, in accordance with the modern organizational concepts of democratic countries.

The first steps toward decentralization were undertaken during the years 1999-2000, based on what was provided in the Constitution of the Republic of Albania (1998), the European Charter of Local Self-Government (ratified on November 1999), and National Decentralization Strategy (1999). In addition, the law no. 8652/2000 *"On Organization and Functioning of Local Governments"* established the competencies and the rights of local governments, pursuant to the Constitution and the European Charter of Local Self-Government. This law was followed by other legal acts and guidelines, which consolidated the local autonomy and regulated the activities of local self-government units.

The period 2014-2017 can be considered as the second substantial phase of the process of decentralization in Albania. In 2015, the National Crosscutting Strategy for Decentralization and Local Governance 2015-2020 (NCSDLG) was approved. This strategy presents the government's vision for strengthening local governance and democracy *"through the advancement of the decentralization process in accordance with the standards of the European Union." "The NCSDLG 2015-2020 presents a comprehensive approach to decentralization and strengthening of local governance, in line with the principles of the European Charter of Local Self-Government and the principles of local governance enshrined in the European Administrative Space documents, with the aim of ensuring political, administrative, and fiscal decentralization."*[2]

The NCSDLG 2015-2020 was preceded by the Territorial Administrative Report (TAR). Based on the law no. 115/2014 *"On the Administrative and Territorial Division of Local Governments*

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[1] According to which, the execution of public responsibilities, in a general way, belongs to the authorities that are closest to the citizens.

[2] NCSDLG 2015-2020

Units in the Republic of Albania," local government units were divided into 61 municipalities (basic self-government units) and 12 districts (second level self-government units). The process of territorial reorganization was concomitant to the drafting and approval of the law no. 139/2015 *"On Local Self-Government,"* which regulates the organization and the functioning of the local self-government units in the Republic of Albania. This law defines the functions, competencies, rights, and duties of the LGUs. Following, aiming to regulate fiscal decentralization, the law no. 68/2017 *"On Local Self-Government Finance"* was passed. The latter sets the rules, the principles, and the procedures regarding the financing of the LGU.

1.2 Legal framework for the budgeting system in Albania

The legal framework which regulates the local budget process delineates clearly the organization of the local budget process, including the budget implementation and the monitoring of budget execution. This framework is based on:

- Law no. 139/2015 *"On Local Self-Government"*;
- Law no. 9632/2006 *"On the Local Tax System in the Republic of Albania,"* as amended;
- Law no. 68/2017 *"On Local Self-Government Finance"*;
- Law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania"*;
- Law no. 10296/2010 *"On the Financial Management and Control,"* as amended;
- Law no. 9869/2008 "On Local Government Borrowing";
- Law no. 9920/2008 "On Tax Procedures in the Republic of Albania," as amended;
- Law no. 9975/2008 "On National Taxation";
- Ministry of Finance and Economy Instruction (2018) "On standard procedures for the preparation of the Medium-Term Budget Program of the Local Government Units"
- Ministry of Finance Instruction no. 10/1 of 2017 "On Local Budget Preparation";
- Other laws and sub-legal acts.

Law no. 68/2017 "On Local Self-Government Finance"

This law follows an extensive process in the spirit of the decentralization reforms in Albania. It defines clearly the rules, principles and procedures of financing of the local self-government units, including own source revenues from local taxes and fees, shared taxes, intergovernmental transfers, and other revenues as prescribed by law; it sanctions for the first time the basic rules regarding the size and the allocation of intergovernmental transfers among the local government units; it defines policies, instruments and procedures for the management of local public finances.

The purposes of this law are:

- To provide for the financing of local self-government units in accordance with the principles of local autonomy articulated in the Constitution of Albania, the European Charter of Local Self-Government and the Law on Local Self-Government Law.
- To guarantee the transparency and predictability of intergovernmental transfers to local self-government units.
- To ensure the adequacy of financial resources to local self-government units for the financing of their functions and competencies.
- To guarantee the fiscal autonomy of local self-government units by regulating their powers to set and collect local taxes and fees.
- To contribute to the sustainable economic, social and territorial development by defining an effective mechanism for fiscal equalization.
- To set rules that ensure fiscal discipline and sustainable and transparent policies for the management of public funds, including regulations for realistic forecasting of revenues and expenditures.
- To set rules for the allocation of local financial resources in accordance with local strategic priorities and local community needs.
- To ensure gender equality in planning and spending of public financial resources of local self-government units.
- To define instruments and procedures for the management of local finances and regulate the relationships with the central government in this field.
- To enable the continuous consultation between central and local self-government units, through the prescribed instruments of consultation, analyzing the adequacy and stability of local financial resources for the achievement of the purposes prescribed in law.

Law 139/2015 "On Local Self-Government"

Following the territorial administrative reform, the Parliament of the Republic of Albania passed the law no. 139/2015 *"On Local Self-Government,"* which replaced the law no. 8652/2000 *"On Organization and Functioning of Local Government,"* as amended. This law regulates the organization and the operation of the local self-government units in the Republic of Albania and defines the functions, powers, rights, and duties of such units and the bodies thereof. Among other novelties, we can mention the removal of the concept of shared functions and allowing the exercise only of local and delegated functions. Local self-government units exercise their functions and competencies *". . . in full effect and free from outside control, in accordance with the Constitution, the European Charter of Local Autonomy and the laws in force" (Article 22/1); " . . . respecting the national and regional policies" (Article 22/2); and "in cases where local self-government units* *lack sufficient funds or resources to meet the national standards and norms, central government shall provide them with the necessary financial support." (Article 22/3).*

The law no. 139/2015 *"On Local Self-Government"* is guided by the subsidiarity principle,[3] and thus has transferred or delegated a number of functions, which have important and direct consequences on the quality of life of the community, to levels of government closer to the citizens. The delegated functions must be exercised, *". . . as per the legislation in force" (Article 22/4) and ". . . central government shall provide it with sufficient financial means and resources to exercise such functions in the manner and at the level or standard defined by law." (Article 22/5).* In addition, the local government units, on their initiative, can use extra financial resources *". . .with the aim of improving services in the interest of the community." (Article 30/7).*

Law no. 9632/2006 "On Local Tax System in the Republic of Albania," as amended

The law no. 9632/2006 *"On Local Tax System in the Republic of Albania,"* as amended, aims to define the rules regarding rights and duties of local governments to raise, collect and administer local taxes. The latest changes to this law were applied through the law no. 142/2015, where among others, it is worth mentioning: the introduction of the tax on land plots, the changes of the tax rate applicable to small businesses' profits, the substitution of the tax on occupation of public spaces with a fee, etc. Following, the law no. 9920, 19.05.2008, *"On Tax Procedures in the Republic of Albania"* has improved substantially the uniform procedures regarding the administration of local taxes and fees, as well as the role of the local tax agency.

Law no. 9869/2008 "On Local Government Borrowing"

The law no. 9869, date 4.02.2008 *"On Local Government Borrowing"* aims at expanding local autonomy through the regulation of local government borrowing and the creation of appropriate opportunities and rules to ensure a transparent borrowing process in compliance with the overall development policies, which ensures macroeconomic stability and credibility of public institutions in financial markets. This law permits local governments to seek short or long-term loans to finance capital investments, refinance outstanding long-term debt, or bridge liquidity shortages. Local governments can obtain lines of credit at a fixed or variable interest rate, in local or foreign currency, and so on. The local government may incur long-term debt pursuant to a resolution duly adopted by the council of the local government and approved by a majority of the members of such council at a meeting of the council that is open to the public. The Ministry of Finance must be advised within 10 days from the approval of the resolution, and the LGU needs the confirmation

[3] "Subsidiarity" is the principle of performing the functions and exercising the powers at a level of governance closest to the citizens by taking into consideration the importance and the nature of the commitment and cost-effectiveness requirements.

of the Ministry whether the resolution is in accordance with the legal procedures and established debt ceilings. A local government may incur short-term debt pursuant to the decision of the local council on the budget of the actual fiscal year. Within short-term debt limitations defined in this law, the council defines the actual limit, within which the Mayor of the local government is authorized to issue short-term debt case by case.

Law no. 9936/2008 "On Management of Budgetary System in the Republic of Albania"

Law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania,"* as amended, regulates the budget system in the Republic of Albania, including the structure, the principles and the fundamentals of the budget process, intergovernmental financial relations and responsibilities for implementing the budget legislation in general. This law is applied by the general government units at all stages of the budget process, which implies: (i) the preparation, examination, and approval of the budget; (ii) the implementation, monitoring, and review of the budget; (iii) borrowing rights and restrictions, guarantees, and other forms deriving from them; (iv) the control, accounting, reporting, inspection and the audit of the budget.

The principles on which the budgetary system in Albania functions, include: (i) transparency, intentionality, inclusiveness, unity, and uniformity in the management of the budgetary system and special funds; (ii) fiscal discipline, in line with macroeconomic stability and durable economic and social development; (iii) allocation of resources pursuant to the strategic objectives set by the Council of Ministers; (iv) effective and efficient, from an economic standpoint, use of the public resources; (v) clear responsibility sharing for the operational management; (vi) enforcement of the integrality of the process; (vii) gender equality, which refers to the situation where men and women enjoy equal access, rights, and benefits.

Law no. 10296/2010 "On the Financial Management and Control"

This law sets the rules, procedures, administrative structures and methods with regard to the financial management and control within the public units in the Republic of Albania, as well as managerial responsibilities for planning, implementation, budget control, accounting and reporting. The purpose of this law is to ensure an efficient, effective and economic use of the public financial resources, by upholding the principles of transparency and lawfulness and avoiding waste, misuse, and embezzlement of assets. This law is applicable for the general government units, commercial companies, nonprofit organizations and joint authorities which are owned, controlled, funded, or given financial guarantee from a general government unit, and other unites spending public funds based on an international agreement regarding these funds.

Ministry of Finance and Economy Instruction (2018) *"On standard procedures for the preparation of the Medium-Term Budget Program of the Local Government Units"*

Ministry of Finance and Economy Instruction (2018) *"On standard procedures for the preparation of the Medium-Term Budget Program of the Local Government Units"* serves as a permanent guideline for the preparation of the MTBP. Based on the law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania"* and on this instruction, the Minister of Finance issues annual instructions for drafting mid-term budgetary requests. In this instruction are mainly defined the ceilings of approved expenditures by decision of the Municipal Council for the respective mid-term budgetary requests and timelines for the preparation and presentation of these requests.

1.3 Basic aspects of budget preparation

1.3.1 What is the local budget?

The budget guides the activities of local governments toward the accomplishment of all the possible objectives with the given financial constraints. All local government units in the Republic of Albania are obliged to prepare and approve their annual budget, as specified by the article 41 of the law no. 139/2015 *"On Local Self-Government"*, in accordance with the law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania"*, the law no. 68/2017 *"On Local Self-Government Finance"*, and pursuant to the instructions, temporary or permanent, of the Ministry of Finance.

In general terms, the **budget** is defined as the document that summarizes the information on revenues and its sources, and on planned expenditure, aiming at certain goals and within a certain time-frame. This definition is applicable to the public sector, as well as to the private. It is important to understand correctly the definition of the term "budget." The law no. 9936/2008, *"On Management of Budgetary System in the Republic of Albania,"* through its amended article 3, defines budget as the *"the set of revenues, expenditures and financing of central government, local government, and special funds, which are approved by law from the Assembly or by the decision of councils of local government units."* According to the article 6, the local budget *"includes all the revenues, expenditures and financing of the local government units."* The same definition can also be found in the law no. 68/2017, *"On Local Self-Government Finance."* In addition, the local budget comprises a reserve and an unallocated emergency fund up to 3% of the total value of the approved funds, save conditional transfers. The local budget should be balanced, except in cases when loans are taken out to finance capital expenditures.

The fiscal year, for all levels of government, starts on the 1st of January and ends on the 31st of December of the respective year. These are some of the basic features of the annual budget for the units of local government as provided in the pertaining legislation.

The local budget is the most important tool to manage the public finances and is primarily used to connect policies and priorities with the given financial restraints. The annual budget is directly related to the medium-term budget program; it represents the first year of the Medium-Term Budget Program (MTBP). Preparing meticulously the annual budget is the starting point for its successful execution.

Table 1. Budget's functions

1. Budget as a tool to promote economic development	The budget of the local government unit serves as the instrument through which the strategic development plans are executed.
2. Budget as a tool of prioritization	Due to the increasing demand for services and the limited funds, the local government units will have to choose among priorities, in order to keep the unit's finances in balance.
3. Budget as a tool for the optimal allocation of limited financial resources	Assessing the community needs through continuous public consultations and allocating resources where they are most needed is important for promoting positive changes in social and economic development. However, it is important to find satisfactory compromises between the needs of the different stakeholders and the available resources.
4. Budget as a tool for controlling and analyzing	The local government units monitor and analyse the budget implementation and assess the completion of the objectives. At the same time, the evaluation and the analysis of the factors influencing budget implementation allow to eliminate factors with a negative impact on local development.

In an indirect way, every budget is (or should be) a statement of the respective community's goals. At a minimum, the allocation of the resources among different functions reflects both the particular goals that local government hopes to achieve, and the relative priorities attached to those goals. Furthermore, the budget reflects the political philosophy of the local elected officials. By earmarking funds for certain activities and by reducing or omitting funds for others, the policymakers indicate those services, which the government will (or will not) attempt to provide. The distribution of the financial resources is the final product of the interaction between the official's goals and the community's expectations.

1.3.2 Important terms and definitions used for the budget process

The law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania,"* as amended, defines clearly those terms that are used for the preparation of the budget, among which, the most important are:

Budget	*Budget* is the entirety of revenues, financing, and expenditures of local self-government unit, approved by the council of the local self-government unit.
Budget program	*Budget program* is a set of activities of the general government unit, which contribute together in the production of identifiable and measurable products that help directly or indirectly in achieving the objectives and the goals of a specific budgetary policy.
Contingent liability	*Contingent liability* is an obligation that may arise to general government units in relation to third parties in the future, as a result of potential risks associated with direct or indirect events or initiatives from previous years.
Contingency fund	The *contingency fund* is used to cope with the effects of unrealized income.
Debt	*Debt* is the sum of loans obtained in the banking, financial markets and from third parties, natural persons, legal entities, or individuals, on conditional return, with or without interest, to finance specific investment projects, temporary lack of liquidity, and fiscal budget deficit.
Expense	*Expense* is the reduction of net assets, which concludes with capital or current payments, irrevocable, with or without liability return.
Economical use	*Economical use* is the use of a given quantity and quality of inputs in a given time and with the lowest possible cost.
Effectiveness	*Effectiveness* is the degree to which a product contributes to the achievement of policy objectives or goals of the budgetary policy.
Efficiency	*Efficiency* is the relation between the products of a program and the financial and human resources used.
Income	*Income* is the increase in net assets, which concludes with capital or current receipts, with or without liability return.
Long-term local debt	*Long-term local debt* is a debt in national or foreign currency of the local government unit, to be repaid over a period of time equal to or longer than one year.

Local budget	*Local budget* includes all revenues, expenditures, and financing of the local government unit. In addition, the local budget comprises a reserve and an unallocated contingency fund, which is approved by the local government council in its annual budget review, up to 3% of the total value of the approved funds, save conditional transfers. The local budget should be balanced, except in cases when loans are taken out to finance capital expenditures, which ought to serve to a specific function of local government. The fiscal year, for all levels of government, starts on the 1st of January and ends on the 31st of December of each year.
Medium-Term Budget Program	*Medium-Term Budget Program* is the budget spending plans for the three upcoming years, through the direct link of programs to activities, products, targets and policy objectives.
Reserve fund	The *reserve fund* is a fund created to finance non-permanent and contingent expenditures. This fund may be used with the approval of the local government unit's council.
Spending unit	*Spending unit* is the smallest organizational unit of general government units, for whom budget funds are assigned.

1.3.3 Requirements for a proper budget.

All the local government units in the Republic of Albania are obliged to prepare and approve their annual budgets, as provided by the article 41 of the law no. 139/2015 *"On Local Self-Government,"* and in accordance with the law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania"*, the law no. 68/2017 *"On Local Self-Government Finance"*, and pursuant to the instructions, temporary or permanent, of the Ministry of Finance.

The pertaining literature lists a number of principles and important criteria that must be met during the budget process.

Table 2. Budget requirements

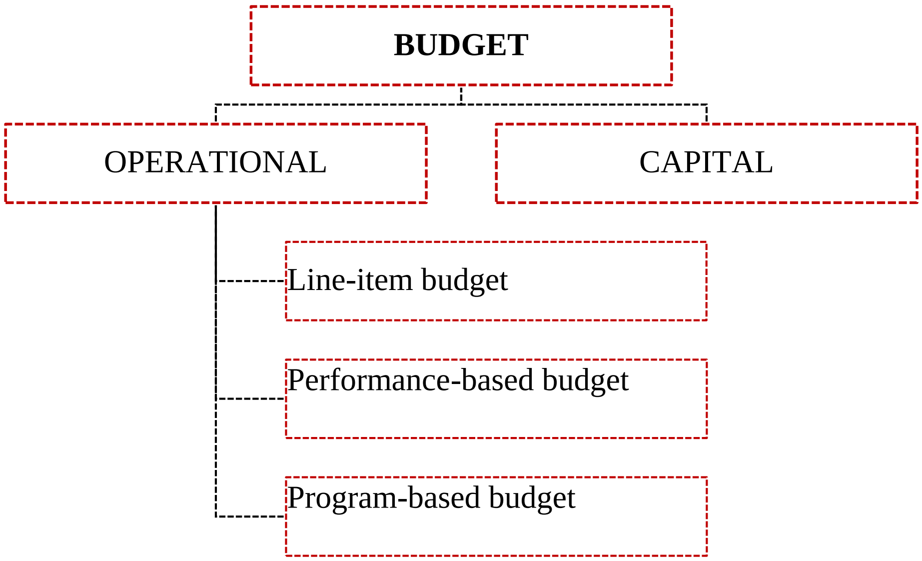
Requirement	Characteristics
Accountable	Reporting on the resources used and the objectives achieved is the first step of accountability. The second step entails that the responsible authorities within government must explain when the objectives are not achieved and face consequences in case of underachievement.
Comprehensive	Includes presentation of all the LGUs financial resources and expenditures.
Unbiased	Includes unbiased projections of revenues and expenditures.
Interactive	Encourages participants to have their voice in the budgeting process.
Lawful	The budget process must be guided by the substantial decisions of the local authorities and must respect the pertaining legal obligations.
Perceptive	Guarantees the distribution of resources in accordance with objectives.
Flexible	The process of resource allocation should aim to the completion of the strategic objectives in a way that allows for a certain degree of flexibility.
Timely	The budget must be adopted before the new fiscal year starts. To achieve this target, budget preparation must follow a carefully designed budgeting schedule in a rigorous manner.
Transparent	The budget and its drafting procedures must be understandable for the participants and the external stakeholders; they must have access to this information, which must be available at a very low price or for free.

Source: Meyers, R. T. (1996)

1.3.4 Types and formats of local budgets

Traditionally, in the public sector, we draw a distinction between the operational budget and the capital budget. The operational budget is presented in various formats: line-item budget, performance-based budget, and program-based budget.

Figure 1. Types and formats of local budgets



Line-item budget – (what will be purchased) also known as the traditional budgeting format, is the most used format by the local government units. 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 delineated 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 room for flexibility; the specific use of resources is planned in detail and spending units are obliged to use the resources exactly as planned. Line-item budgets focus more on *inputs* and less on outputs and outcome. 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.

Performance-based budget – (what has to be done) tries to prioritize resource allocation, focusing on deliverables, such as outputs and outcomes. Performance-based budgets are similar with program-based budgets in several aspects; 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 outputs and goals. Performance indicators are often used to facilitate the performance appraisal.

The program-based budget – (what is to be achieved) uses a holistic program structure of the 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 wider in scope than the product groups used by the performance-based budgets.
In Albania, municipalities use a uniform program structure defined by MoFE; it is based on an international budget classification model. Program-based budgets, as well as performance-based budgets, focus on what should be achieved in terms of performance.

It is also possible to present a program-based budget with a line item sub-structure. This approach guarantees more control on how the resources are used. Nonetheless, there is a drawback of this mixed approach; by doing so, a program will have a more bureaucratic touch. Consequently, this could produce efficiency losses. Therefore, programs are usually run on a lump sum basis. However, even though the budget is presented externally on a lump sum basis, program managers will plan a line item budget, but for internal use only. The reason for this internal line budgeting within programs is that program managers must be able to keep costs under control. To run a budget program on a lump sum basis requires skilled managers with high ethical standards. Furthermore, safeguards against fiduciary risks, such as complete and independent internal audits by skilled personnel, are required. If this cannot be fully guaranteed, a combination of program-based budgeting with line-item budgeting is highly recommended. That is the way how it is done in Albania.

When a program-based budget is approved, there might be consequences for the organizational structure of the LGU. The latter must assess the compatibility between the administrative structure and the program structure. This is necessary for two reasons: coordination requirements between municipality's departments should be limited and accountability should be unambiguous.

In spite of the many advantages provided by the program-based budgeting, there are also some drawbacks to be considered, e.g. preparation is more time-consuming than for the other types of budgeting. In addition, the budget presentation is less analytic but more holistic, and conflicts of interest between programs and departments are more conspicuous. If we need to expand a program, we would have to curtail some of the others. Last, this approach could lead to laxity regarding fiscal discipline, as the focus is mainly on the program content. Political guidelines are needed to atone for these drawbacks.

Table 3. Overview of the 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 purchased?	Input-oriented. Control-oriented. Detailed. Provides information on expenditures for each item. Relatively easy to prepare. Can be broken down according to the functional, the economic, and the administrative classification.
Performance-based	Expenditures and revenues are linked to the target results.	What has to be achieved in terms of products?	Mostly product-oriented. Aims to efficiency and effectiveness in resources usage Identifies the service level, on which the budget must be based.
Program-based	Expenditures and revenues are linked to substantial public goals.	What has to be achieved in terms of the final effect?	Mostly output- and outcome-oriented. The budget is guided by the policies' effectiveness in a broad sense. The program structure integrates a break-down of program expenditure in accordance with the economic classification, information on the policy scope of the program and performance goals and indicators per program.

1.3.5 Budget classifications

The budget must be structured in a logical and consequential way regarding revenues and expenditures. The article 36 of the law no. 68/2017 *"On Local Self-Government Finance"* clarifies that *"the local Medium-Term Budget Program uses the budget classifications set out in the Article 11 of the Law no. 9936/2008 "On Management of Budgetary System in the Republic of Albania," as amended."* Budget classifications are approved by the Minister of Finance, based on the proposal of the first authorizing officer, in accordance with the international standards. Based on the Albanian legislation, the expenditures, in the general government budget, follow: (1) an economic classification, (2) an administrative classification, (3) a functional classification, (4) a programmatic classification, and (5) a classification according to the financing source. All these methods of classification must be considered as complementary and not as substitutes.

- Economic classification — used for financial and fiscal analysis and control. This type of classification entails 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 and social insurances, other operating expenses and capital expenditures.

- Administrative classification — represents the classification of the units of general government up to the level of spending units. Expenditures of the local government units and the enterprises controlled by the local government units are itemized according to the respective departments and units. This classification emphasizes the accountability and the answerability.

- Functional classification — represents a detailed classification, according to the functions or socio-economic objectives that the general government units aim to achieve (COFOG). The functional classification is enables national and international comparisons.

- Classification by program — specifies expenditures and financing at or subprogram level. From a conceptual standpoint, program and function are quite similar, but the classification by program depends entirely on the program structure. This structure is defined by the MoFE, it is based on the third level of the COFOG classification. Expenditures' classification by program serves two goals: a) the identification and the clarification of the LGU objectives and policies, and b) the operational monitoring, based on performance indicators.

- Classification according to the financing source — identifies revenues per financial sources: LGU own sources, unconditional and conditional transfers from central government.

Following the legislative changes and the international classification method COFOG, the Ministry of Finance introduced a systematic method for the classification of expenditures of the local government units-with three levels:

- The first level will be the function (9);
- The second level will be the sub-function (27);
- The third level will be the budget program (36).

In addition to the functional-programmatic classification mentioned above, the local government units should also classify the expenditure according to the economic classification. Regarding the latter, the capital budget plays a crucial role, as it serves as a bridge between budgetary planning and strategic priorities. This step is essential for the calculation and the revision of medium-term revenues and expenditures, to balance them and to create opportunities for new priorities (new activities or new projects).

Table 4. Expenditures classification according to the COFOG

Function 1: General public services		
Sub-function 1: Legislative and executive institutions, financial and fiscal issues, foreign affairs	*Program 1*	*Planning, management, and administration*
	Program 2	*Fiscal and financial issues*
	Program 3	*Civil status*
	Program 4	...
Sub-function 2: Local borrowing services	*Program 1*	*Payment on domestic debt service*
Function 3. Order and public safety		
Sub-function 3: Police services	*Program 1*	*Local police services*
	Program 2	...
	Program 3	...
Sub-function 4: Firefighting services	*Program 1*	*Firefighting and civil defence*
	Program 2	....
Sub-function 5: Other safety and order means	*Program 1*	*Community relationship*
	Program 2	....
Function 4. Economic affairs		
Sub-function 6: General economic,	*Program 1*	*Support for economic development*
	Program 2	*Market issues, inspection, and accreditation*
	Program 3	....

commercial, and labor issues		
Sub-function 7: Agriculture, forests, fishing, and hunting	*Program 1*	*Agricultural services, inspection, food, and consumer protection*
	Program 2	*Irrigation and drainage management*
	Program 3	*Forests and pastures management*
	Program 4	...
Sub-function 8: Transportation	*Program 1*	*Rural roads network*
	Program 2	*Public transportation*
	Program 3	...
Sub-function 9: Other industries	*Program 1*	*Development projects*
	Program 2	*Tourism development*
	Program 3	...
Function 5. Environmental protection		
Sub-function10: Waste management	*Program 1*	*Waste management*
	Program 2	...
	Program 3	...
Sub-function 11: Wastewater management	*Program 1*	*Wastewater and sewage management*
	Program 2	...
	Program 3	...
Sub-function 12: Pollution reduction	*Program 1*	*Environmental protection programs*
	Program 2	...
	Program 3	...
Sub-function 13: Environmental protection	*Program 1*	*Raising environmental awareness*
	Program 2	...
	Program 3	...
Function 6. Social housing and social commodities		
Sub-function 14: Urbanism	*Program 1*	*Local urban planning*
	Program 2	...
	Program 3	...
Sub-function 15: Community development	*Program 1*	*Development programs*
	Program 2	*Local public services*
	Program 3	...
Sub-function 16: Water supply	*Program 1*	*Water supply*
	Program 2	....
	Program 3	...
	Program 1	*Road lighting*

Sub-function 17: Road lighting	*Program 2*	...
	Program 3	...
Function 7. Health care		
Sub-function 18: Primary care services	*Program 1*	Primary care services
	Program 2	...
	Program 3	...
Function 8. Recreation, culture, and religious issues		
Sub-function 19: Recreational and sport services	*Program 1*	*Sports and entertainment*
	Program 2	...
	Program 3	...
Sub-function 20: Cultural services	*Program 1*	*Cultural heritage, artistic and cultural events*
	Program 2	...
	Program 3	...
Function 9. Education		
Sub-function 21: Preschool and primary education	*Program 1*	*Basic education including pre-school education*
	Program 2	...
	Program 3	...
Sub-function 22: Pre-university education	*Program 1*	*Secondary general education*
	Program 2	*Vocational education*
	Program 3	...
Function 10. Social protection		
Sub-function 23: Sickness and disabilities	*Program 1*	*Social care for sick and disabled individuals*
	Program 2	...
	Program 3	...
Sub-function 24: Old age	*Program 1*	*Social security*
	Program 2	...
	Program 3	...
Sub-function 25: Family and children	*Program 1*	*Social care for families and children*
	Program 2	...
	Program 3	...

Sub-function 26: Unemployment	*Program 1*	*Unemployment, education, and professional background*
	Program 2	...
	Program 3	...
Sub-function 27: Social housing	*Program 1*	*Social housing*
	Program 2	...
	Program 3	...

Source: The guideline for the use of Financial Planning Tool 2018

There exists only one general classification for local revenues. The law no. 68/2017 *"On Local Self-Government Finance"* distinguishes between these types of revenues:

- Revenues from local sources — this category includes revenues collected by the local government units from local taxes and fees, incomes from the assets' management, donations, borrowing, and other.

- Revenues from national sources — this category includes revenues coming from intergovernmental transfers, such as unconditional transfers, conditional transfers for delegated functions and investments projects, specific transfers for new functions, and shared taxes.

Table 5. Classification of local revenues

		YEAR					
		n-2	n-1	n	n+1	n+2	n+3
A	**Own source revenues**						
A1.	**Revenues from taxes**						
A1.1	Local tax for small businesses income						
A1.2	Tax on immovable property						
A1.2.1	*Tax on buildings*						
A1.2.2	*Tax on agricultural land*						
A1.2.3	*Tax on land plots*						
A1.3	Local tax on hotel service activities						
A1.4	Tax on infrastructure impact of new buildings						
A1.5	Tax on signboards						
A1.6	Local taxes on personal income created from donations, inheritances, testaments, or local lotteries						
A1.7	Temporary taxes						
A2.	**Revenues from shared taxes**						
A2.1	Tax on immovable property transfer tax imposed on individuals and natural persons and legal entities						
A2.2	Annual tax on used vehicle circulation						
A2.3	Mineral rent						
A2.4	Personal Income Tax						
A2.5	Other						
A3.	**Revenues from fees**						
A3.1	Fee for the waste collection and disposal						
A3.1.1	*Families*						
A3.1.2	*Institutions*						
A3.1.3	*Businesses*						
A3.2	Fee for street lighting						
A3.2.1	*Families*						
A3.2.2	*Institutions*						
A3.2.3	*Businesses*						
A3.3	Green fee						
A3.3.1	*Families*						
A3.3.2	*Institutions*						
A3.3.3	*Businesses*						
A3.4	Fees for administrative services of the municipality						
A3.4.1	*Fee for administrative services*						
A3.4.2	*Fee for licenses, permissions, and authorizations*						
A3.4.3	*Fee for the territorial control and development*						
A3.4.4	*Fee for animal slaughter/ veterinary medicine*						
A3.4.5	*Fee for transportation licenses*						

A3.4.6	*Fee for oil production and franchise*						
A3.4.7	*Fee for the use of forests and pastures*						
A3.4.8	*Fee for the use of firefighting*						
A3.4.9	*Fee for waste disposal at landfills*						
A3.4.10	*Fee for landlines (telephone, energy, cable tv, internet)*						
A3.4.11	*Fee for public procurement documents*						
A3.5	Fees for the occupation of public space and facades						
A3.5.1	*Fee for utilization of space in public areas or in front of business premises for business purposes, including outdoor tables for cafes and restaurants*						
A3.5.2	*Fee for using advertising billboards*						
A3.5.3	*Fee for using parking spaces for road motor vehicles;*						
A3.5.4	*Fee for using areas for camping, setting up tents or other facilities for temporary use*						
A3.5.5	*Fee for using waterfront areas for business and any other purposes*						
A3.5.6	*Fee for keeping and using navigable equipment and vessels, and other facilities in rivers and lakes;*						
A3.5.7	*Fee for keeping and using boats and other floating structure, save boats that are used by certain organizations for the maintenance and indication of waterways*						
A3.5.8	*Fee for restaurants and other catering and entertainment facilities on rivers and lakes*						
A3.5.9	*Fee for using public space to house road motor vehicles and trailers excluding agricultural vehicles and machinery*						
A3.5.10	*Fee for using public space for keeping construction material*						
A3.5.11	*Other local fees that may be set with a decision of the local self-government unit council*						
A3.6	Fees from educational, social, cultural and sports institutions						
A3.6.1	*Library*						
A3.6.2	*Museum*						
A3.6.3	*Theater*						
A3.6.4	*Children cultural center*						
A3.6.5	*Sport center*						
A3.6.6	*Community center*						
A3.6.7	*Dormitories*						
A3.6.8	*Preschools*						
A3.6.9	*Nurseries*						
A3.7	Fee for water supply and sewage treatment						
A3.8	Fee for irrigation and drainage						
A3. 9	Temporary fee						
A3. 10	Other fees						
A4	Revenues from assets and economic activities						
A4.1	Revenues from rentals						
A4.1.1	*Buildings rental*						

A4.1.2	*Land plots rental*						
A4.2	Revenues from sale of assets						
A4.2.1	*Buildings sale*						
A4.2.2	*Land plots sale*						
A4.2.3	*Sale of other assets*						
A4.3	**Revenues from dividends**						
A4.4	**Revenues from interest rates**						
A4.5	**Revenues from sale of goods and**						
A4.6	**Revenues from fines**						
A4.7	**Transfers from other municipalities**						
A4.8	**Sale of financial assets**						
A4.9	**Others**						
A4.10	**Revenues from donations and sponsoring**						
A4.11	**Revenues from PPP agreements**						
A4.12	**Revenues from subordinated enterprises**						
B	**LOCAL BORROWING**						
B1	Short-term borrowing						
B2	Long-term borrowing						
C	**REVENUES FROM TRANSFERS**						
C1	**Unconditional transfer**						
C2	**Conditional transfer**						
C2.1	For delegated functions						
C2.2	For specific projects						
C3	**Specific transfers**						
D	**INHERITED REVENUES**						
D1	**Unconditional inherited revenues**						
D2	**Conditional inherited revenues**						
TOTAL REVENUES (A+B+C+D)							

2. Strategic development planning – organization and processes

Objective:

Participants in the training:

- are informed on the new legal requirements regarding the preparation process of the Medium-Term Budget Program and the Strategic Development Plan;
- can explain the relationship between the Strategic Development Plan and the Medium-Term Budget Program;
- are familiar with the necessary steps and the actions for the preparation a Strategic Development Plan related to the Medium-Term Budget Program.

Content:

2.1 Introduction to Module 2
2.2 Strategic Development Planning
    2.2.1 Goals of the SDP elaboration
    2.2.2 Questions addressed during the elaboration of the SDP
    2.2.3 Features of a proper SDP
    2.2.4 Preparation of the SDP in seven steps

2.1 Introduction to module 2

The modernization of the local budget management system entails a radical change in the budgeting method away from line-item budgeting to performance-based budgeting in the framework of programs. Obviously, this is not a simple process, as it combines a multitude of concepts and technicalities. In addition to these, the existing legislation requires explicitly that the medium-term budget and the annual budget be linked to the strategic objectives as specified in the Strategic Development Plan (SDP).

Participants of module 1 were asked to outline the relationship between the objectives of the SDP and those of the MTBP in a simple way. Furthermore, they had to prepare a report and present it. Before the presentations start, the LGUs' functions must be recapitulated to ensure that the discussion on the SDP-MTBP link is embedded in the realities of policymaking by the Albanian LGUs. Each working group will have 5 minutes to present the relation between the MTBP and the SDP.

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

2.2 Strategic development planning

The term "Strategic Development Plan" has become very popular in the last years. The SDP is the primary long-term development planning document of an LGU. In a way, the SDP attempts to guide the local government unit's development, by focusing on its strengths. The establishment of long-term objectives instigates the implementation of certain necessary measures that, in turn, support the achievement of the former. Above all, strategic development planning is a collective and inclusive process, including not only the elected representatives of the LGU but all the stakeholders of the LGU. The decomposition of the term "Strategic Development Plan" delineates its main characteristics: firstly, we are dealing with a plan, and we need to plan in the long-term; secondly, this plan must be strategic; and thirdly, the development is geared toward the improvement of the respective community's life and conditions. Metaphorically, the SDP can be thought as the navigator of a ship. The goal is to move from the initial point to the desired one, but before the navigator can design the way, it needs to know our location and our destination. The preparation of the Strategic Development Plan provides this information.

2.2.1 Goals of the SDP elaboration

The Albanian legislation, more specifically the article 32 of the law no. 68/2017 *"On Local Self-Government Finance,"* provides that *"the Chairman of the local self-government unit is responsible for preparing the Strategic Development Plan of the local self-government unit, which is approved by the council of the local self-government unit."* This Strategic Development Plan must cover at least a period of 5-years and must consider local, national, and regional development potentials. Next, these potentials must be translated to specific projects with measurable costs. Further below, point c of the second paragraph of the article 32 prescribes that the SDP *"is implemented through the Medium-Term Budget Program of the local self-government unit."*

Until 2018, not all municipalities in Albania had an SDP (a part of them are in the middle of the preparation process). However, some of the local units have completed or are preparing a General Local Plan which includes, among other documents, the Territorial Development Strategy (TDS). The TDS has a more limited scope than the SDP, but the former also identifies the strategic priorities and the investment projects linked to them. As in the case of the SDP, these strategic priorities and investments must be connected with the MTBP and included in the annual budget.

There are many good reasons to prepare and elaborate a Strategic Development Plan (SDP):

- Agreement on the desired future;
- Identification of the strategic priorities;
- Promotion of sustainable partnerships between actors within and outside of the LGU;
- Performance improvement - more efficiency in resource allocation based on established priorities;
- More transparency regarding future policies and better communication between elected representatives, local employees, citizens and key actors;
- 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

The preparation process of the Strategic Development Plan triggers many fundamental questions, which require answers:

- What is the aim of our existence?
- Who are the main stakeholders?
- What are our strengths and weaknesses?
- Which are the trends that affect our work and environment?
- Which factors are critical for the success of our unit?
- What kind of policies should we draft and follow?
- Which values should guide our decision-making?
- Which are the necessary actions?
- What are our priorities? What resources do we need?
- What will be the impact on our target groups and clients?
- How will we know if it is useful?
- 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 at the right time?

2.2.3 Features of a proper SDP

A proper Strategic Development Plan of an LGU aims to improve the quality of life of its citizens. The following table summarizes the most important features that characterize a suitable Strategic Development Plan for the local government units.

Table 6. Features of a proper strategic development plan

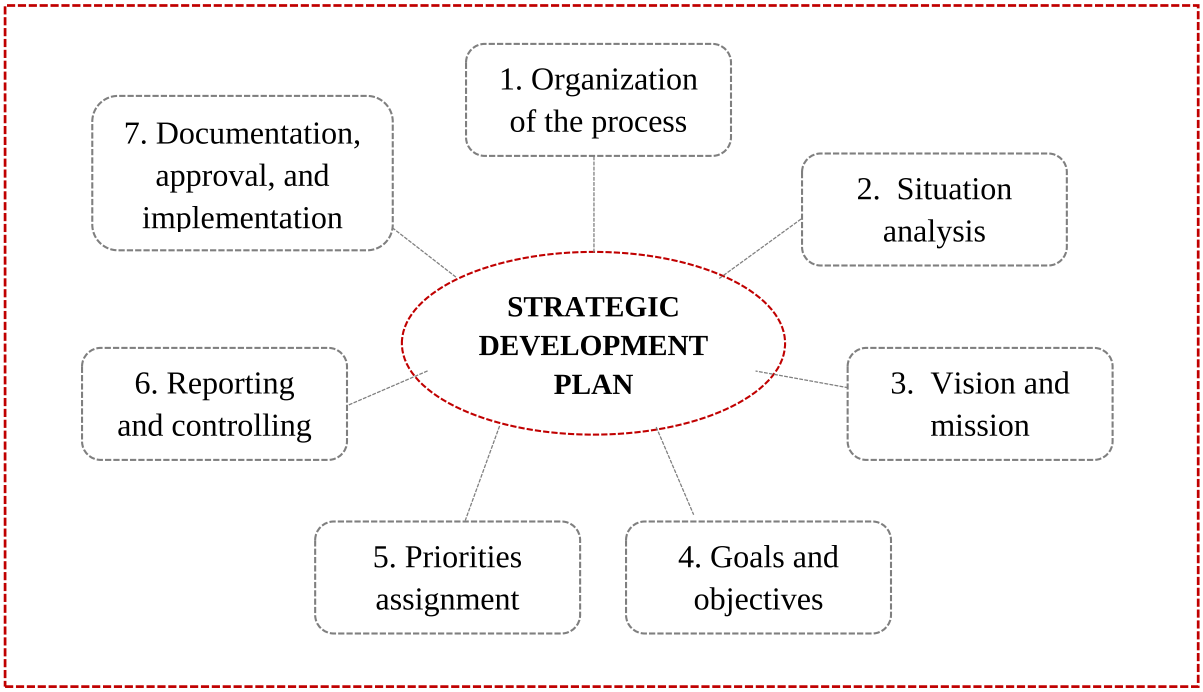
Challenging agenda: It aims to motivate the institution to try to fulfill its mission and vision
Change-oriented with creative ideas: A promising plan is prepared in the spirit of creativity and innovation; the SDP should reflect thoughts beyond the actual possibilities.
Realistic planning: It is based on the strengths and the opportunities of the municipality and takes into account the weaknesses and risks. The plan must be implementable, and funding must be possible.
Clear and easy to understand: The SDP must not be too "technical," as long as it also functions as a mean of broad communication.
Analytically based: It must rely on an accurate evaluation of the current situation and must identify the eventual risks and uncertainties.
Appropriate prioritization: The goals of the SDP must be prioritized according to certain criteria.
Inclusive preparation and broad-based authorship: During the preparation of the SDP, the participation of all stakeholders is required to create broad ownership.
Flexible approach: The SDP must be flexible, updated, and reviewable, to reflect the changes in the external conditions.

Optimally, the SDP must be revised towards the end or at the beginning of each term of office in order to adjust the SDP to the requirements of a dynamic environment and new political priorities. If these adjustments are not undertaken regularly, the SDP becomes outdated and cannot serve the development of the local government unit.

2.2.4 Preparation of the SDP in seven steps

The drafting of the SDP requires human resources and a well-structured approach. This curriculum suggests the preparation of the SDP in seven main steps.

Figure 2. Stepwise preparation of the SDP



Step 1: Organization of the process for the preparation of the Strategic Development Plan

To organize the work effectively, it is highly recommended to establish a specific working group for the SDP conceptualization and preparation. This group will have the responsibility to manage the preparation of the SDP and the behavior of the key actors during the whole process. Specifically, this group must: a) design the methodology b) clarify the respective roles and responsibilities of the actors; and c) prepare the work plan. The formation of this working group is officially realized by an internal order and must include representatives from the departments that deal with the local economic development, urban planning, budget and finance, public services, taxes, etc.

Nonetheless, the ultimate responsibility for the organization of this process lies with the Chairman of the local self-government unit. The article 32 of the law no. 68/2017 *"On Local Self-Government Finance"* provides that *"the Chairman of the local self-government unit is responsible for preparing the Strategic Development Plan of the local self-government unit, which is approved by the council of the local self-government unit."* Furthermore, the SDP:

- provides policies for the sustainable development of the local self-government unit and covers at least a 5-years period.
- considers the local development needs and potentials, as well as the regional and national strategic development priorities. This plan delineates the main goals for each field under local authority and identifies the necessary actions to be undertaken by the local self-government unit for their achievement, including the respective cost forecasts.
- is implemented through the Medium-Term Budget Program of the local self-government unit.

Before the SDP is sent for approval to the local council, the Strategic Development Plan must go through a broad process of consultation *"with the unit responsible for strategic coordination at the central government, the Ministry of Finance, the local community, interest groups, as well as other neighboring local self-government units."*

The success of the process depends on the involvement of the concerned actors. If more actors are involved, the process becomes more inclusive, and consequently, the achievement of the final product is more certain. For this reason, the operation should start with the identification of the key actors and the organization of consultations. At the local level, the participating actors must include (but not be confined to):

- Citizens;
- Neighboring communities (especially in cases when the SDP may affect the development of the neighboring LGU;
- Members of the municipal council;
- Providers of the local public services;
- Civil society, non-governmental organizations, women and youth representative organizations;
- Economic operators and business representatives;
- Public institutions;
- Local and national media;
- Religious communities;
- Educational institutions
- Local public servants.

Step 2: Actual situation analysis and assessment

After we have completed the organization of the process of preparation of the SDP and have established the working group, we can move to the second step. In this stage, the division of responsibilities and tasks within the group is crucial to assess and analyze the present situation of the respective fields of the local government unit. Thus, depending on the field, we need to answer questions, such as: Where do we come from? Where are we now? Where do we want to go? The evaluation of the current situation is a preparatory step needed to elaborate the mission, the vision, and the strategic objectives of the LGU. Alongside with the findings from the current situation analysis, the perceptions and the expectations of the community should also be reflected in the strategic guideline.

A large number of instruments can be used to assess the current situation. One of the most popular is the SWOT analysis. This analysis delineates four dimensions: strengths, weaknesses, opportunities, and threats.

Table 7. 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 did we not have done well? What do we want to avoid? In what fields are the other LGUs performing better? What can we learn from them?
Opportunities	**Threats**
External factors	
What are the viable opportunities? Which are the positive trends?	Which are the encountered obstacles? Which trends/factors can affect us negatively?

“Strengths” are internal features or advantages of the LGU, while “opportunities” represent external influences; both have a positive impact on the LGU development, as they support the current strategy and can help to improve the local government unit’s performance.

“Weaknesses” are internal features of the LGU, while “threats” are external influences; both have a negative impact on the LGU 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 the performance.

Table 8. Example of a SWOT analysis

Strengths	Weaknesses
Internal factors	
Young population Strategic geographic conditions Favorable climate Low population density Free public space Low crime rate Local infrastructure in a good condition	Few management capacities for territorial planning and controlling Fragmented land High frequency of soil erosion Insufficient financial capacities by the farmers to invest for the mechanization of the agriculture
Opportunities	**Threats**
External factors	
Political support from the central government for subsidizing the agricultural products Decentralization process has increased the financial resources of the LGU to support the agricultural products Construction of a new regional market	Unchecked urban development at the regional level is a risk due to environmental damage and increased land use High levels of competition between the LGUs for donor funds earmarked for the agribusiness sector

Step 3: Statement of LGU's vision and mission

The vision and the mission are two elements through which an organization, for-profit or not for-profit, private or public, states its long-term orientation. The vision describes where the LGU will be in the future, based on the shared values of all the involved stakeholders. It can be considered as a guideline for the future development, a photography of what is to come. The vision is based on a set of goals and of aspirations defined for a long-term period of 10-15 years. An internal vision shared by all the participants is an important factor for the successful development of the LGU.

The elaboration of the statement of the vision is a complex process, which combines the findings from the territory analysis, consultations with the community and interest groups, and the national development objectives. During the preparation of the document, the following questions must be addressed:

- 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?
- Which 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?

Box 2. The Vision of the Municipality of Shkodër 2015-2030

"By 2030, the Municipality of Shkodër will be an important national hub, an Albanian gate to the Western Balkans, and an important commercial link. The Municipality of Shkodër is the economic leader of the region Shkodër-Lezhë-Podgoricë and interacts successfully as part of natural, touristic and inter-border sub-regions. .

This municipality has adopted an integrated territorial development approach, which guarantees to all the citizens and visitors equal access to various services, based on a polycentric development system. It is a center with a relatively high quality of life, due to, among other things, water resources and historical sites that invigorate the urban life of the Municipality of Shkodër. Shkodër can serve as an international model regarding the use of common space and the combination of different transportation methods.

The economic and urban development depend on the protection of cultural, historical, and natural heritage. All year-round tourism will become an added value to the local and national economy, guaranteeing a multifaceted development through ecotourism, agritourism, cultural, and nautical tourism. The municipality will promote and support new enterprises by attracting local and regional talents. Shkodër must becomea clean municipality, able to withstand to various economic, social, and natural crises, while in the meantime capable of ensuring a high quality of life and development. Shkodër coexists harmoniously with its water resources and faces successfully the risks of flooding."

Source: Territorial Development Strategy, Municipality of Shkodër (2016)
http://www.bashkiashkoder.gov.al/web/strategjia_territoriale_shkoder_compressed_1080.pdf

The mission aims describes the purpose of an organization such as a LGU and may serve as a tool for the communication on the local unit government's orientation. It explains why we exist and shows what we have to do and want to do. The mission guides the elaboration of the SDP and must be fully compatible with the vision.

Group Work 1. The vision and the mission of the LGU

Training participants should bring up examples of visions used in their respective LGUs. This discussion aims to improve the understanding of what a good vision is and why it is relevant for the SDP preparation.

Step 4: Establishment of objectives and goals

The establishment of strategic objectives is crucial for the implementation of the LGU's vision. They must be specific, attainable, real, and measurable. Practically, the LGUs must translate the statements of vision to strategic objectives. They serve as milestones on the way towards realizing the vision step by step. Setting goals and objectives helps us to take decisions regarding methods and means that will be used to achieve the necessary changes.

Box 3. Strategic objectives of the Municipality of Shkodër 2015-2030

Strategic Objective 1 – Improvement of access and regional relations;
Strategic Objective 2 – Territorial integration and equality access to services
Strategic Objective 3 – Economic competitiveness and development
Strategic Objective 4 – High quality of life and urban development
Strategic Objective 5 – Environmental protection and the ability to adapt and defend against natural dangers

Source: Territorial Development Strategy, Municipality of Shkodër (2016)
http://www.bashkiashkoder.gov.al/web/strategjia_territoriale_shkoder_compressed_1080.pdf

Brief reflection

While goals are aspirations, objectives are more operational. Goals are related to desired impacts, whereas objectives are related to desired outcomes and outputs. Objectives are the basis of the Strategic Development Plan. They must identify the outcomes (or products) to be achieved measurably, by using certain indicators. They must be specific and attainable, focused on results, and have a precise timeline. They are established through consultations with stakeholders and local staff. Each program goal can have at least one objective.

Table 9. Goals versus objectives

Goals	Objectives
Are broad. Express general aims. Are fixed/ long-term oriented. Are more abstract. Are not linked to a time schedule.	Are narrow. Are specific. Are flexible. Are more concrete. Are always linked to a time schedule.

Step 5: Targets and setting up the priorities

Targets define the desired level of performance for specific indicators measured in quantitative units. They can be used for services or capital investment projects. For this reason, performance indicators must be displayed in the SMART form - specific, measurable, attainable, relevant, and time-based.

Table 10. Targets for roads maintenance

Km of roads maintenance	Actual target	Target for the 3 upcoming years
	20	32

The manual on *"Long and Medium-Term Strategic and Financial Planning"* guides the LGUs on how to set priorities that spur 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, the LGUs decide which fields to prioritize by considering the strategic needs.

Figure 3. Priorities setting

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

Step 6: Monitoring and Evaluation

Monitoring and evaluation are key processes for the LGU, as they are closely connected to reporting and control. The implementation of these four elements ensures that the LGUs operate in a transparent and responsible way regarding their functions and competencies.

Monitoring is a continuous activity which must accompany the execution of the SDP in time. If we do not monitor the process carefully, we will not be able to notice the problems at the due time, and, consequently, we will slow down/inhibit the execution of the Strategic Development Plan. During the monitoring process, we must guide ourselves by answering the following questions:

- Are we moving towards our vision?
- Are we accomplishing with our objectives?
- Are we behaving consistently in relation to our values?
- Are we meeting the main stakeholders' expectations?
- What has changed as a result of the process?
- Have we been able to include the main 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 process of evaluation follows that of monitoring. If we monitor correctly, we will be able to assess what has been/ has not been achieved and our stand regarding the determined objectives. While the monitoring process is continuous, evaluation takes place at a single point of time: we can carry out periodic assessments or informing assessments at specific moments and final evaluations at the end of an investment project or an implemented program. All these evaluation forms are important as they provide information at the right time on the situation and allow to take corrective measures.

The two processes of monitoring and evaluation are closely interrelated. In principle, monitoring starts when the implementation of the SDP begins. On the other hand, the evaluation process does not commence simultaneously with the former, i.e., it will take at least one year to start assessing the implementation of the SDP. Albeit these processes are separated in time, it is necessary to design their methodologies and plans at the same time, when the SDP is elaborated.

Step 7: Documentation of the Strategic Development Plan (SDP)

The documentation of the SDP represents the final stage for the preparation of this plan. Before we start to write an SDP, we must reconsider the characteristics of a proper Strategic Development Plan. Furthermore, during the elaboration of this document, we must keep the focus on the audience to which this plan will be addressed. Regarding this issue, we must pay attention to the internal audience in the municipality and the external audience. For this reason, the document must be written simply, in a way that is understandable to everyone.

3. Medium-term budget planning

Objective:

Participants in the training:

- are informed on the legal requirements regarding the preparation process of the Medium-Term Budget Program;
- can explain the relationship between the Strategic Development Plan and the Medium-Term Budget Program;
- are familiar with the necessary steps and the actions for the preparation of the Medium-Term Budget Program.

Content:

3.1 Medium-Term Budget Programming
- 3.1.1 From the Integrated Planning System to the Medium-Term Budget Program
- 3.1.2 From the MTBP to the annual budget proposal
- 3.1.3 Strategic objectives and the Medium-Term Budget Program
- 3.1.4 LGU's functions that limit the scope of the LGU's MTBP
- 3.1.5 The role of the LGU in accomplishing their functions
- 3.1.5 Basic steps for the preparation of the MTBP

3.2 The approach to Medium-Term Budget Program
- 3.2.1 Top-down and bottom-up processes during the preparation of the MTBP
- 3.2.2 Strategic orientation of the MTBP programs
- 3.2.3 Strategic Management Group

3.3 The Program as a key component of the MTBP
- 3.3.1 The relationship between the LGU functions and programs
- 3.3.2 Usefulness of the sectoral/program approach
- 3.3.3 Key components of the MTBP - the program profile
- 3.3.4 Specification of the program objectives

3.1 The Medium-Term Budget Programming

3.1.1 From the integrated planning system to the Medium-Term Budget Program

This section aims to give a general overview of the passage from the integrated planning system to the central government MTBP. The Integrated Planning System (IPS) is a group of operational principles that ensure the most efficient and cohesive realization of the government policies' monitoring and planning.[4] The IPS produces a general framework, within which take place the key processes of the government's financial and policies planning in a coherent, integrated, and efficient way. Based on this planning framework, resource allocation should be geared towards strategic development goals. In particular, the IPS[5] considers high-level planning documents, policies' priorities and opportunities for policy implementation. The IPS includes five essential processes:

- **National Strategy for Development and Integration (NSDI-II)**[6];
- **Public Investments Management (PIM)** as an integral part of the MTBP;
- **Government Program (GP);**
- **European Integration (EI)** process, which delineates the required planning instruments and the demands for resources to achieve the objectives that are related to the EI;
- **Foreign Aid (FA)** management, in particular, the government's attempts to use optimally foreign aid, in accordance with an array of international conventions.

The IPS outlines a broad framework, within which take place the key processes of the government/municipality financial and policies planning.

[4] http://shtetiweb.org/2012/12/16/sistemi-i-planifikimit-te-integruar/
[5] IPS approved by the DCM 256/2005.
[6] The NSDI-I was designed for the period 2007-2013 and was approved by a Decision of the Council of Ministers on March 2008 (DCM No. 342, date 12.03.2008). This document was preceded by the first strategic development plan, *"National Strategy for Socio-Economic Development – Medium-Term Program of the Albanian Government: Growth and Poverty Reduction Strategy" (GPRS 2002-2004).*

Table 11. Steps toward the Integrated Planning System

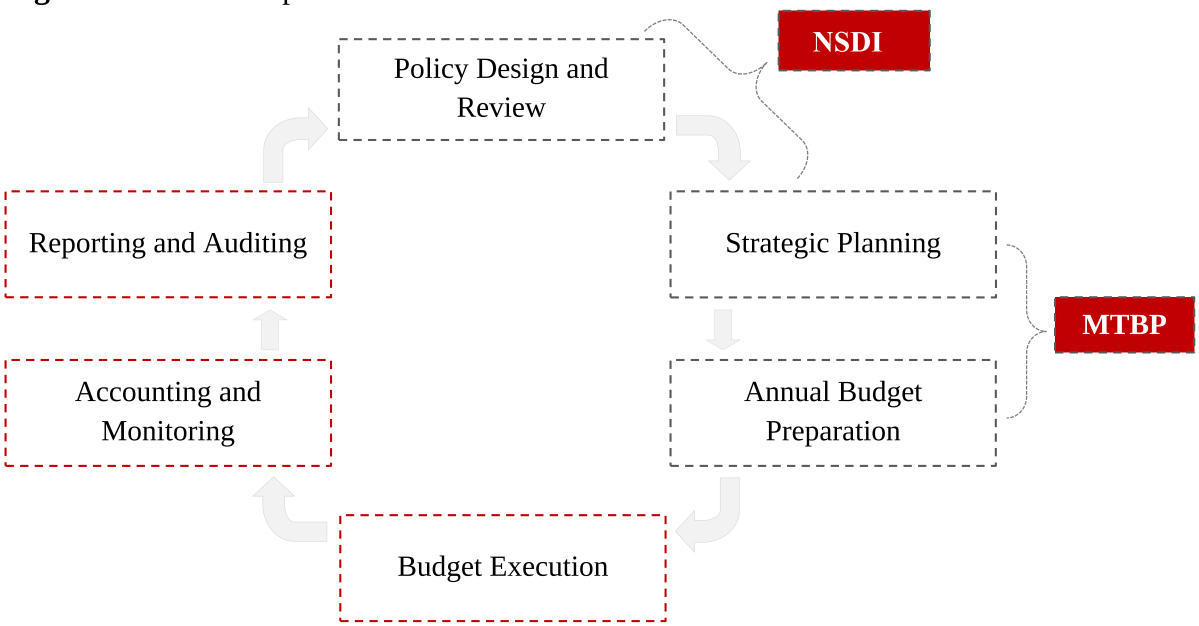
Period	Steps
2006	Specification of the IPS architecture, process planning, and capacity building.
2007	Implementation – Ensuring that the processes are understood and are institutionalized at the central level through technical assistance for each ministry.
2008 – 2009	Consolidation – Strengthening the accountability and expanding the capacities for service provision.
2009	Implementation in all the ministries, focusing on organizational development and capacity building related to budgeting and planning within the ministries.
2010	Improvement of the implementation quality – strengthening the accountability and expanding the capacities for service provision.
Continuing	IPS II, updating and improving continually.

National Strategy for Development and Integration 2015-2020 *"is the document that presents the national vision regarding democratic, social, and economic development for the period 2015-2020, aiming to assist the goal of accession in the European Union"* (NSDI 2015-2020, page 9). The national strategy delineates viable and sustainable policies in each sector for the accomplishment of the government policies' goals. The sectorial strategies satisfy strategic political commitments from the Government Program, requests from the European Integration process, as well as the key priorities in the fields of public investments or foreign assistance. The cross-sectorial strategies cover public commitments, which involve more than one unit of local government.

Over the years, the IPS has evolved by introducing two main elements for strategic planning and coupling of national policies: (i) medium to long-term strategic planning of the NSDI-II as the main guide of policy-making in terms of setting the national priorities and strategic objectives, supported by the sectorial strategies, and (ii) the Medium-Term Budget Program (MTBP), according to which every ministry and public agency must plan in three-years periods and within the expenditures' ceilings for the accomplishment of the policies' objectives, which serve as intermediate steps for the completion of the NSDI-II.

Within the framework shown in the diagram below, the Medium-Term Budget Program (MTBP) ensures that the resource allocation in the medium and short-term reflects directly the strategic priorities delineated in the National Strategy for Development and Integration. The period of three years set for expenditures planning creates a high degree of unpredictability for the future allocations. The NSDI is broken down into policies and strategies for line Ministries (sectoral and cross-sectoral strategies). These policies and strategies are linked to the financial resources — the MTBP makes these links transparent. The first year of the MTBP is the annual budget.

Figure 4. Relationship between the NSDI and the MTBP[7]



Medium-term budgeting requires that all revenues and expenditures are assessed in the medium-term. Also, resource allocation must be planned in a predictable way for the medium-term. At a central level, this implies that the macroeconomic framework will be used to estimate revenues and expenditures for the following three years transparently and realistically.These macroeconomic forecasts are prepared by the Ministry of Finance, based on the information provided by the Central Bank of Albania and the INSTAT.

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

3.1.2 From the MTBP to the annual budget proposal

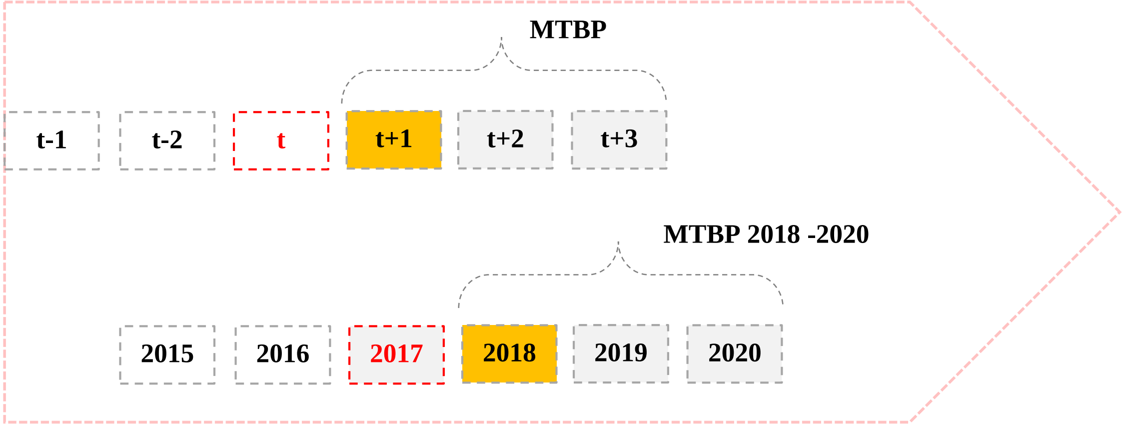
Since the 1990s, the Medium-Term Budget Program (MTBP) has become a key element of the budgeting reform at the international level. The MTBP assures that the annual budgetary allocations reflect medium-term (3 years) political priorities by establishing a direct link between the budget allocation and policies objectives. Countries in transition, such as Albania, Russia, Armenia, Georgia, Bosnia and Herzegovina, and Serbia, became acquainted with this new budgeting approach between 1999 and 2000. In Albania, the first initiative to introduce the MTBP

[7] See Manual of Integrated Planning System, DSDC/GoA, p. 12

as central level dates back to November 1999, while the first budget document was elaborated in February 2000. The latter comprised the Medium-Term Budget Program (MTBP) for the period 2001- 2003. However, the inclusion of all line Ministries in the process was completed only between 2007 and 2009. Nowadays, the MTBP, at the central level, continues to be prepared and improved constantly. At the local level the process is relatively new and not yet fully consolidated.

The specification of the strategy-oriented program policies and their prioritization are substantial advantages of the program-based budgeting. Both these benefits also apply to the annual budget. The latter is just the first year of the MTBP.

Figure 5. The relationship between the annual budget and the Medium-Term Budget Program



t-1 and t-2	previous years;
t	ongoing year;
t+1	(highlighted in yellow) represents the first year of the MTBP and the year of the annual budget
t+2	the second year of the MTBP
t+3	the third year of the MTBP

The preparation of the MTBP is a legal requirement not only for the pertaining central institutions but also for the local ones. Based on the law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania,"* since 2009, the local government units are obliged to draft their MTBP. Furthermore, the article 7 of the law no. 68/2017 *"On Local Self-Government Finance"* provides that *"The **Chairman** of the local self-government unit **proposes to the council** of the LGU **the strategic development priorities of the unit, local fiscal policy, the Medium-Term Budget Program and the annual budget proposal, local borrowing**, as well as the rules, procedures and the necessary measures to ensure the sustainability of the financial management system of the unit."*
In the recent years, the LGUs have gained experience and have improved regarding the strategic development planning and medium-term budgeting. Although they are facing some difficulties,

the local government units are attempting to link the strategic development documents with the medium-term budget. This practice is gearing increasing financial resources toward strategic development objectives. Yet, there are often discrepancies between what is planned and what the local government units are able to implement. Besides the scarcity of the financial resources, other factors, such as lack of experience or political will, can inhibit the process.

The goal of the MTBP is to turn the SDP of the LGU into an implementable document, through the planning of local public finances for periods of three years. Practically, the MTBP serves as a bridge between the strategic development plan and the annual budget proposal, as the latter constitutes the first year of the MTBP. The document of the MTBP reflects the collection and the allocation of the financial resources in the medium-term, through the direct link between programs with activities, products, targets, and policy goals. Furthermore, the MTBP may serve as an instrument to assess the financial and planning performance of the LGU, the quality of the financial management, reporting, and control. To use the MTBP, one must understand the terminology used during its preparation. For this reason, we will briefly check some of these terms as specified in the law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania"*:

"Medium-Term Budget Program" — is the submission of budget spending plans for three years, through the direct link of programs to activities, products, targets and policy goals.

"Budget program" — is a set of activities of the general government unit, which contribute together in the production of identifiable and measurable products that help directly or indirectly in achieving the objectives and goals of budgetary policy thereof.

"The purpose of the budget program policy" — is the desirable and measurable result that is achieved in the long-term by the activities of the general government units. This purpose must be accompanied by the relevant performance indicator, including the initial and target value.

"Objectives of the budget program policy" — are specific outcomes precisely measured in time, amount, and price, which are realized in the short or the medium-term and which constitute intermediate steps towards achieving the policy goal of the budget program. To simplify the management of this process, it is suggested that each budget program comprises 3-4 objectives. As above, each objective must be put together with performance indicators, including the initial and target value.

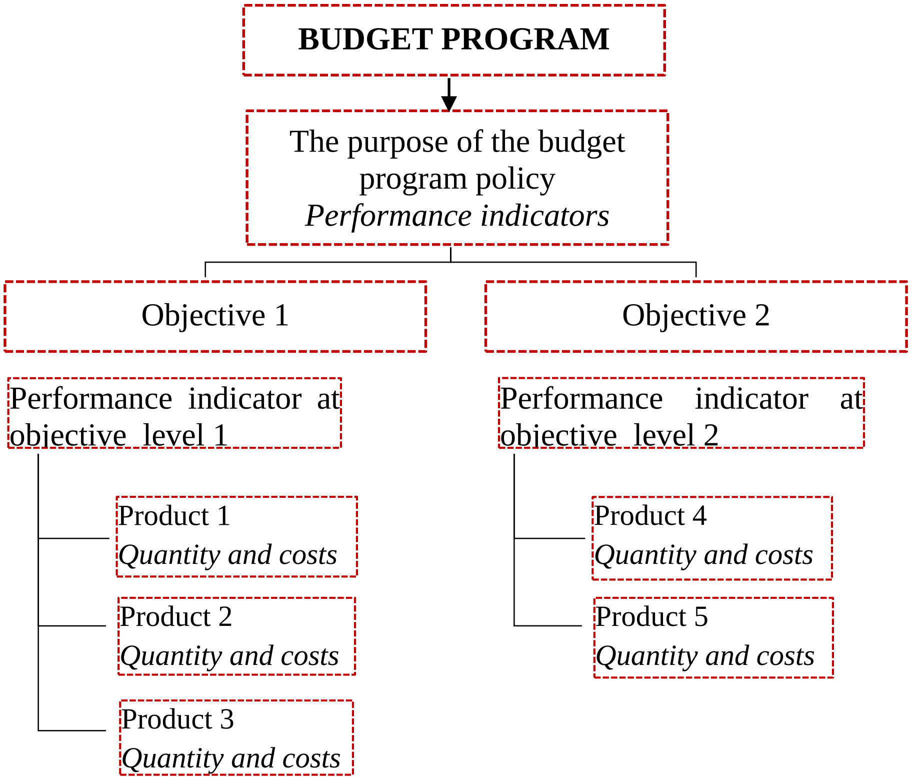
"Inputs" — are financial, human, and physical resources, used for carrying out activities that are necessary for the exercise of certain functions and are consumed with the production of certain products.

"Budget programs activity" — are all the activities carried out under a program for the realization of a product.

"Products" — are goods and services obtained from the execution of the budgetary activities in the budget program. Furthermore, they must be of similar nature and, if possible, oriented toward specific policy objectives and priorities of the local government units. If the products are not homogenous and, consequently, do not add to the achievement of a common result, theoretically, they must be divided into two distinct budget programs (according to the standard instruction on the preparation of the Medium-Term Budget Program at the local level [draft 2018]). For each of the relevant products, one must specify the measuring unit, planned quantity, and total costs.

"The ceiling of the Medium-Term Budget Program" — is the upper limit of expenditures within which the general government units prepare the budget requests for this program. Program leaders must adhere to these ceilings, as they draft the budget program. The program ceiling can be further broken down into ceilings for wages, goods and services, and so on.

Figure 6.Budget program structure

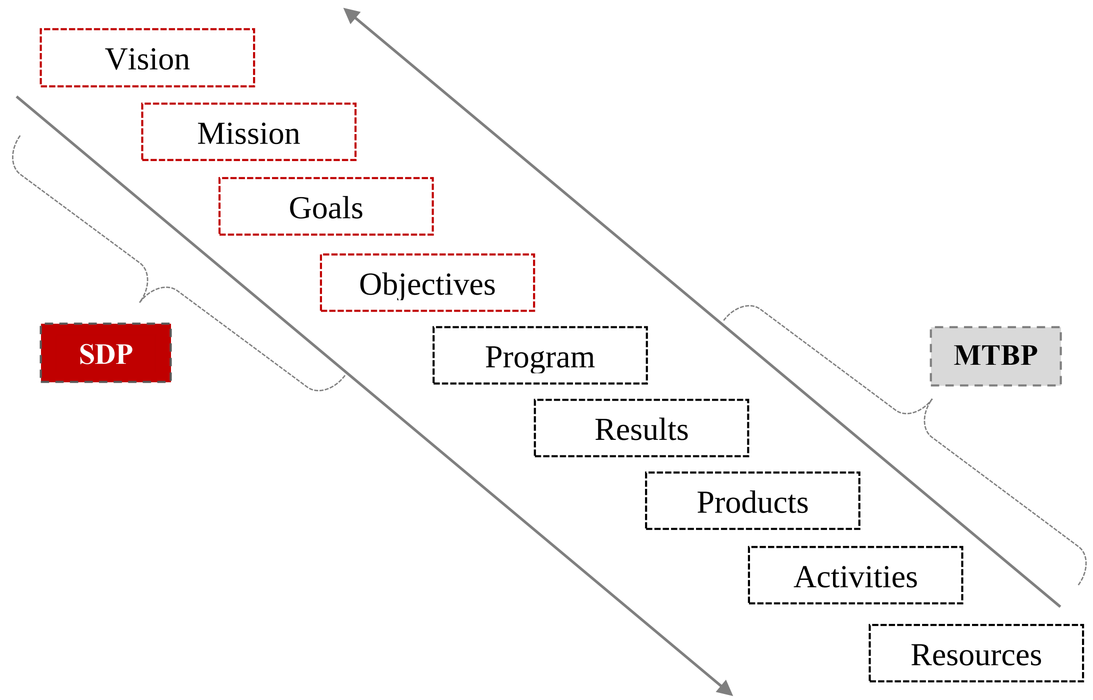


Source: Standard Instruction "On the preparation of the MTBP of the local self-government units" - Draft, 2018

3.1.3 Strategic objectives and the Medium-Term Budget Program

The Strategic Development Plan (SDP) plays an essential role during the preparation of the MTBP. The SDP represents a logical framework for the MTBP. When the local government units elaborate or review the MTBP, they either translate the priority objectives of the SDP into planned products, activities and related resources for the medium-term or they re-examine the connection between the long-term policies' plan (SDP) and the medium-term budget (MTBP).

Figure 7.The SDP and the MTBP

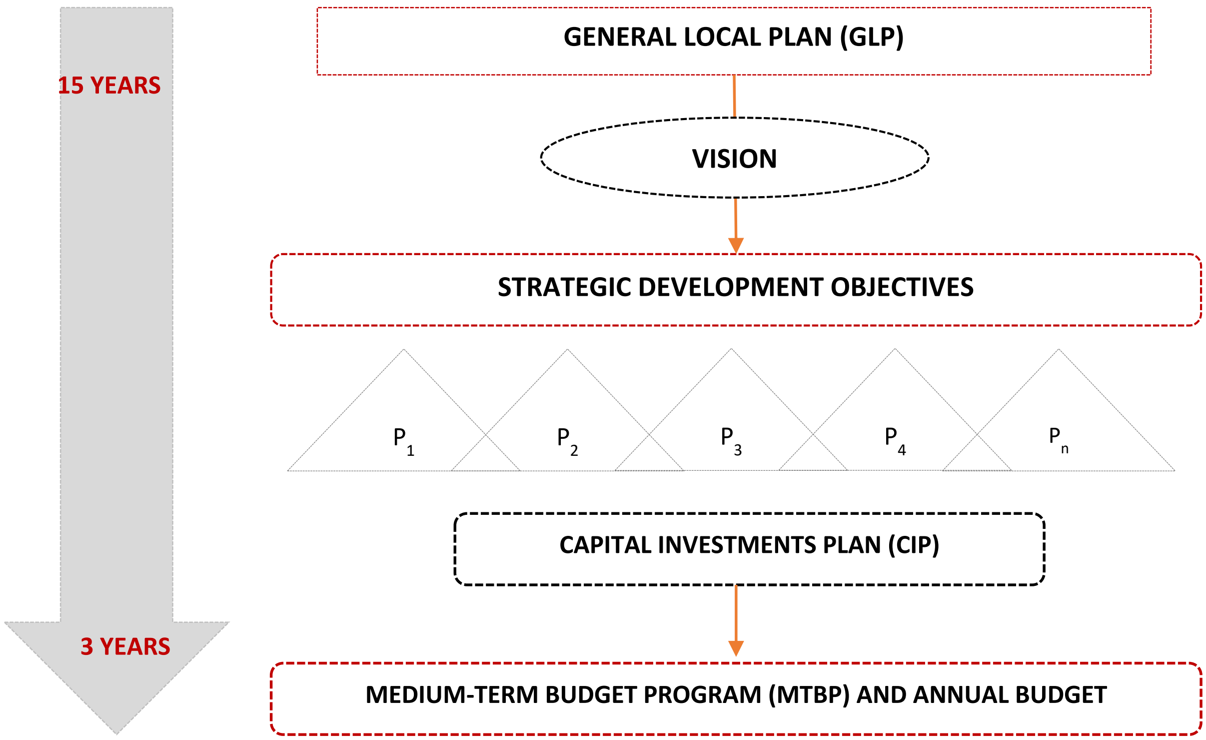


The link between the SDP and the MTBP guarantees an allocation of resources compatible with the goals and objectives of the strategic plan and reflective to the municipality's strategic priorities. In this way, the budget process can have a strategic approach and becomes policy- and needs-oriented.

As already mentioned under 2.2.1, at the present time, the local self-government units in Albania do not have Strategic Development Plans (SDP). The majority of the municipalities have completed the preparation of the General Local Plan (GLP), which comprises the Territorial Development Strategy (TDS). The strategic document delineates the vision, objectives, programs, and projects. The GLP has a long-term approach, between 10 and 15 years, and cannot be implemented within a year. Thus, to operationalize the GLP and turn it into a useful instrument for the policymakers and the citizens, the GLP must be executed in a step by step process.
Timely implementation and the achievement of predetermined strategic objectives require financial resources, so, in a way, the GLP must be linked to the financial planning (the MTBP and

the annual budget). This bridge, between the GLP and the MTBP, is built by the Capital Investments Plan (CIP). The Regulation on Territorial Planning, approved by the DCM 671/2015, article 54, point 5/b, defines that the territorial development plan is accompanied by the action plan for the implementation of the GLP, which among other things includes *"the total costs for the implementation and the main funded activities, together with the capital investments plan."* The last sentence is to be understood as the legal base for the preparation of the Capital Investments Planning document.

Figure 8. From the GLP to the MTBP and the annual budget



The CIP is prepared as a strategic financial document and addresses those investments and capital improvements that are deemed as necessary for the implementation of the GLP's decisions. The CIP aims to guarantee:

- the necessary mechanisms through which the strategic objectives, identified in the TDS, can be best integrated into the planning process;
- a direct link between essential capital projects and expenditures' priorities through the efficient allocation of available resources;
- improved budgetary forecasts and focus on long-term goals;
- effective and efficient, from an economic standpoint, use of money for public expenditures;

- the enforcement of fiscal discipline, which allows the planning of public expenditures within a realistic, macroeconomic and fiscal, framework, in line with the MTBP.

The Medium-Term Budget Program provides a general view on the availability of financial resources to cover current expenses and to accomplish capital or developmental expenses. Furthermore, the MTBP identifies those TDS projects that are feasible in the medium-term for the local self-government unit. A progressive adoption of these projects in the MTBP document is accomplished by earmarking the pertaining funds year after year. The legislation on local government finance and the best practices of public finance management require the inclusion of every investment project in the budget document and the avoidance of off-budget activities as much as possible.

Group Work 1. The Link between the SDP and the MTBP

Assignment:	Produce a simple and schematic sketch that illustrates the relationship between the Strategic Development Plan (SDP) and the Medium-Term Budget Program (MTBP).
Group size:	4-6 participants
Time for group work:	30 minutes
Working materials:	Flipcharts.
Reporting time:	10 minutes for each group.
Reporter:	1 person per each group.

The group work 1 aims to further enhance the participants' understanding of the relationship between the SDP and the MTBP. The outcome of this exercise will be an important starting point for Module 2, which explains the relationship between the SDP and the MTBP in more details.

3.1.4 LGU's functions that limit the scope of the LGU's MTBP

During the preparation of the Medium-Term Budget Program, the LGU must consider all policy areas under their responsibility. Based on the law no. 139/2015 *"On Local Self-Government,"* the local government units exercise exclusive and delegated functions and competencies. These delegated functions can be transferred to the local self-government units through laws or agreements and are supported by sufficient transfers to finance the costs of their implementation. The article 22 of the law no. 139/2015 *"On Local Self-Government"* specifies that *"local self-government units regulate and administer the exercise of their functions in full effect and free from outside control, in accordance with the Constitution, the European Charter of Local Self-Government, and the laws in force."*

Based on the law no. 139/2015 *"On Local Self-Government,"* the local self-government units exercise their functions and powers in the following fields:

- Infrastructure and public services

    - Production, treatment, transmission, and supply of potable water.
    - Collection, disposal, and treatment of wastewater.
    - Collection and disposal of rainwater and protection from floods in the residential areas.
    - Construction, rehabilitation, and maintenance of local roads, road signage, sidewalks, and public squares,
    - Lighting of public areas.
    - Local public transport.
    - Construction, rehabilitation, and maintenance of public cemeteries, as well as the provision of public funeral services.
    - Service of public decoration.
    - Parks, gardens, and green public areas.
    - Collection, disposal, and treatment of solid and domestic waste.
    - Construction, rehabilitation, and maintenance of the pre-university buildings save professional schools.
    - Management and arrangement of preschool education system in kindergartens and nurseries
    - Construction, rehabilitation, and maintenance of buildings of primary health service, the organization of local-level education and promotional activities related to health protection, and the management of centers and other services in the field of public health, in the manner specified by law
    - Planning, management, development and control of the territory, in the manner prescribed by law.

- Social services

  - Initiation and management of social services at the local level for the poor, individuals with disabilities, children, women, women as heads of households, battered women, victims of trafficking, mothers or parents with many children, the elderly, etc., by the manner specified in the law.
  - Construction and management of dwellings for social housing, in the manner prescribed by law.
  - Construction and management of centers for the provision of local social services
  - Creation, in cooperation with the Ministry responsible for the social welfare, of a social fund for the financing of services in the manner prescribed by law.

- Culture, sport, and recreational services

  - Development, protection, and promotion of the local cultural heritage and management of the facilities for exercising such functions.
  - Organization of cultural activities, promotion of national and local identity, and management of the facilities for exercising such functions.
  - Development, protection, and promotion of libraries and reading halls to serve the civic education.
  - Organization of sporting, recreational, and entertaining activities, and development and management of the institutions and the facilities for exercising such functions.

- Environmental protection

  - Implementation of local measures to protect the quality of air, soil, and water from pollution.
  - Implementation of local measures to protect the citizens from acoustic pollution.
  - Promotion of educational activities, at the local level, which are related to environmental protection.

- Agriculture, rural development, public forests and pastures, nature, and biodiversity

  - Management, operation, and maintenance of irrigation and drainage infrastructure, transferred to their ownership in the manner prescribed by law.
  - Management and protection of agricultural lands and other types of resources, such as barren lands, etc., in the manner prescribed by law.
  - Creation and management of the local system for agricultural and rural information and consultation, according to the legislation in force.

- Creation and management of local grant schemes for agriculture and rural development financed by the local budget and/or co-financed by third parties, guaranteeing gender-equality regarding the access to funds.
- Management of public forest and pasture resources, according to the legislation in force.
- Protection of nature and biodiversity, according to the legislation in force.

▪ Local economic development

- Preparation of strategic development plans and programs for local economic development
- Establishment of functioning public markets and trade networks
- Support for the development of small businesses, through promotional activities, such as fairs and advertisements in public areas
- Organization of services in support of the local economic development, such as provision of information on businesses, organization of promotional activities, allocation of public assets, etc.
- Publication of informative brochures, creation of portals with economic profile, and so on.
- Provision of financial grants to support small and medium businesses activities, as specified in the legislation in force, guaranteeing gender-equality regarding the access to funds.

▪ Public safety

- Offering civil protection at the local level and managing the relevant structures in the manner prescribed by law.
- Providing firefighting services at the local level and managing the relevant structures in the manner prescribed by law.
- Promoting amicable relations across the community, preventing and mediating the conflicts within the community.
- Preventing administrative offenses and enforcing, inspecting, and monitoring the implementation of the regulations of the local government units within their local jurisdictions in accordance with the applicable legal provisions.

In addition to exclusive functions and powers, the local government units also exercise delegated functions. According to the definition provided by the law no. 139/2015 *"On Local Self-Government,"* delegated functions are *"are those functions of the central government whose exercise is delegated to the local self-government units."* The Ministries, according to their areas of responsibility, have the right to monitor and supervise the LGUs regarding the application of the national standards that are set in the pertaining legislation. Furthermore, the LGUs are subject to external audit by central government bodies concerning the use of conditional funds for the implementation of delegated functions.

According to the Albanian legislation, the central government transfers the delegated functions to the LGUs by law or by agreement. The LGUs manage the execution of the delegated function based on the relevant legislation. The most important part is that *"in any case, the delegation of functions is accompanied by sufficient transfers on the part of the central government to cover the costs of exercising these functions."*

Moreover, the law no. 139/2015 *"On Local Self-Government"* provides the following elements related to the delegated functions:

- The delegated functions and powers can be mandatory or non-mandatory.
- The mandatory functions and powers are those prescribed by law.
- Central institutions, when permitted by the law, authorize the municipalities or the regions to perform specific functions, determining, when appropriate, the procedures for assessing their performance.
- Central institutions can authorize the municipalities and/or the regions to exercise a single prerogative for a specific function.
- Central institution can delegate to the municipalities or regions other non-mandatory functions and powers, based on an agreement between the local self-government unit and the central institution responsible for such function by law.
- In any case, the central government provides the local government units with the necessary financial support for the exercise of the delegated functions and powers.
- The municipalities or the regions, on their initiative, may use their financial resources to perform the delegated functions with the goal of improving services in the interest of the community.

The law no. 139/2015 *"On Local Self-Government"* sanctions that the local government units can cooperate with each other for the execution of functions and the provision of services. This regulation applies to the Albanian local government units, as well as to those from other countries. In the latter case, before the conclusion the agreement, the local self-government units have to confer with the Ministry of Foreign Affairs. The article 14 of this law provides that *"to perform their functions and provide specific services for the common good, two or more local self-government units within a region or from different regions may perform together any function and/or service assigned by law by entering into, or implementing, a joint agreement or contract, delegating specific powers and responsibilities to one another or contracting with a third party."*

Any agreement of cross-local cooperation must define: (1) its purpose; (2) the functions to be exercised by each municipality or jointly; (3) the means by which the purpose is to be accomplished; (4) its duration and the degree to which the powers have been delegated; (5) the respective amounts of the financial contribution and the method for sharing revenues and other benefits.

Next, the cross-local cooperation agreement must be approved by the respective councils of each of the local self-government units that is part of the agreement. The financial obligation for each of the included LGUs is approved annually as a separate item in the local budget.

Two or more local self-government units, within a region or from different regions, can conclude agreements among themselves or with the central government institutions for the creation of a juridical person separated from the parties to whom they grant authority and specific powers. This juridical person is labeled as a "Subject of Joint Powers". The contribution of each party must be stated explicitly concerning the funds, services, equipment, qualified personnel, or any other assets necessary to achieve the set objectives. The Subject of Joint Powers must officially notify the Prefect within 30 days from the signing of this agreement. The agreement becomes applicable after the Prefect assesses its lawfulness within the time limit prescribed by law.

3.1.5 The role of the LGU in accomplishing their functions

The local government units engage in three main activities: offering services, regulating, and catalyzing.

- The LGUs as service providers — this is certainly the core role for the LGUs. It includes "routine" operational functions such as waste collection and disposal, various administrative tasks, maintenance of the public spaces and parks, public assets management, etc. Furthermore, the local authority is liable for the public investments, albeit, traditionally, this responsibility has often been shared with the central government.
- The LGUs as regulators — this is the second role of the LGUs and has become increasingly more important due to the growth of the private sector. In this role, the LGUs sanction rules regarding the community's life and the coexistence of the private interest with the public one.
- The LGUs as catalyzers — this role is related to the responsibility of the local government units for the socio-economic development in their territories. The latter includes the buildup of the "community movement" and the creation of a suitable environment for economic development.

3.1.6 Basic steps for the preparation of the MTBP

The LGUs in Albania must prepare the Medium-Term Budget Program document according to the specifications in the relevant legislation.

Table 12. The MTBP's preparation calendar

Activity	Prepared by:	Approved by:	Deadline:
The calendar for the MTBP and proposed annual budget preparation	The Mayor	The municipal council	Until 31/12 (*comes into force on 01/01 of the next year)*
Revenues assessment and forecast	Presented by the Mayor	The municipal council	31/01 (approved by the council before 01/03 of the same year)
Expenditure initial ceilings of the MTBP at the budget program level	Proposed by the Mayor	The municipal council	01/03 and must be approved before 15/03 of the same year
Internal instruction on the preparation of the MTBP with the approved budgetary ceilings for each program and submission to the spending units.	SMG & PMT & the respective Directories/Departments	The mayor	5 days after the approval of the initial ceilings – 20/03 of the same year
Preparation of the budgetary requests within the limits of the initial ceilings and justification for additional funds.	PMT& the respective Directories/Departments		During the month of April of the same year
The preparation of the final forms of ceilings	The Mayor	The municipal council	During the month of July and are approved by the municipal council before 20/07 of the same year.
Additional instruction on the preparation of the unit's budget and submission to all the spending units	The Mayor	The Mayor	5 days after the approval of the final forms of the ceilings – date 25/07 of the same year
Spending units prepare and present budgetary requests	PMT & SMG		01/08 of the same year

within the limits of the ceilings in their final form			
Preparation of the first MTBP document.	The Mayor	The Mayor	30/05 of the same year
Submission of the MTBP to the MFE	The Mayor		01/06 of the same year
The MFE sends its first evaluation regarding the MTBP to the LGU.	MFE		20/06 of the same year.
The approval of the MTBP		The municipal council	30/06 of the same year
The publication of the MTBP	The Mayor		05/07 of the same year
Additional instruction for the revision of the MTBP	MFE	MFE	10/07 of the same year
Revision of the MTBP			July – August of the same year
Public hearings			1 – 15/09 of the same year
Revision of the MTBP and resubmission to the MFE	LGU		15/09 of the same year
The MFE organize public hearings	MFE		05/10 of the same year
The MFE sends its final opinions to the central unit	MFE		20/10 of the same year
Approval of the MTBP and annual proposed budget.	The Mayor	The municipal council	30/11 of the same year and approved before 25/12 of the same year
Publication of the MTBP, annual budget and accompanying materials.	The Mayor		31/12 of the same year

Source: Law 68/2018 “On local self-government finance”

Group Work 2. Program's policy	
Assignment:	Identification of the relevant budget programs for the respective LGUs and the preparation of the program's policy and objectives.
Group size:	4-6 participants: 3 groups for 3 different programs.
Time for group work:	30 minutes
Working materials:	Paper, size A4.
Reporting time:	10 minutes for each group.
Reporter:	1 person for each group.

In group work 2 participants identify which of the 29 listed programs in the Financial Planning Tool (FPT) are implemented in their units. Furthermore, they have to prepare the declaration of the program's policy and objectives for three of the identified programs.

3.2 The approach to Medium-Term Budget Program

The law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania"* defines the Medium-Term Budget Program (MTBP) as *"the submission of budget spending plans for the three upcoming years, through the direct link between programs with activities, products, targets and policy goals."* This definition states that spending plans must be connected to a policies' plan according to the program. For each program, the MTBP must provide information on the program's goals, objectives, products, planned activities, costs, and expected revenues.
The entire process of the MTBP's preparation must adhere to the following essential principles:

- The MTBP should be comprehensive and cover all the funds that are spent by the LGU;
- The document must be prepared and presented in a form that is easily understandable for the citizens and the local council members, as it serves as a channel for public communication;
- The budget preparation (especially the identification of priorities) should include a broad public consultation process and for that purpose, public hearings are organized to receive feedback from the public before the budget is approved;
- The local government council, through the responsible commissions, should play an important role regarding the control of budget expenses;
- The proposed budget should enable the supply of at least basic public services in the best possible way for the community;
- The investment projects should include information on their construction costs, timelines, and maintenance costs, and should be compatible with the long-term strategic development objectives.

The preparation of the MTBP should be a transparent and inclusive process regarding the planning of expenditures and revenues for a three-year period.

Table 13. Main features of the MTBP

Features	Description
Multi-year	Provides planning information for three years: t+1, t+2, t+3, in addition to the figures from the last two years and the current budget.
Comprehensive	Combines financial planning with policy planning.
Broad-based	Includes budget information for all the spending units under the control of the LGU.
Performance-oriented	Provides information on goals, objectives, indicators, and targets.

Indirectly, every budget is (or should be) a declaration of the respective community's goals. At a minimum, the allocation of the financial resources among different functions reflects both the particular goals that local government hopes to attain, and the relative priorities attached to those goals. Furthermore, the budget represents the political philosophy of the local elected officials. By earmarking funds for some activities and by reducing or omitting funds for others, the policymakers indicate those services, which the government will (or will not) attempt to provide or will provide with greater or lesser emphasis. The distribution of the financial resources is the final product of the interaction between the official's goals and the community's expectations. To summarize, the budget serves successfully as a statement of the community's goals if the budget's main message and document reveal the philosophy of the elected officials and when it manages to reconcile that doctrine with the proposed governmental activities or services and with the community needs and expectations.

The MTBP can serve as an instrument to strengthen the fiscal discipline in the medium-term. To achieve this objective, the LGU must submit realistic revenue estimations and cautious expenditures plans. The expenditure plans must comply with the expenditure ceilings. These ceilings must reflect the costs for the implementation of the program's policies and the strategic priorities. In this way, the MTBP serves as a tool for expenditure control already at the beginning of the MTBP preparation.

The MTBP is a strong and verifiable promise of the policy-makers towards their citizens. Thus, it also serves as an accountability instrument.

3.2.1 Top-down and bottom-up processes during the preparation of the MTBP

According to the legislation in force, the LGU must prepare the MTBP document annually for the three upcoming years. In this way, it is a permanent exercise which requires top-down and bottom-up processes.

Table 14. MTBP preparation process

Expenditures ceiling	Top-down	Bottom-up
	Strategic solutions	**Operational solutions**
Program Policy Goal	desired	feasible
Program Policy Objectives		
Program Products		
Program Activities		
Program Resources		

The process starts with reflections of the strategic framework for the local self-government unit. The revision of the local policies includes the consideration of the general orientations of the SDP together with the evaluation of the achieved results regarding objectives, products, and activities. Central government delineates the macroeconomic framework through the periodic guidelines sent to the LGUs.

The preparation of the MTBP, through the top-down model, requires the following processes:

- Projection of all revenues of the LGU for a 3-year period (local taxes and fees, unconditional, conditional and specific transfers, donations, grants for ongoing projects, economic activities, and borrowing, if an agreement has been signed)
- Distribution of the planned resources between programs of the LGU, based on the SDP priorities. This distribution necessitates the preparation of budgetary ceilings for each budget program.

The preparation of the MTBP, through the bottom-up model, requires the following processes:

- Planning the activities to meet the program goals.
- Costs assessment for the planned activities and capital investment projects for each program and inclusion of these estimations into the MTBP. The expenditures budget must be compatible with the ceilings.
- Forecasting the earmarked resources for each program (fees, fines, conditional grants, etc.)

Top-down and bottom-up processes in the FPT

Let us take a general look at the way these processes are implemented in the Financial Planning Tool (FPT).

We consider the sheets on revenues estimation and on budgetary ceilings regarding top-down processes. For the bottom-up process, analyze the budget request forms. *Please, go to the relevant sections of the FPT manual for the illustration of this process and for further information.*

The preparation of the medium-term revenues forecast of the local government unit must precede the drafting of the MTBP. For this reason, no later than January 31st, the responsible institution of the local government unit prepares and presents for review and approval to the council of the local self-government unit the report on the medium-term revenues forecast. This report includes data on revenues for the two years preceding the budget year, expected revenues for the budget year, and expected revenues for the three subsequent years. Based on what was said before, the FPT allows revenues estimation in a disaggregated way or source by source. Practically, for each source, we must calculate the influence of the considered factors (in percent). If we do not have historical data on a revenues source, set a value for the first year of the MTBP into the tool and an appropriate growth rate for the upcoming years. The considered factors and their influence on total revenues are an essential part of our evaluation. Regarding transferred funds from central government, conditional or unconditional transfers, we must refer to the specific guidelines produced by the Ministry of Finance and set the pertaining values per each year.

Figure 9. FPT revenues forecasts sheet

(E1) ESTIMATION OF BUDGET RESOURCES

	2015	2016	2017	2018									2019								
	Year t-2 (actuals)	Last year (actuals)	Current year (exp. end of year outturn)	Impact of real economic growth in %	Impact of inflation in %	Impact of population growth in %	Estim. impact of regulation in %	Improved use of tax potential in %	Tax rate change in %	Estim. impact of other factors in %	Base value of new revenue		Impact of real economic growth in %	Impact of inflation in %	Impact of population growth in %	Estim. impact of regulation in %	Improved use of tax potential in %	Tax rate change in %	Estim. impact of other factors in %	Base value of new revenue	
REVENUES FROM OWN SOURCES	122'900	148'100	163'300									193'672									200'053
REVENUES FROM LOCAL TAXES	400	500	600									2'672									2'953
Local tax on small business	-	-	-								1'000	1'000									1'000
Tax on immovable properties	400	500	600									1'672									1'953
Tax on buildings	-	-	-								1'000	1'000		2.0%	1.0%		7.0%				1'100
Tax on agricultural land	-	-	-									0									0
Tax on urban land	-	-	-									0									0
Tax on property transactions	400	500	600	2.0%				10.0%				672	2.0%				5.0%	20.0%			853
Local taxes on hotel service	-	-	-									0									0
Tax on infrastructure impact of new buildings	-	-	-									0									0
Tax on tables	-	-	-									0									0
Local Taxes on revenues derived from donations, inheritances, testaments and local lotteries	-	-	-									0									0
Temporary taxes aaa	-	-	-									0									0
Temporary tax 1 bbb	-	-	-									0									0
Temporary tax 2 ccc	-	-	-									0									0

	2015	2016	2017	2018								2019							
	Year t-2 (actuals)	Last year (actuals)	Current year (exp. end of year outturn)		Improved use of fee potential in %	Estim. Impact of legal adjustments in %	Expected volume increase of activity in %	Increase of fee per unit in %	Estim. impact of other factors in %	Base value of new revenue	-		Improved use of fee potential in %	Estim. Impact of legal adjustments in %	Expected volume increase of activity in %	Increase of fee per unit in %	Estim. impact of other factors in %	Base value of new revenue	-
REVENUES FROM LOCAL FEES	22'000	27'000	32'000								39'100								40'220
Fee on waste management	2'000	3'000	4'000								8'400								9'420
Fee on cleaning for families	-	-	-							4'000	4'000				20.0%				4'800
Fee on cleaning for institutions	-	-	-								0								0
Fee on cleaning for businesses	2'000	3'000	4'000		10.0%						4'400				5.0%				4'620

The Financial Planning Tool (FPT) uses a general ceiling for each program, and within each program, there are three types of sub-ceilings: the first for wages and social insurances, the second for the purchase of goods and services (consumption with the exemption of staff compensation), the third for capital investments. While the first and the second represent consumption ceilings, the third reflects the minimal demand for capital expenditures. The ceiling for capital expenditures is what is left from the subtraction of the two consumption ceilings from the total ceiling. When the consumption ceilings are set, the Chairman and council of the LGU can handle the strategic allocation of the resources, according to the functions, limited by the general ceiling; besides, the political authorities can incite investments and keep staff expenses under control through the control of the sub-ceilings.

Figure 10. FPT budgetary ceilings sheet

(D1) CEILINGS

		2018	2019	2020
		Budget year t+1	Budget year t+2	Budget year t+3
Program 1	**011 Executive and legislative organs, financial, fiscal, external**			
Saleries and social insurence		12,000	13,000	14,000
Other current expenditures		6,000	6,000	6,000
Capital investments		4,000	4,000	4,000
Overall ceiling		22,000	23,000	24,000
Program 2	**013 General services**			
Saleries and social insurence				
Other current expenditures				
Capital investments		0	0	0
Overall ceiling				

Through the budget request forms (BRF), we can assess in detail earmarked expenditures and revenues for each of the programs identified in the FPT.

The upper part of the BRF includes a summary of expenditures and direct revenues that are planned for this program and a control section that asserts whether expenditures are within the established boundaries or not. The FPT collects information automatically from functional forms of the budgetary requests at the program level.

It is essential for the line departments to have sufficient time to prepare their budgetary requests. According to the international standards, four weeks would be the optimal time for this process. The preparation of the budget requests, from the bottom-up approach, follows the functional classification. Based on the functional – programmatic classification, there should be a BRF for each program. To track the information, there can be at most four activities for each BRF (three predetermined and one available to be assigned according to special local needs). The FPT demands the division of expenditures for each activity in two ways. Firstly, there must exist a distinction between capital expenditures (or project costs) and recurrent expenditures. Secondly, there must be an economic classification of expenditures, i.e., expenses on wages, other actual expenses, etc. For each activity, the BRF has a separate section to estimate revenues from fees, conditional grants, donations, inheritances with a destination, and other sources. The last two are earmarked for the activity, hence conditional grants and revenues from donations. Tables and graphs on gross and net expenditures of the program are available at the output sections of the FPT. The distinction between gross and net expenditures lies in the fees and earmarked revenues for each activity, or, for each program.

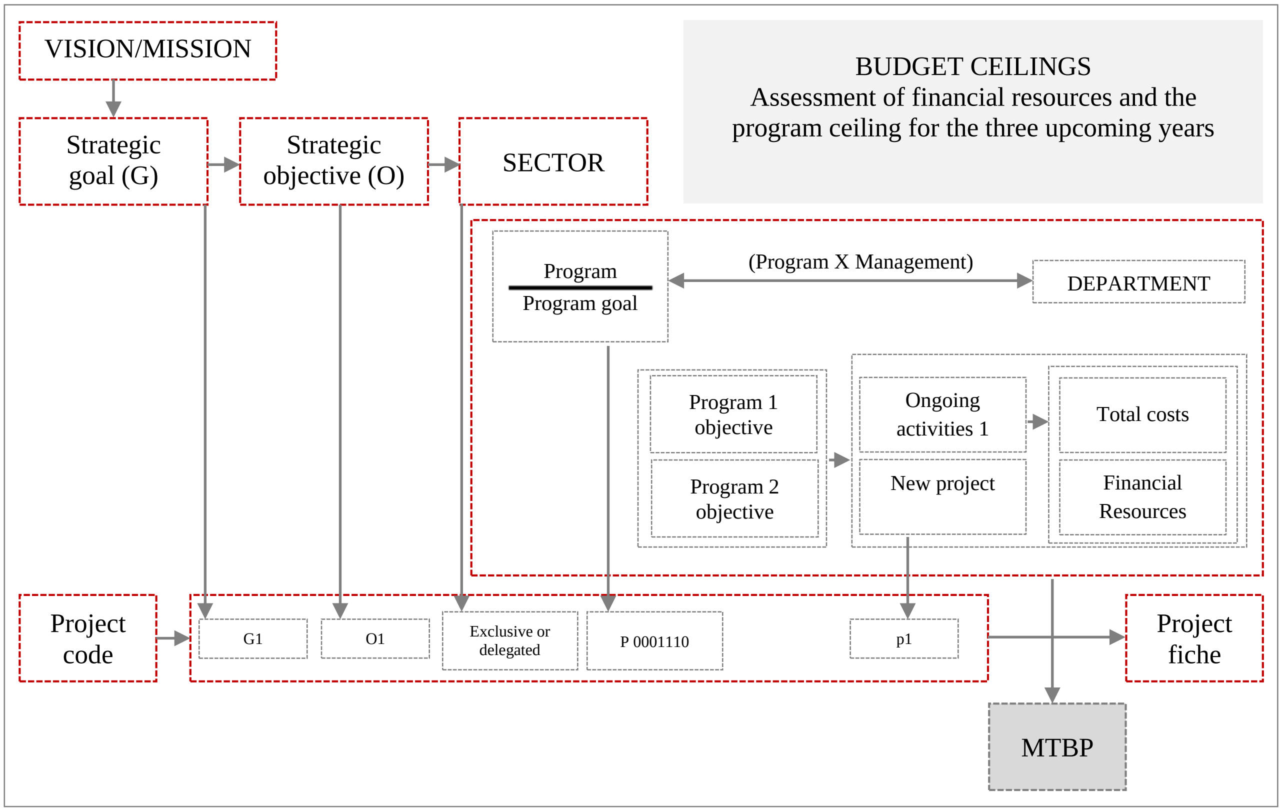
3.2.2 Strategic orientation of the MTBP programs

The Strategic Development Plan can be successfully implemented only if it is connected with the budget process. Budgetary plans, in the traditional form, do not link available resources with strategic objectives in an explicit and transparent way.

In contrast, the use of the MTBP simplifies the allocation of limited financial resources in line with the strategic objectives and priorities of the local government unit. Besides, the MTBP facilitates the presentation of multi-year projects. The latter can hardly be presented in the annual budget. The performance-oriented MTBP also serves as an instrument for the assessment of the budget execution. In this way, it is much easier to evaluate the effectiveness and efficiency of resource utilization.

The following figure illustrates in a detailed way the link between the SDP and the MTBP. In this framework, each goal and objective of the SDP is integrated as a specific function of the local government unit. Next, for each budget program, we identify the pertaining activities and projects.

Figure 11. The SDP and its detailed relationship with the MTBP



3.2.3 Strategic Management Group (SMG)

The first official step for the preparation of the MTBP of the LGU is the establishment of the working groups: the SMG and the PMT. The SMG and the PMT can be established by an internal order of the authorizing officer of the local government unit or can be formed by two different orders, i.e., the SMG proposes the establishment of the PMT.

In addition to the compliance with the procedural demands for the preparation of budgetary documents, the preparation process should also be inclusive: all those that manage local activities should be part of the preparation of the MTBP and the annual budget proposal. During the elaboration of the MTBP, the authorizing officer, in the role of the coordinator of the Strategic Management Group, and the executing officer, in the role of the secretary of this group, assist the Chairman of the local government unit.

Who are the authorizing officer and the executing officer?

The article 21/c of the MFE Instruction (draft 2018) "On standard procedures for the preparation of the Medium-Term Budget Program of the Local Government Units," states that, *"The head of the local self-government unit is usually the authorizing officer of the local self-government unit, who is responsible for the implementation of financial management and control in all budget structures and programs, including planning, implementation, monitoring of risk controls related* *to budget implementation, financial accounting and reporting, and is also responsible for approving and following up the rules and procedures to be followed in budget requests' preparation process in accordance with the requirements of the permanent guideline and annual guidelines for medium-term budget program preparation."*

The head of the local government unit *"can delegate this competence, in writing, to one of the deputy mayors of the local government unit."*

The authorizing officer is the coordinator of the Strategic Management Group. Alongside the authorizing officer of the unit, according to the standard instruction on the preparation of the MTBP, *"is the administration employee of the local government unit of the highest management level for finance within the local government unit appointed by the Authorizing Officer and who is directly subordinate to the latter. Depending on his/her position in the central administration of the local government unit or the (subordinate) spending unit, he/she reports directly to the authorizing officer of the local government unit or the second-level authorizing officer."* During the preparation of the MTBP, the implementing officer is the secretary of the SMG of the LGU.

Figure 12. Example of the order of a Mayor for the establishment of the SMG and the PMT

REPUBLIC OF ALBANIA
MUNICIPALITY OF BORA

Address: Rruga " Skënderbeu", Bora Bora Tel/Fax: +355223366555558

Order

no._____date__/__/2017

Object: On the establishment of the Strategic Management Group (SMG) and Program Management Teams (PMT)

Based on the law no. 139/2015 *"On Local Self-Government,"* the law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania,"* the law no. 10296/2010 *"On the Financial Management and Control,"* the law no. 68/2017 *"On Local Self-Government Finance,"* Ministry of Finance Instruction no. 8/2012 *"Standard Procedures for the Preparation of the Medium-Term Budget Program,"* and Ministry of Finance Instruction no. 10/1 of 2017 *"On Annual Budget Preparation."*

Orders:

1. The establishment of the Strategic Management Group (SMG) for the preparation of the MTBP for 2018-2020 of the Municipality of Bora, with the following members:

- *First Name Last Name (Chair)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*

2. The establishment of the Program Management Teams (PMT) for the preparation of the MTBP for 2018-2020 of the Municipality of Bora, with the following members:

PMT 1. "……………………" comprises:

- *First Name Last Name (Chair)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- ....

PMT 2. "……………………" comprises:

- *First Name Last Name (Chair)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- ....

PMT 3. "……………………" comprises:

- *First Name Last Name (Chair)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- ....

PMT 4. "……………………" comprises:

- *First Name Last Name (Chair)*
- *First Name Last Name (Member)*
- *First Name Last Name (Member)*
- ....

The Strategic Management Group and the Program Management Teams are assigned to enforce and oversee the implementation of this order in the Municipality of Bora.

This order enters into effect immediately.

MAYOR OF BORA

ERBLIN BORA

During the preparation of the MTBP and the annual budget proposal, the SMG must satisfy the following principles:

- The MTBP should be comprehensive and cover all the disbursed funds by the municipality;
- The document must be prepared and presented in a form that is easily understandable for the citizens and the local council members, as it serves as a channel for public communication;
- The budget preparation (especially the identification of priorities) should include a broad public consultation process and for that purpose, public hearings are organized to receive feedback from the public before the budget is approved;
- The local government council, through the responsible commissions, should play an important role regarding the control of budget expenses;
- The proposed budget should supply the basic public services in the best possible way for the community;
- The investment projects should include information on their construction costs, timelines, and maintenance costs, and should be compatible with the long-term strategic development objectives.

The SMG together with the unit's official prepare the expenditures ceilings in accordance with the SDP (or the Territorial Development Strategy) for each budget program based on the functional/programmatic classification and economic classification. In a way, the budgetary ceilings indicate the policies of the local self-government unit and its predilection toward the long-term development. For this reason, the political authorities determine these ceilings in the early stages of the budget process. The budget ceilings must also be in line with the financial capacity of the local government unit.

Brief reflection

Does the Strategic Management Group (SMG) in your municipality have a clear mandate on its functions (besides the legal provisions)? Is the SMG formally approved by the head of the LGU? How effective is the SMG?

How many Program Management Teams are in your municipality? Are the members of the PMT usually the same ones or do they change on an annual basis? How effective is the communication between the SMG and the PMT?

3.3 The program as a key component of the MTBP

3.3.1 The relationship between the LGU functions and programs

The article 36 of the law no. 68/2017 *"On Local Self-Government Finance"* explicitly states that *"the local Medium-Term Budget Program uses the budget classifications set out in the article 11 of the law no. 9936/2008 "On Management of Budgetary System in the Republic of Albania," as amended."*

In other words, the Medium-Term Budget Program should include information regarding the expenditures in the two years preceding the budget year, expected expenditures for the budget year, and expected expenditures for the three subsequent budget years, according to the:

- administrative classification (spending unit level);
- economic classification, representing the classification of transactions by economic nature (wages, insurances, operational and capital);
- functional classification, representing a detailed classification in accordance with economic and social functions or objectives that the unit aims to meet (COFOG);

The functions or competencies of the local government units are set in the law no. 139/2015 *"On Local Self-Government."* These functions demand expenditures. The classification of the latter follows a single methodology for all the LGU: this classification is based on the international methodology for the classification of the government functions (COFOG). According to the latter, central and local government exercise 10 functions:

1. General public services
2. Defense
3. Public order and safety
4. Economic affairs
5. Environmental protection
6. Housing and community amenities

7. Health
8. Recreation, culture, and religion
9. Education
10. Social protection

The central government can exercise all 10 of these functions, while local governments can exert only 9 of them. The local government units cannot execute the defense function. Functions comprise sub-functions which can be further divided into budget programs. For technical reasons, the FPT uses three levels for the expenditure classification: function, sub-function, and budget program. All these three elements are explained in detail in the manual of the FPT and are available in the MTBP form (check the following example).

Figure 13. Environmental protection

Sub-function 051: Waste management

General overview		
Waste collection and disposal, sweeping of streets, squares, markets, public gardens, parks, etc.		
05100	Waste management	• Management, surveillance, inspection, organization, or support of the systems of waste collection, treatment, and disposal. • Grants, loans, or funds to support the functioning, establishment, maintenance, or improvement of such systems. • Sweeping of the streets, parks, etc.

Sometimes, the competencies fields of the LGU include elements that at the moment of execution are classified in different functions, sub-functions, or budget programs. In other words, there is a discrepancy between what the law no. 139/2015 *"On Local Self-Government"* defines as functions and competencies of the LGU and the sectorial structure of expenditures applied for the execution of the former. Let us take a specific example to clarify this connection.

Based on the law no. 139/2015 *"On Local Self-Government,"* the LGU exercise various functions in the field of infrastructure and public services. In this field, among others, the LGU are responsible for *"the collection, disposal, and treatment of solid and domestic waste" and "the construction, rehabilitation, and maintenance of buildings of pre-university educational institutions, except for vocational schools."*

Expenditures for the execution of these competencies are classified in different functions:

- Expenditures for *"the collection, disposal, and treatment of solid and domestic waste"* fall under the function *"Environmental protection,"* sub-function *"Waste management,"* budget program *"Municipal services for waste management."*
- Expenditures for *"the construction, rehabilitation, and maintenance of buildings of pre-university educational institutions, except for vocational schools"* fall under the function *"Education,"* sub-function *"Pre-university education,"* budget program *"General secondary education."*

3.3.2 Usefulness of the functional/program approach

According to the provisions of the law no. 9936/2008 *"On Management of Budgetary System in the Republic of Albania," as amended,* the budget program is defined as *". . . a set of activities of the general government unit, which are administered effectively and contribute together to the production of identifiable and measurable products that help directly or indirectly in achieving the objectives and goals of budgetary policy thereof."* In other words, the program is assessed as a set of activities of an organizational unit to attain one or more related functions of the LGU. The conceptualization of "program" offers the following advantages:

- *Simplifies the implementation of the Strategic Development Plan:* With the holistic program approach, it is easier to substantiate the SDP in the medium-term and to put its priorities into concrete terms than it is with the traditional budget. Furthermore, the program combines financial planning with policy planning and provides more thorough information.
- *Clarifies responsibilities over results:* The Program Management Teams (PMT) headed by the Program Management Team Leader (PMTL) manages the programs. The PMT are responsible for the elaboration of the budget program (including program goals and objectives, planned outputs and outcomes, the activities, and the necessary finances). The PMT are also responsible for the implementation of the program, i.e., the results.
- *Facilitates strategy-oriented reporting and controlling:* Programs that are clearly and uniformly (for all the LGU) defined, with appropriate indicators and targets, also facilitate the monitoring and reporting of the progress. In other words, what was planned is compared with what is achieved and with what will be implemented in the future, based on the projects included in the MTBP.
- *Serves to motivate:* Program-based budgeting can be a source of motivation for the local staff. If all the interested actors, possibly together with the external actors, participate in the preparation of the program then internal motivation strengthens and staff enthusiasm increases. Besides, the local staff will implement the program more effectively, if they have a clear understanding of the program goal.

3.3.3 Key components of the MTBP - the program profile

The process of preparing the Medium-Term Budget Program starts with the design and the revision of the program's profile policy. This process aims to ensure the linkage of the financial resources to the development policies of the local self-government unit. For this reason, the program policy should be drafted in a simple and understandable way. Through a program policy review process, program policy is regularly reviewed during the planning process, cost allocation, and budget preparation. For each budget program, the LGUs must elaborate a Program Policy Statement.

The program's profile includes the following elements: 1) program/mission policy statement; 2) program goals; 3) the policy objectives of the program; 4) program policy standard, i.e., indicators with the pertaining targets; 5) program products; 6) program activities; and 7) program resources. Practically, the program profile must respond to the following questions: (i) which are the needs that the LGU must accomplish by executing the budget program; (ii) what must be done to address these necessities; (iii) how the program's performance and achievements will be measured, i.e., which indicators (and pertaining targets) must be used toward this goal? There are two reasons why the programs are defined by these seven elements:

- Announcement of the program's content to the public, which promotes transparency regarding what is intended to be achieved;
- Possibility of a realistic calculation of the program cost and its limitation within the budgetary ceiling;
- In this way, the program has the characteristics of a promise or a contract. It is promised what will be accomplished with the money allocated to the program.

Policy Statement of the Program and Its Revision

The Instruction *"On standard procedures for the preparation of the Medium-Term Budget Program of the local self-government units" (draft 2018)* defines the Policy Statement of the Program as the *"translation of the government's policy principles and priorities into action lines to achieve the desired changes."* The Program Policy Statement should have a clear link to the relevant strategic documents of the LGU in the long or medium-term. The clearer the program policy, the better the relationship between the program policy and the program objectives, goals, and performance indicators (as its key elements).

- *The Goal of the Program's Policy* – is the desirable and measurable outcome to be achieved over the long-term by the activities of the general government units. This goal must be accompanied by the respective performance indicator, initial and target value.

Example of a program's goal: The city's surface with a clean and safe environment will expand from 60% to 90% within the next three years.

- *Objectives of the budget program policy* - are specific outcomes precisely measured in time, amount, and price, which are realized in the short or the medium-term and which constitute intermediate steps towards achieving the policy goal of the budget program. To simplify the management of this process, it is suggested that each budget program comprises 3-4 objectives. As above, each objective must be put together with performance indicators, including the initial and target value.

The program policy objectives can be considered as intermediate steps towards achieving the goal of policies. In short, achieving the goal of the program's policy is entirely dependent on the completion of the program policy objectives. The clearer and more understandable their formulation, the easier it is for the local units to fulfill them.

Example of a program objective: Municipal waste collection increases from 2000 tons, which is the current amount, to 5000 tons within the next three years.

Performance indicators – imply the units of measurement of the impact, result, and product. Aiming to increase the accountability of the LGU in offering products and achieving results, products and results must be specified in terms of indicators associated with the respective target values. They are used routinely during budgeting based on performance, policies planning, and are crucial for the assessment process.

Figure 14. Program policy statement

Policy Statement of the Program of local self-government's expenditures is a short presentation of:	
Policy goal	Desirable and measurable outcome to be achieved over the medium to long-term period by the activities of the government unit (beyond the period of the Medium-Term Budget Program).
Policy objectives	Specific outcomes precisely measured in time, amount, and price, which are realized in the short or the medium-term and which constitute intermediate steps towards achieving the policy goal of the budget program. All the unit's expenditures must add to the achievement of the declared objectives.
Performance indicators	Quantitative and qualitative indicators aiming to measure the progress of the program toward the fulfillment of its goal and objectives.

Source: Standard Instruction "On the preparation of the MTBP of the local self-government units," 2018, MFE.

Program Policy Standard

The program policy standard has two components: indicators and targets, related to quantitative and qualitative parameters. Indicators show the way to measure program's goals and objectives, i.e., what exactly should be achieved, while targets define how much should be achieved. The objectives must be met in line with certain standards, which can be international, European, Albanian, or other. Program policy standards guide the implementation of the program, and, more specifically, they facilitate monitoring and evaluation.

Program Products

Program products (program outputs) are produced goods and services, which contribute to the achievement of program goals and objectives. The program's products are the "means" for achieving the objective.

Program Activities

Program activities are processes that are undertaken to realize the planned products. Each product should have at least one activity. Usually, a product has more than one activity.

Resources (Inputs)

Resources (Inputs) include financial, human, physical resources used during activities to deliver a product. When resources are calculated in financial terms, they are presented as expenditure items within the budget. The profile of the program also includes information on incomes: fees, reserve funds, tax revenues.

The rationale behind the program profile is quite clear: resources are used to carry out different activities that aim to produce specific products, which, in turn, are needed to reach some objectives to accomplish a goal.

The feasibility of a program policy becomes clear when the policy is translated into results, activities (with timelines), and inputs. The example of the waste management program presented below serves as an illustration of a program profile.

Figure 15. Profile for the waste management program

<table>
<tr><th colspan="3">Waste Management Program</th></tr>
<tr><td>Program Description</td><td colspan="2">Providing high quality waste management service for all the citizens of the Municipality of Bora.</td></tr>
<tr><td>Program Policy</td><td colspan="2">To ensure and maintain a high level of citizen satisfaction regarding the waste collection service in the Municipality of Bora.</td></tr>
<tr><td>Goal of the Program Policy</td><td colspan="2">At the end of 2015, the map of the cleaning service will expand from 60% to 90% of the city's territory.</td></tr>
<tr><td>Treasury Code</td><td colspan="2">000 62 60</td></tr>
<tr><td>Objective of Program Policy for Year (t + 1)</td><td colspan="2">Ensure a clean and safe environment by extending the service from 60 to 65%.</td></tr>
<tr><td>Objective of Program Policy for Year (t + 2)</td><td colspan="2">Ensure a clean and safe environment through expanding service from 65 to 70%.</td></tr>
<tr><td>Objective of Program Policy for Year (t + 3)</td><td colspan="2">Ensure a clean and safe environment through expanding the service from 70 to 80%.</td></tr>
<tr><td>Product for the year (t + 1)</td><td colspan="2">2000 tons of waste collected during the first year.</td></tr>
<tr><td>Product for the year (t + 2)</td><td colspan="2">3000 tons of waste collected during the second year.</td></tr>
<tr><td>Product for the year (t + 3)</td><td colspan="2">Waste collection from citizens and small businesses once/twice a week.</td></tr>
<tr><td rowspan="4">Activities</td><td colspan="2">Realization of cleaning service on 1,000,000 m² surface.</td></tr>
<tr><td colspan="2">Acquisition of 20 new containers for service organization.</td></tr>
<tr><td colspan="2">Employment of 3 new employees for the service.</td></tr>
<tr><td colspan="2">Acquisition of a new vehicle for service delivery.</td></tr>
<tr><td rowspan="6">Resources</td><td rowspan="3">Expenditures</td><td>Personnel costs (wages and insurance)</td></tr>
<tr><td>Material costs (operational and maintenance)</td></tr>
<tr><td>Capital cost (capital projects)</td></tr>
<tr><td rowspan="3">Revenues</td><td>Fees</td></tr>
<tr><td>Reserved contributions</td></tr>
<tr><td>Tax money</td></tr>
</table>

3.3.4 Specification of the program objectives

To turn the MTBP into a clear and assessable document, it is necessary to specify the program objectives in the most appropriate way. The following control list serves as a guideline toward this purpose:

Figure 16. Specification of objectives in 10 steps

1. Identify the difference between the objective, goal, and target before you start working. Goals and targets show your aspirations, while objectives represent your plan.
2. SMART implies specific, measurable, achievable, relevant, and timely expressed.
3. Do not attempt to use the M-A/R-S-T order, even though it is the best way to write objectives.
4. Measurability is important. You may know that you have achieved the objectives because it provides the right evidence.
5. Achievable is related to "measurable". But how can one decide if this objective is achievable? - you know that the objective is measurable; - someone else has done it before successfully; - it is possible theoretically (if it is not clear, it is not achievable); - have the necessary resources or at least one realistic opportunity to provide them; - you have assessed the possible limits (the relevant risk).
Even if the objective is achievable, it may not be relevant. - The objective is in line with the core idea of the strategic goal? - Does it contribute to the desired socio-economic development of the LGU? - Does it reflect specific and important needs of the beneficiaries to be served by the program policy?
6. The main reason why it is achievable but not realistic is that it is not a priority. Something else may need to be done beforehand before you are successful. If so, specify two or more priority objectives.
7. You will identify whether your target is "specific" enough if: - all who are involved can understand it; - you have defined all the proper terms; - the language with which it is formulated is understandable.
8. A precise timeline means deadlines. You should set the timeframe, otherwise the target will not be measurable. The deadlines should be realistic or otherwise the target becomes inaccessible. T = M = R = S, as without these, the objectives cannot become priorities.
9. You have done a good job!

Source: Ten steps to SMART objectives www.natpact.nhs.uk

Group Work 3. Program specification

Assignment:	The working groups will select a program (different from each other) and will identify its components according to the example given in the manual. Practically, they will have to define the program policy, objectives, products, activities, and sources of revenues and expenditures.
Group size:	4-6 participants: 3 working groups for three different programs (independent of the number of participants)
Time for group work:	60 minutes
Working materials:	A4 paper and *flipchart*.
Time for presentation:	15 minutes for each group.
Presenter:	1 person for each group.

Group work 4 aims to make participants familiar with the programming concept, as well as to enable them to implement the technical terminology regarding the specification of program elements. Each working group can include representatives from a single local unit but can also be structured with participants coming from two or more, possibly similar, local government units. The successful execution of the exercise requires that each of the group uses real data from the units that they represent. In case the members of the group represent more than one local government unit, the choice of data remains at their discretion.

4. Local revenues and expenditures planning

Objectives

Participants of Module 4 are supposed to:

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

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

Content of Module 4:

4.1 Introduction to Module 4
4.2 Local revenues issues
    4.2.1 Revenue planning as part of the financial management of an LGU
    4.2.2 Principles of revenue mobilization
4.3 Revenues sources
    4.3.1 Own source revenues
    4.3.2 Revenues from intergovernmental transfers
    4.3.3 Local borrowing
    4.3.4 Residual revenues from the last budget year
4.4 Key issues of local revenues
    4.4.1 Preparation of the local fiscal package
    4.4.2 Financial analysis for the evaluation of fiscal policy
    4.4.3 Approaches for revenue forecasting
4.5 Presentation of revenues and expenditures assessment
4.6 Capital budget and Capital Investments Planning
    4.6.1 Capital Investments Planning
    4.6.2 Usefulness of the CIP
    4.6.3 Steps for the preparation of the CIP
    4.6.4 Main stakeholders involved in the process
4.7 Fiscal indicators as a crosschecking instrument

4.1 Introduction to module 4

The fiscal policies adopted by the local self-government unit are formulated and presented in the document known as the "Fiscal Package." The latter can be an existing document and with the pertaining decision of the local self-government unit's council can be changed based on relevant proposals. This document delineates the level of local taxes and fees, the procedures and responsible authorities for their collection, terms of the payments, relevant relaxations, and so on. Particularly, two important pieces of legislation guide the evaluation of local self-government unit's revenues: the law no. 9632/2006 *"On Local Tax System in the Republic of Albania*," as amended, and the law no. 68/2017 *"On Local Self-Government Finance."* Furthermore, several sectoral laws and other sub-legal acts support the former.

In the local context, the law no. 68/2017 *"On Local Self-Government Finance"* becomes especially relevant. The law clearly defines the rules, principles, and procedures of financing of the local self-government units, including own source revenues from local taxes and fees, shared taxes, intergovernmental transfers, and other revenues as prescribed by law. Furthermore, it sanctions for the first time the basic rules regarding the size and the allocation of intergovernmental transfers among the local government units. Another novelty regards its identification of policies, instruments, and procedures for the management of local public finances.

Following the administrative and territorial reform, the new municipalities face numerous challenges. On the one hand, they must respect the limits set by the territorial and financial consolidation demands, while on the other, they have to continue to supply services to larger and more populous territories. Facing limited financial resources and rising demand for public services of a higher quality, government bodies, at all levels, are increasingly aiming to implement improved budgeting methods. A precondition for the preparation of the MTBP and the annual budget proposal is the elaboration of medium-term local unit revenue forecasts, i.e., an estimation is needed on how much money can be mobilized for the budget. An accurate revenue estimation is important for two reasons; firstly, to define the overall available amount for expenditure, and, secondly, to maintain fiscal discipline, i.e., to keep the budget in balance.

The following sections present a better picture regarding the principal features of revenue evaluation and expenditure planning at the local level. Furthermore, these two arguments will be discussed in the light of the recent legislative changes that affect local governance.

4.2 Local revenues issues

The Constitution of the Republic of Albania[8] provides that: *“The units of local government are juridical persons”* and that *“The units of local government have an independent budget, which is set in the manner provided by law.”* Based on this constitutional right, chapter three of the law no. 139/2015 *“On Local Self-Government”* focuses on the local self-government units’ finances. Alongside the principles of the local self-government units’ finances, this law stipulates potential revenue sources (articles 35, 36, 37).

The approval of the law no. 68/2017 *“On Local Self-Government Finance”* helps to clarify the debate on the method of revenue planning: prediction based on the population registered in the civil status offices or based on actual revenues collected by the local government unit. The article 5 of the law above states that *“local self-government units prepare their annual budgets and Medium-Term Budget Programs based on* ***realistic forecasts*** *of revenues and expenditures based on previous years’* ***actual*** *out-turns.”*

4.2.1 Revenue planning as part of the financial management of an LGU

The local budget is the basic policy planning and control instrument for all the LGUs. At first glance, it looks like a presentation of planned figures for local revenues and expenditures. Nonetheless, the budget is much more than that. It asserts the amount of money that the LGU will spend and provides the reasons and the purposes behind each expenditure. Furthermore, it specifies a timeframe when activities planned in the budget will start and end. The budget establishes a clear and logical plan for resources allocation to programs reflecting the strategic goals and objectives of the LGU.

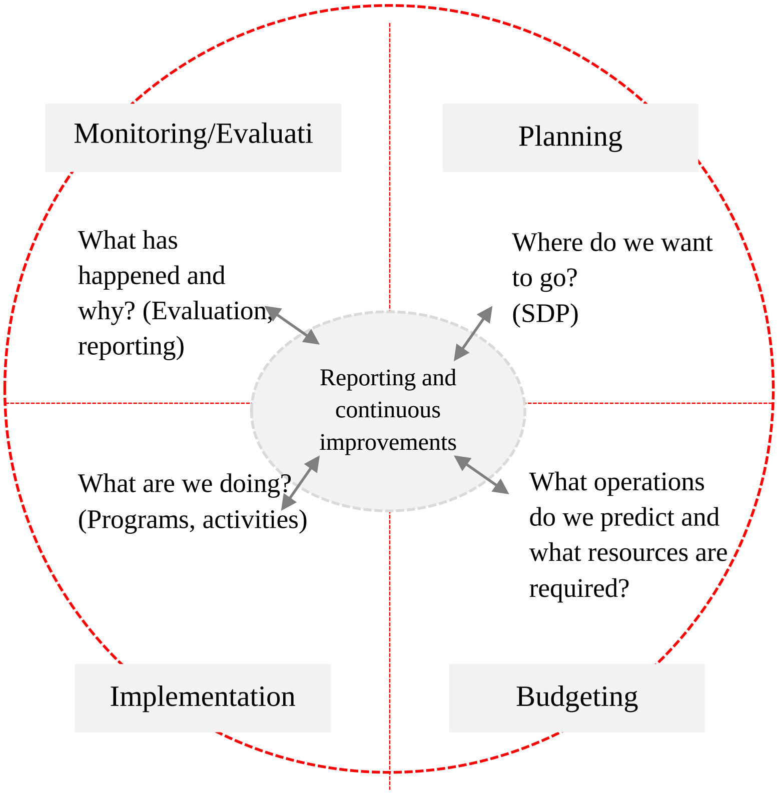
The budget process is an essential component of the financial management cycle. It includes all revenues and expenditures regardless of their nature and source. Regarding the financial management of an LGU, the Local Strategic Development Plan remains a high-level programming document guiding the LGU activities. However, the strategy must give way to concrete and targeted measures, which require reliable and sufficient funding. Therefore, budgeting, execution, as well as monitoring and reporting are indispensable for implementing the strategy efficiently.

Accurate revenue forecasts are indispensable for the preparation of expenditure ceilings for each of the considered programs. Realistic revenue forecasts facilitate the further delineation of expenditures and reduce the need for revisions. Another feature that must be addressed at this stage is the thorough analysis of discrepancies between forecasted revenue and expenditure. If such discrepancies are present, the LGU should take the necessary measures to close the gaps.

[8] Constitution of the Republic of Albania, Chapter III, Part Six “Local Government” / Article 111.

The financial management cycle can be divided into four broad processes, which are strategic planning, budgeting, implementation, as well as monitoring, reporting, and evaluation.

Figure 17. Financial management cycle



(i) Strategic planning is materialized through the preparation and the approval of a long-term development plan for the local self-government unit. This strategic document presents the development vision and the strategic objectives of the unit, which serve as a basis for financial planning.

(ii) The preparation of the medium-term and annual budget as an instrument to implement the provisions in the SDP or the TDS. This includes estimating LGU revenues for the planning period, planning and balancing expenditures with revenues, and allocating the resources to the programs in accordance with strategic goals and current needs.

(iii) The implementation of the approved budget comes next, where the planned activities must be executed. It is crucial to use the resources in line with the provisions in the budget proposal.

(iv) Monitoring and evaluation (formative): Revenues and expenditures are monitored through regular financial reporting. Internal control presides over the lawfulness of spending activities, the achievement of performance targets, and the potential risks.

(v) Reporting as an important process for internal and external actors.

4.2.2 Principles of revenue mobilization

To achieve and finance strategic priorities, the LGUs must mobilize revenues from different sources. There are a few principles regarding revenue mobilization. These principles are known as good practices and are presented in the following table.

Table 15. Good governance principles for revenue mobilization

Benefit principle	Resources are allocated efficiently when the users' payments (i.e., relevant taxes and fees) are equal to the service costs. Example: fees for waste collection. Please keep in mind that not all services can be financed based on the benefit principle, e.g., education, museums, etc.
Fairness principle	Contributions for public services in the form of taxes are based on one's ability to pay, which means that users with similar means must pay similar amounts (horizontal equity) and those with higher means must pay higher amounts (vertical equity).
Neutrality principle	Taxes and fees should not affect the efficiency of resource allocation in the private sector. This entails that each class of production factors (labor, capital, etc.) should be treated in the same way. Taxes should not favor any economic group or sector over others.
Accountability principle	Revenue must be defined for all taxpayers, i.e., it must be clear for taxpayers how much they have to pay and for what purposes the money is used for by the government unit which will be held accountable for fulfilling these purposes.
Adaptability and stability principle	Sufficient revenues are necessary to finance basic services on a regular and continuous basis. Revenues must be sustainable and predictable so that LGUs can plan expenditures without disruptions.
Autonomy principle	The LGUs require autonomy and flexibility to set their priorities appropriately. To achieve this, they must minimize their dependence on revenues coming from other government levels. In addition, this principle implies that resources from higher government levels (central government) must be predictable, i.e., rule-based.

Minimization of Administrative Costs principle	Estimation, evaluation, collection, and administration of fees and taxes should not be time-consuming, neither for the government nor the tax-payer.
Simplicity principle	Tax assessment should be easy to understand, while exemptions should be limited and well-justified.

4.3 Revenues sources

Based on the provisions of the law no. 139/2015 *"On Local Self-Government"* and the law no. 68/2017 *"On Local Self-Government Finance,"* the LGUs financial resources are divided in several categories:

- Own source revenue;
- Revenue from central government;
- Local borrowing;
- Residual revenue from the last budget year.

4.3.1 Own source revenue

According to the law no. 139/2015 *"On Local Self-Government"* and the law no. 68/2017 *"On Local Self-Government Finance,"* own source revenues comprise three categories: revenues from local taxes, local fees, and other local resources. Although the LGUs do not have any power over their assignment, and, often, do not decide their administration or allocation, revenue from shared taxes are traditionally classified under the own source revenue label.

According to the law no. 139/2015 *"On Local Self-Government,"* the LGUs have the right to establish taxation levels, methods regarding taxes' calculation, collection, and administration (within the boundaries set by the relevant laws).

In function to the local taxes and fees, and as long as it has not been decided otherwise, the LGUs create, maintain, and update the Registry of Legal and Natural Persons, which has information on entities that have obligations to pay various local taxes or fees, according to the obligation category, including relaxations and exemptions. This registry must be designed and maintained in accordance with the guidelines issued periodically by the Ministry of Finance and Economy. At least once a year, the LGUs must send information to the Ministry of Finance and Economy on the status of the registry.

The bases and levels of taxes and fees, every relaxation or exemption, terms of payments, late payments penalties are published and made public (fiscal obligation), in line with the legislation in force. The LGUs can use common tax agents for the collection of local revenue with the approval of the council by a transparent and competitive procedure.

Based on the law no. 68/2017 *"On Local Self-Government Finance,"* revenue from the tax on infrastructure impact of new buildings are used mostly to finance local public investments.

A. Revenue from local taxes

The law no. 9632/2006 *"On Local Tax System in the Republic of Albania*," as amended sets the rules for the execution of rights and responsibilities of the local government institutions regarding the collection and administration of local taxes. Based on this law, the LGUs have the right to *"categorize in detail, in line with the local conditions and interests, within the minimal categories of the tax base as assigned by this law"*; to decide *"the tax level, within the boundaries set by this law, for each category and sub-category of the tax base"*; to determine *"the number of payments and their deadlines, as well as advantageous conditions in case of full and early liquidation of fiscal obligations"* and other details related to their administration.

LGU revenue from local taxes include:

1. Local tax on small business economic activity or simplified tax for small business income.[9]
2. Taxes on immovable property, which include:
    - Taxes on buildings;
    - Taxes on agricultural land;
    - Taxes on land plot;
3. Local tax on hotel service activities;
4. Tax on infrastructure impact of new buildings;
5. Tax on signboards;
6. Temporary taxes;
7. Local taxes on personal income created from donations, inheritances, testaments, or local lotteries. This tax is prescribed by the law no. 68/2017 *"On Local Self-Government Finance"* but not by the law no. 9632/2006 *"On Local Tax System in the Republic of Albania,"* as amended.

The law no. 9632/2006 *"On Local Tax System in the Republic of Albania"* has been subject to numerous changes (over 10 times). The last alterations were carried in 2017 through the law no. 106/2017 *"On some amendments and addenda to the law no. 9632, date 30.10.2006, "On Local Tax System in the Republic of Albania, as amended."* This law reformed widely the tax on immovable property, especially the tax on buildings. Based on the provisions of this law, the subjects of this tax are *"entities, legal or natural persons, Albanians or foreigners, owners or users*

[9] Changed by the law no.181/2013, date. 28.12.2013. Published in the Official Journal no. 203, date. 30.12.2013.).

of immovable properties in the territory of the Republic of Albania, regardless of the exploitation of these buildings, unless the law specifies otherwise." Furthermore, individuals that have applied for the legalization of their buildings, whose developers have not managed to finish the work according to the deadline established on the relevant permit, are also subject to the tax on buildings.[10]

The obligation from the tax on buildings is calculated by multiplying the tax base with the level of tax on buildings. The tax base will represent the value of the building, which is calculated according to the methodology and procedures of the relevant DCM. The level of tax on buildings is applied as a percentage of the tax base: 0.05% for buildings used for living purposes, 0.2% for building used for economic activities; 30% of the level of the respective tax for the whole building site for which the developer has received a building permit and has not managed to finish it by the established deadline. The local tax on immovable property is calculated as an annual obligation for the taxpayer and can be paid on a monthly basis or differently in accordance with the Decision of the Council of Ministers.

State properties, LGU's properties that are used for non-profit motives, state properties administered by public authorities, buildings with non-liberalized rents, social dwellings, buildings used by religious communities, 4 or 5 stars resorts, homes for the elderly and those benefiting economic aid are exempt from this requirement.

Regarding the tax on immovable property, the municipal council establishes the tax level boundaries +30% and -30% of the indicative tax level of the pertaining category, based on the law no. 68/2017 *"On Local Self-Government Finance."*

The literature on taxing system lists several properties that assist the establishment of a proper taxing system that is accepted by the community.

[10] The time for calculating the tax starts from the moment that the term in the permission act expires.

Table 16. Features of a proper taxing system

1. The tax base of a specific tax must be fixed; the LGUs are entitled to set and change the tax level 2. The tax base must be transparent and rely on robust data. 3. The tax base must be easy to apply and administer. 4. The yields from the tax system must be sufficient to cover local needs. The tax must gradually grow over time to cope with expenditure growth. Furthermore, tax revenue must be relatively sustainable and predictable. 5. The tax must be perceived as reasonable and fair by the taxpayers.

Brief reflection

How do you assess the tax system applied to your unit with respect to the five characteristics given above?

B. Revenue from local fees

The law no. 139/2015 *"On Local Self-Government,"* the law no. 68/2017 *"On Local Self-Government Finance,"* and the law no. 9632/2006 *"On Local Tax System in the Republic of Albania,"* as amended, sanction the right of the LGUs to apply local fees. The legislation mentioned above allows the application of local fees for:

- Provision of public services.
- The right to use public properties.
- Issue of licenses, permits, authorizations and issue of other documents on which they have full authority, exempt those cases where law provides otherwise.
- Every other temporary fee, according to the circumstances prescribed by law.

The LGUs can establish fees on the services they offer or on the rights they give to legal or natural persons. The level of the fee must be proportional to the cost of the provided public service. Fees on public services must be established only on those services, whose consumption is measurable by the user or the beneficiary *"by using adequate instruments to ensure access, quality, quantity, and costs affordable by all."*

1. Fee for the waste collection and disposal:
    - Fee for the waste collection and disposal for families;
    - Fee for the waste collection and disposal for public institutions;
    - Fee for the waste collection and disposal for businesses.
2. Fee for street lighting:
    - Fee for street lighting for families;
    - Fee for street lighting for public institutions;
    - Fee for street lighting for businesses.

3. Green fee:
   - Green fee for families;
   - Green fee for public institutions;
   - Green fee for businesses.
4. Fees for administrative services:
   - Fee for administrative services of the municipality;
   - Fee for licenses, permissions, and authorizations;
   - Fee for the territorial control and development;
   - Fee for animal slaughter/ veterinary medicine;
   - Fee for transportation licenses;
   - Fee for oil production and franchise;
   - Fee for the use of forests and pastures;
   - Fee for the use of firefighting services;
   - Fee for waste disposal at landfills;
   - Fee for landlines (telephone, energy, cable tv, internet);
   - Fee for public procurement documents.
5. Fees for the occupation of public space and facades:
   - Fee for utilization of space in public areas or in front of business premises for business purposes, including outdoor tables for cafes and restaurants;
   - Fee for using advertising billboards;
   - Fee for using parking spaces for road motor vehicles;
   - Fee for using areas for camping, setting up tents or other facilities for temporary use;
   - Fee for using waterfront areas for business and any other purposes;
   - Fee for keeping and using navigable equipment and vessels, and other facilities in rivers and lakes;
   - Fee for keeping and using boats and other floating structure, save boats that are used by certain organizations for the maintenance and indication of waterways;
   - Fee for restaurants and other catering and entertainment facilities on rivers and lakes;
   - Fee for using public space to house road motor vehicles and trailers excluding agricultural vehicles and machinery;
   - Fee for using public space for keeping construction material;
   - Other local fees that may be set with a decision of the local self-government unit council.
6. Fee for water supply and sewage treatment.
7. Fee for irrigation and drainage.
8. Temporary fees.
9. Other fees.

Fees for administrative services are related to the issuance of official documents by the LGU. The level of these fees aims to cover the actual costs of the service for which the payment is made. The LGUs also have the right to set up fees for environmental protection and improvement, whose levels are established through municipal councils' decisions. This type of fee can apply to legal or natural persons that undertake activities, whose effect on the environment is clear, measurable and directly related to the relevant activity. Regarding fees for public services such as waste collection and disposal or water supply and drainage, the rules on the establishment of fees levels are approved by the local council as provided in the legislation in force. However, *"central government authorities, responsible for the national policies in these areas, can recommend national methodologies for the establishment of fees levels on such services."*[11]

C. Revenue from other sources

This category of revenue includes:

1. Revenue from the rental of assets owned by the municipality;
2. Revenue from capital investments;
3. Revenue from ownership rights;
4. Revenue from profits of the public enterprises owned by the municipality;
5. Revenue from public-private partnerships;
6. Revenue from the sale of financial assets;
7. Revenue from economic activities (fairs, contests, sports, cinemas, museums, theaters, dormitories, cafeterias, kindergartens, nurseries, etc.);
8. Revenue from the sale of goods and services;
9. Revenue from administrative violations;
10. Revenue from sequestrations/compensations;
11. Municipal membership fees;
12. Foreign aid and grants;
13. Other.

[11] The law no. 68/2017 *"On Local Self-Government Finance,"* article 18, paragraph 3.

D. Revenue from shared taxes

Revenues from shared taxes are revenues that come from national sources. The LGUs receive a part of the national taxes that are realized in their jurisdictions following the legal definitions. According to the law no. 68/2017 *"On Local Self-Government Finance,"* shared taxes include:

1. 97% of revenue from the property transfer tax for immovable properties imposed on legal and natural persons;
2. 25% of revenue from the used vehicle circulation tax;
3. 5% of revenue from the mineral rent as sanctioned in the law *"On National Taxes"*;
4. 2% of revenue from the Personal Income Tax.

Revenues from shared taxes are transferred to the local budget not later than the end of the next month. In cases of changes of the central fiscal policy, which entail a decrease of levels of shared taxes. The LGUs must be compensated accordingly.

4.3.2 Revenue from intergovernmental transfers

Conditional, unconditional, and specific transfers are also types of revenues from national sources. As revenues from shared taxes (traditionally included under own sources revenue), revenues from unconditional transfers are used at the full discretion of the beneficiary. The conditional transfers are used for the purpose and in the way established by the donor.

The annual budget law must include a special appendix on:

- Forecasts on revenue from shared taxes for the three upcoming years;
- Forecasts on unconditional, conditional, and specific transfers for the three upcoming years;
- Criteria used for the establishment of these transfers.

A. Unconditional transfers

Unconditional transfers are given to the LGUs to finance the execution of their functions and competencies as defined by law. The law no. 68/2017 *"On Local Self-Government Finance"* establishes that *"the annual size of the unconditional grant to be allocated to local self-government units shall be no less than 1% of the Gross Domestic Product, as projected in the Report on Macroeconomic Forecasts and Estimations adopted by the Council of Ministers, following article 23 of the law no. 9936/2008 "On Management of Budgetary System in the Republic of Albania," as amended."* In addition to the specification of the overall level of unconditional transfers, the law also asserts that this sum *"cannot be smaller than the sum allocated the previous budget year."*

At the expiry of the transitory period defined for the decentralization of new functions, the total size of the unconditional transfer shall be increased with the size of the specific transfers that is decided to be included in the unconditional transfer. The inclusion in the unconditional transfer of funds designed to finance recently decentralized functions, where necessary, is accompanied with the revision of the formula allocating the unconditional transfer to ensure adequate financing and continued service delivery.

B. Conditional transfers

Conditional transfers are given for: (i) delegated functions and (ii) specific projects considered of local, regional, or national interest, where there is the need for cooperation with local self-government units. The latter must be planned beforehand in the MTBP of the local government unit.

C. Specific transfers

This category provides local self-government units with funds for financing new functions transferred to local self-government units for a transitory period or services in cases of emergencies or similar situations which present a national interest and require the cooperation with local self-government units. In cases of financing new functions, the value of annual specific transfers must not be less than the average annual amount of the total expenditures spent by the central government on the devolved responsibility over the three years before its devolution.

4.3.3 Local borrowing

According to the law no. 9869/2008 *"On Local Government Borrowing,"* the LGUs have the right to borrow in the short-term (to finance temporary liquidity shortages) and the long-term (to finance capital expenditures or to restructure existing long-term debts) in line with the provisions set in the laws that regulate local self-governance, local borrowing, and budget system management. The Ministry of Finance and Economy may carry out an external, independent audit before approving a long-term loan. Given that local borrowing is part of the overall public debt, within the limit of annual borrowing, a specific part must be earmarked for the LGUs (conforming the fiscal policies and discipline followed by the central government).

4.3.4 Residual revenues from the last budget year

Inherited revenues from the last year can be divided into residual revenues with are earmarked and those which are not earmarked. These are funds unused at the end of the year. For countless reasons, planned expenditures may not be realized or not be realized at the planned level, so the differences are transferred to the upcoming budget year (for those categories permitted by the law).

4.4 Local fiscal policy

The fiscal policies adopted by the local self-government unit are formulated and presented in the document known as the "Fiscal Package." The latter can be an existing document and with the pertaining decision of the local self-government unit's council can be changed based on relevant proposals. This document delineates the level of local taxes and fees, the procedures and responsible authorities for their collection, terms of the payments, relevant relaxations, and so on.

4.4.1 Preparation of the local fiscal package

This process can be built through the steps presented in the following table.

Figure 18. Preparatory steps toward revenue policymaking

1. Trend of revenues according to categories through the last two or three years and during the current year;
2. Expenditure trends during the same period;
3. Level of supplied services and their quality;
4. Forecasts on macroeconomic and fiscal indicators;
5. Forecasts on new local revenues, other intergovernmental revenues, international grants or projects;
6. Outstanding liabilities;
7. Preliminary projection of all LGU revenues for a three-year period.

Furthermore, the following questions can guide and assist the preparation of appropriate local fiscal policies.

Figure 19. Guiding questions for revenue policymaking

1. How much were revenues and expenditures in the past year?
2. Did actual revenue and expenditure match the planned figures?
3. Is the local unit achieving the targets set by the forecasts for the current fiscal year?
4. How does the proposed budget compare to the one last year and to the current year? Is it higher or lower? Why?
5. What is the realistic forecast for revenues and expenditures in the future?
6. Will they be sufficient to cover expected expenditures?
7. How high are LGU's revenues per capita?
8. What is the ratio of LGU's own revenues to its total revenues?
9. What are the factors that have positively or negatively influenced the budget?

The LGUs have limited autonomy to set their fiscal policies, within the existing legal framework. The legislation that regulates local finance allows for certain degrees of flexibility depending on the revenues' source. As said above, one of the most important principles of an appropriate fiscal system is the "fairness principle." We need to distinguish between two types of equality: a) horizontal equality and b) vertical equality. Regarding fiscal policies, horizontal equality entails that within the same category of taxpayers, everyone will pay the same amount for the same service. On the other hand, vertical equality implies that taxpayers with different means pay different amounts, i.e., those that have more will pay more and vice versa. Thus, local units can request different amounts for the same tax/fee depending on the taxpayers' categories.[12]

Table 17. Cleaning fees for different taxpayer's categories

No.	Taxpayers number	Taxpayers category	Fee level (ALL per 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	100	People with disabilities	0	0	100	100
1.d	1900	Other families	500	600	700	800

The table above shows that the burden of the fee is distributed unequally, i.e., it is distributed according to the ability to pay of the respective taxpayers' categories. This policy is based on the principle of vertical equality as five different level of fees are applied.

The following list presents the viable measures to influence the distribution of income and/or revenue mobilization:

[12] The equity principle refers primarily to taxes, and not to fees. From a fiscal point of view, fees should cover the costs of individual consumption of a service. Therefore, the example in table 17 is problematic despite of the fact that it reflects a current practice.

Figure 20. Possible redistribution and measures for revenue mobilization

1. Application of differentiated taxes for different taxpaying subcategories within the same category (vertical equity).
2. Application of bonus for early payments (10% discount from the annual payment).
3. Reduction of obligation by 75% for specific taxes (law 9632, date 30.10.2006, article 21, point b).
4. Exemption of various taxpayers' categories.
5. Tax level increase or decrease.
6. Improvement of taxes' collection and management.
7. Fraud prevention.
8. Further measures that are often 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.

Every LGU should take into account these or other measures for revenue mobilization at the moment of fiscal policy's preparation. The fiscal package must be well balanced and ensure adherence to all requirements for a proper fiscal system.

Brief reflection:

Participants are invited to answer the following questions:

- Do you have an approved fiscal package for the upcoming three-year period in your LGU? Did you have one in the past?
- What is the policy of the fiscal package of your LGU regarding different groups of taxpayers?
- What has been the effect of the fiscal package on revenues?
- Are there other advantageous or disadvantageous effects of the fiscal package to be considered?

4.4.2 Financial analysis for the evaluation of fiscal policy

Financial analysis is a diagnostic process that assesses the situation, main trends, and the "health" of public finances of an LGU or another political subject. As a monitoring and evaluation instrument, the financial analysis provides broad information on the development of revenues and expenditures. Furthermore, it looks upon the status of strategy implementation and appraises free capacities for funding new priorities. Increasingly, LGU's performance reports are based on indicators comparing actual figures with target values. Financial analysis includes this information in the evaluation report. There are two ways of carrying out financial analysis, ex-ante or ex-post. An 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 an MTBP. An 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 proper financial analysis considers more than a single year. It must explore the trends over several years and ponder on the consequences of these trends for the future of the LGU finances. The answers to the questions in the figure below can guide local staff to delineate a comprehensive financial analysis.

Figure 21. Key questions for revenue analysis

1. To what extent do the actual revenues match the planned revenues?
2. What is the revenue per capita? How much is it in similar LGUs? Can we do more?
3. How many taxpayers contributed to the budget? Distribution of taxpayers?
4. What is the structure of revenues?
5. What is the percentage of businesses that have not paid taxes?
6. What is the ratio between new and closed businesses?
7. What are the effects of inflation and economic growth on specific categories of local revenue?
8. What portion of the budget consists of own source revenues and what portion of unconditional transfers?
9. ……

The answers to these key questions can be presented through simple forms (check the following example). Certainly, it is necessary to discover and comment the most important findings of the financial analysis and to deliver the respective recommendations.

Table 18. Financial analysis form

	2013	2014	2015	2016	2017
Total revenues					
Revenues from local sources					
Taxes					
Fees					
Other					
Shared taxes					
Intergovernmental transfers					
Unconditional transfers					
Conditional transfers					
Specific transfers					
Borrowing					
Inherited					
Total expenditures					
Function 1					
Function 2					
Function 3					
Function 4					
Function 5					
Function 6					
Function 7					
Function 8					
Function 9					

Table 19. Financial analysis form

	2013	2014	2015	2016	2017
Own source revenues/Total revenues					
Revenues from local taxes and fees/Total revenues					
Revenues from other sources/Total revenues					
Revenues from national sources /Total revenues					
Unconditional transfers/Total revenues					
Conditional transfers/Total revenues					
Unconditional transfers/Own source revenues					

4.4.3 Approaches to revenue forecasting

Financial analysis is a useful preliminary step for revenue estimation. Revenue forecasting can be oriented in the short (one year) or the medium-term (three to five years). Long-term revenue forecasts (more than six years) are rarely used. An accurate revenue forecast (or as close as possible to the actual values) is crucial for defining the overall level of affordable expenditures for an LGU. Revenue forecasting should be carried out as an early step in the budget process. The forecast or estimation of revenue levels for the upcoming years serves as a basis for the preparation of budget expenditures' ceilings. The specification of budget ceilings is the first formal step for the elaboration of the MTBP.

The more precise the forecasts on the three subsequent years, the easier the process of preparing expenditure ceilings for each program. Consequently, this facilitates the further detailing of the expenses, minimizing the need for revisions. Another aspect, which is addressed at this phase, is the opportunity to find discrepancies between predicted revenues and expenditures and, if so, to encourage the LGU to eliminate this gap.

If the report is to be really helpful, and not simply a formal planning document, it needs to include details regarding:

- applied methodology for the medium-term revenue forecasts (the overall and according to categories);
- assessment of the effects of potential changes, according to the new proposals, of the fiscal policies of the local government unit;
- risk analysis regarding all revenues collection and policies' changes, in addition to the ways and methods to handle these risks.

There are several applicable methodologies for revenue forecast, and their usefulness depends on the circumstances.[13] Not all methodologies are functional for every case.

The law no. 68/2017 *"On Local Self-Government Finance"* solves definitely the argument over the method of revenue forecast: an estimation based on the population reported by the civil status offices or an estimation based on the factual revenues collected by the local government unit. The article 5 of the law mentioned above states, *". . . the LGUs prepare their annual budgets and medium-term budget programs based on* ***realistic forecasts*** *of revenues and expenditures based on previous years'* ***actual out-turns****."* Setting this aspect straight, the local government units can use different methods for revenue forecast. Briefly, some of the most used methods for revenue forecast are:

[13] Training manual 2 for financial analysis (Modernization of Finance Management for local units in Hungary).

- ***Revenue forecast according to the expert judgment.*** This method is based on the judgment of a field expert (or experts) regarding the path of the variable that ought to be predicted. Albeit highly subjective, it is a low-cost method, which can produce decent results. The necessary conditions for its adoption are the expert's reliability, experience, expertise and knowledge on revenue and expenditure trends.

- ***Revenue forecast through trend analysis.*** This technique analyzes the historical trend of the relevant variable and predicts similar growth rates for the forecasting period. This analysis requires statistical knowledge, which can be wanting in the context of local governments. Moreover, the applied fiscal policies must either be fixed or predictable in their changes. This approach is often combined with the expert judgment.

- ***Revenue forecast through econometric models.*** Revenue forecast through econometric modeling is more complex than the two methods above. Econometric models relate our variable of interest with several exogenous variables. This method allows for the assessment of one or more factors of change. On the other hand, these models require long and continuous time-series. Econometric models are also used for the forecasting of various macroeconomic indicators such as inflation, economic growth, interest rate, etc. From a practical standpoint, these models cannot be used currently, due to lack of reliable data and deficient professional expertise.

- ***Revenue forecast based on known indicators such as population, number of families or businesses.*** This is the most widely used technique by the local government units. Practically, revenue forecast is assessed through simple mathematic operations with known data. This method is simple, the variables are under the control of central government, and it is sensitive to the level of taxes and fees.

- ***Revenue forecast through simulations.*** This method alleviates, to a certain extent, the uncertainty of the future economic conditions. When simulating the event, the technique usually works with three options for the future: an optimistic (absence of negative random shocks), a pessimistic (absence of positive random shocks) and a realistic scenario (based on the experts' judgment and experience through years).

All revenue forecasts must be in nominal terms (reflecting the current prices), given that the MTBP is also presented in nominal terms. Regardless of the chosen method for revenue forecast, it is crucial to track the actual turn-out systematically and, in case of deficiencies, to recognize the reasons behind the latter.

The FTP offers a special feature for revenue forecasting; firstly, it calculates a trend forecast figure for different revenue sources, and secondly, it provides confidence intervals within which a forecast is to be expected normally. In case a forecast lies outside of the trend interval, special justification for the estimation is needed, such as policy changes, improved collection, etc.

None of the discussed techniques guarantees accurate forecasts, i.e., forecasts of the future values as close as possible to the factual future values. The choice of the applied method is dependent on the context, the field on which the technique is to be applied, control of the local unit over the variable, availability of technical expertise, and existence of a multitude of erratic factors. Thus, the choice of the method, as long as it is not specified in the law, remains a matter of preference of the local actors.

Group Work 4. Forecast of revenues from each source

Assignment:	Evaluation of revenues from each source through the FPT forms. Discuss in groups on the most important factors that influence the revenues collection and the most appropriate method for revenue forecast. Are the achieved results encouraging?
Group size:	4-6 participants: 3 working groups (depending on the number of participants)
Time for group work:	20 minutes
Working materials:	A4 paper and flipchart. Laptop for each group with Excel version 2016 or higher that can provide the revenue trends and confidence intervals.
Time for presentation:	15 minutes for each group.
Presenter:	1 person for each group.

Group work 5 aims to familiarize the participants with the form for revenue forecasting and to instigate them to use the FPT for revenue forecasting. Each working group can include representatives from a single local unit but can also be structured with participants coming from two or more, possibly similar, local government units. It is important to identify the need for information and their location. Optimally, the groups should cover all sources. Otherwise, if impossible, they should focus on the five most important revenue sources for the LGU.

4.5 Presentation of revenues and expenditures assessment

It is important to present assessments on revenues and expenditures through the 3-year period covered by the MTBP in a well-structured way. The display of financial forecasts should aim to be understandable by interested stakeholders. At the same time, the presentation of three years evaluations should comply with the information requests of the Ministry of Finance and Economy. The FPT produces automatically tables and graph which are also prepared automatically. These tables and graphs can be used for the following purposes:

- Display of revenues in tables;
- Display of gross expenditures according to budget programs in tables;
- Display of gross expenditures according to budget programs in graphs;
- Display of net expenditures according to budget programs in tables;
- Display of net expenditures according to budget programs in graphs;
- Display of gross expenditures according to sectors in tables;
- Display of gross expenditures according to sectors in graphs;
- Display of expenditure according to activity in tables;
- Display of expenditure according to activity in graphs;
- Budgetary request summary;
- Display of expenditures according to economic classification in graphs;
- Display of payments for outstanding liabilities in graphs;
- General financial statistics;
- Financial performance indicators;
- Display of capital expenditures in tables;
- Display of capital expenditures in graphs;

Brief reflection:

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

- Which questions are addressed by the tables and graphs? Why are these questions relevant?
- Which of the tables or graphs would you present at a budget hearing for council members or a press conference? Would you use some of these 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 only financial information. The presentation of the MTBP must comprise information on policies as well.

4.6 Capital budget and capital investments planning

The Capital Investments Plan (CIP) is prepared as a financial, strategic document that addresses the necessary capital investments and improvements for the implementation of strategic importance as identified in the STD of the General Local Plans (GLP). CIP defines the time of implementation, costs, financial sources, and other detailed information that is mostly related to the public infrastructure. The regulation on territorial planning, approved by the Decision of the Council of Ministers (DCM) number 671, date 29.07.2015, article 54, paragraph 5/b, requires that the plan on territorial development is accompanied by the action plan for the implementation of the GLP, which, among other things, includes *"overall costs for the implementation and major funded activities together with the capital investments plan."* The capital budget comprises capital expenditures that the LGU plans for a given period in the annual budget and/or in the Medium-Term Budget Program. Practically, the CIP is the document that enables the implementation of the GLP and serves as a bridge between the SDP/TDS, the MTBP, and the annual budget.

4.6.1 Capital investments planning

The Capital Investments Plan is a multiyear plan for capital projects, listed according to the development priorities; it also identifies the property/asset that will be built or rehabilitated, the first year of the implementation and the duration, implementation costs, and the proposed method to finance the investment. The CIP is presented as an overview table that includes annual expenditures for capital investments, detailed according to the strategic objectives and programs, and according to their funding method.

The Capital Investments Plan should not be confounded with the capital expenditures budget. The CIP includes all projects identified by the SDP/GLP. In contrast, the capital investment budget includes only the projects selected to be realized over the next three years; these are the projects that are included into the MTBP.

The capital investment budget also includes the maintenance investments, repair and rehabilitation of the existing infrastructure and the new facilities and installations, comprising capital assets such as buildings, roads, parks, electric power grids, water distribution systems, sewage system, waste dumps, urban transportation systems, IT-systems, etc. However, the capital budget is not a static document. It must be updated annually to reflect the projects not yet realized in accordance with the current priorities of the local unit and to respond to unexpected situations.

4.6.2 Usefulness of the CIP

The CIP is an important document which enables the translation of the strategic objectives of the LGUs to financial terms. In this way, it serves as a document that guides the MTBP elaboration from a long-term development point of view of the LGU. In addition to what was said, the CIP, in the context of local governance, can also be useful for the following reasons:

The CIP as an instrument for financial management – One of the main concerns in drawing the CIP is the prioritization of present and future needs according to the financial possibilities and limits of the local government unit. During the preparation of the CIP, the authorities must consider not only what the community needs but also how much this community can afford to pay. Thus, the preparation of a financial document that balances between needs and financial capacities is far from the concept of a "wish list." Seen as an instrument for financial management, the CIP obliges the LGU to be disciplined in using its available funds.

The CIP as a catalyst for efficient resource allocation – Being a multiyear planning document, the CIP enables the implementation of the investment projects over time, depending on their perceived importance for the community and given the financial constraints.

The CIP as an instrument for strengthening collaboration and communication within the LGU (among sectors) and between different LGUs – The CIP is prepared as a mutual document by the technical staff that deals directly with the investments and representatives of other departments. The collaboration during the preparation process improves the coordination of capital investment projects within the LGU but even between similar structures of different LGUs. If a municipality communicates its plans to other LGUs, there may be possibilities for common action to share the respective costs and reduce the misuse of financial resources (due to duplication).

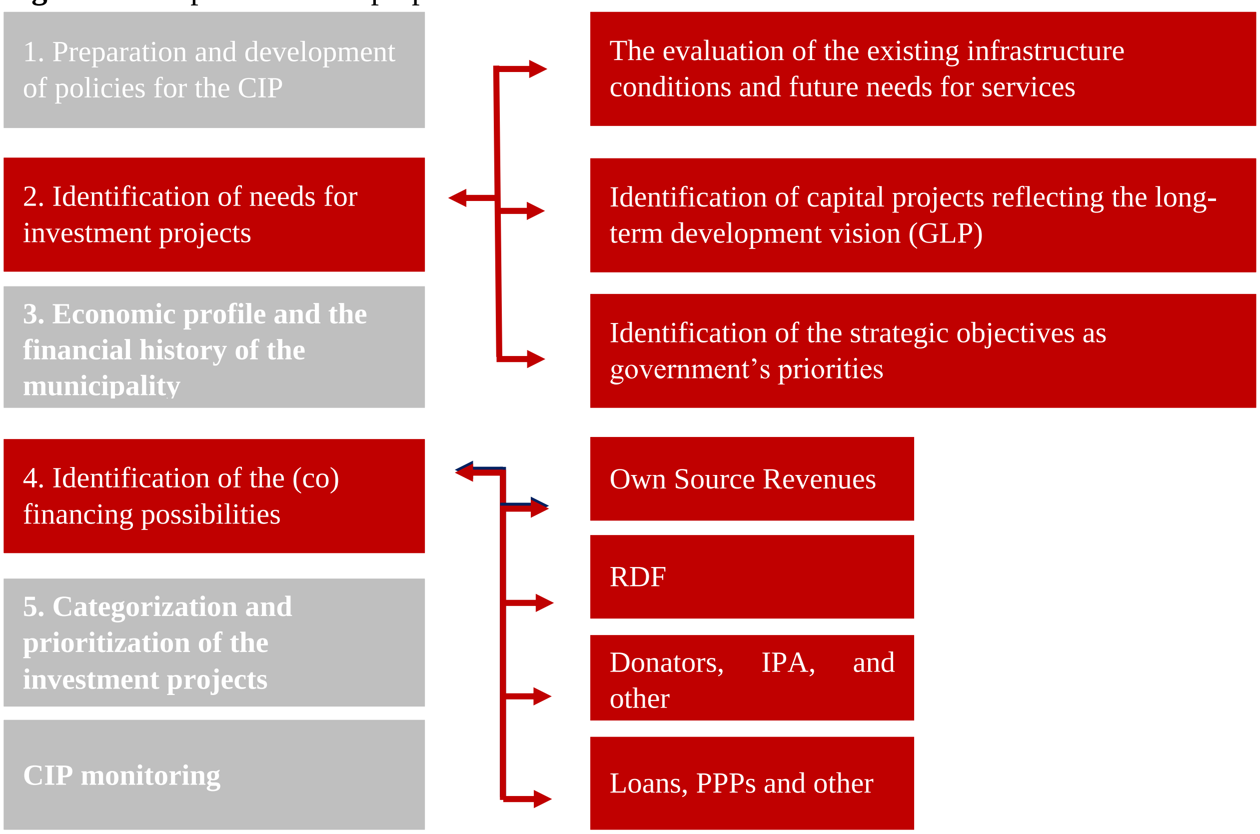
The CIP as a guiding and reporting document – Given that the investment projects included in the CIP are the result of SDP/TDS (long-term), the CIP, in a way, is the document that reflects the long-term orientation of the LGU. In addition to communicating the long-term path of the unit, this document also serves as a reporting instrument for the involved stakeholders. The CIP allows the community and the local council to judge the management of the LGU, i.e., how much the investments are in line with the strategic priorities. Furthermore, citizens and businesses would have more information on planned investments, which would help them to guide their private investments properly.

The CIP as an instrument that incites the community participation – Given that the GLP is a document that goes through a series of public hearings, the identification and the prioritization of the investments must follow the same logic. The inclusion of the community in the selection of priority projects can increase the public support for the projects, thus eliminating or reducing the negative effects of conflicting group interests. At the same time, the CIP also informs the citizens on the projects' costs.

4.6.3 Steps for the preparation of the CIP

For the elaboration of the CIP, a step-wise procedure is recommended. Although the different steps of this process are similar across all the LGUs, the process may differ from one LGU to another depending on the size of the LGU, its policies regarding community involvement, its organizational structure, available time, financial conditions, etc. The approach taken for the preparation of the Capital Investments Plan is based principally on the *"Manual for the Preparation of the Capital Investments Plan"* Co-PLAN 2008 (see figure 22). The different steps will be explained further down. The CIP has become a legal obligation and one of the documents included in the GLP.

Figure 22. Steps toward the preparation of the CIP



Source: Manual for the Preparation of the Capital Investments Plan, Co-PLAN (2010)

1. Elaboration of CIP's policies

Based on the legislation in force, the CIP is one of the GLP's documents that serves as an instrument for its implementation. The work for the preparation of the CIP starts with the drafting of the Territorial Development Strategy, which identifies the necessary investment projects for the long-term development of the municipality.

The elaboration of the CIP's policy requires the establishment of a working group, which will be responsible for the preparation of the document and the management of the whole process. This group must have a leader, who could be the vice-mayor of the LGU, and representatives of the PMTs. An alternative structure could be the SMG or the PMT, itself. More important is to have a broad working group that includes professional staff for the preparation of the CIP.

Figure 23. Rules and procedures for the preparation of the CIP

1. The Capital Investments Plan will be elaborated for a 15-year period in line with the duration of the GLP.
2. The CIP must be drafted in full accordance with the strategic objectives provided in the SDP/TDS.
3. The CIP will be monitored regularly.
4. The municipality will approve each year a capital budget, based on the Capital Investments Plan. The capital budget is part of the MTBP and the annual budget. The municipality will harmonize the capital budget with the operational budget.
5. If investment projects are to be included immediately in the annual capital budget, due to demographic or economic changes, and these investments were not part of the CIP, it is necessary that the costs of these projects are calculated and evaluated in the same way as with the CIP projects. Furthermore, the CIP must be updated to reflect these changes.
6. The municipality will identify the forecasted costs and potential funding sources for each of the proposed capital projects. The operating expenditure originating from new capital investments will be included in the operational budget.
7. Loans for the funding of investment projects must be paid before the completion of the operational lives of these projects.
8. The municipality has to ensure the participation of the community in the preparation of the capital investments plan through consultations with interest groups and public hearings.

The policy for the preparation of the CIP addresses the approaches taken to solve the following issues: (i) type of included capital projects; (ii) the timeline covered by the CIP; (iii) method for financing capital projects, or opportunities for revenue mobilization; (iv) financial and fiscal strategies that will be followed by the municipality to complete the planned investments; (v) consultations with interest groups and public hearings during the preparation of the CIP, etc.

2. Identification of needs and investment projects

This part derives from the TDS/GLP.

3. Economic profile and financial history of the municipality

In general, the LGUs have different economic profiles depending on the economic activities carried out on their territories. An analysis of the economic profile of an LGU is important to define its potential for revenue mobilization. Furthermore, before we can assess the capital budget of the LGU, we must understand the financial trends in the municipality for, at least, a 5-year period. Thus, the working group must collect sufficient financial information on the LGU and conduct a detailed analysis of the data.

To carry out investments, the LGUs can also generate capital revenues from the sale of assets (lands, buildings, etc.), i.e., one-time revenues. However, the main source of the CIP's funding is the net operating surplus (NOS). NOS is defined as the difference between current revenues and current expenditures (see figure 24). Traditionally, the current revenues are defined as the difference between the total revenues with the capital revenues (revenues generated by the sale of assets and the tax on infrastructure impact). Current expenditures include staff expenditures and operating expenditures. The difference between these two categories is what we call operating surplus (OS).

Figure 24. Financing capital expenditures

CURRENT REVENUES	CURRENT EXPENDITURES
Local taxes	Wages
Local fees	Social insurances
Unconditional transfers	Maintenance and services
Shared taxes	**Net Operating Surplus**

CAPITAL REVENUES	CAPITAL EXPENDITURES
Net Operating Surplus	Reconstructions
Local capital revenues	Replacements
Investment grants (central government)	New equipment
Loans and donations	Building and land

Source: Manual for the Preparation of the Capital Investments Plan, Co-PLAN 2008

This definition implies that the level of the NOS depends on the one hand from the fiscal performance of the municipality – increases of revenues from taxes, fees, and other alternative funding methods – and on the other hand from the improvement of finance management through the reduction of operating expenditures.

The improvement of the performance from the side of local revenues can be made possible by following the recommendations below:

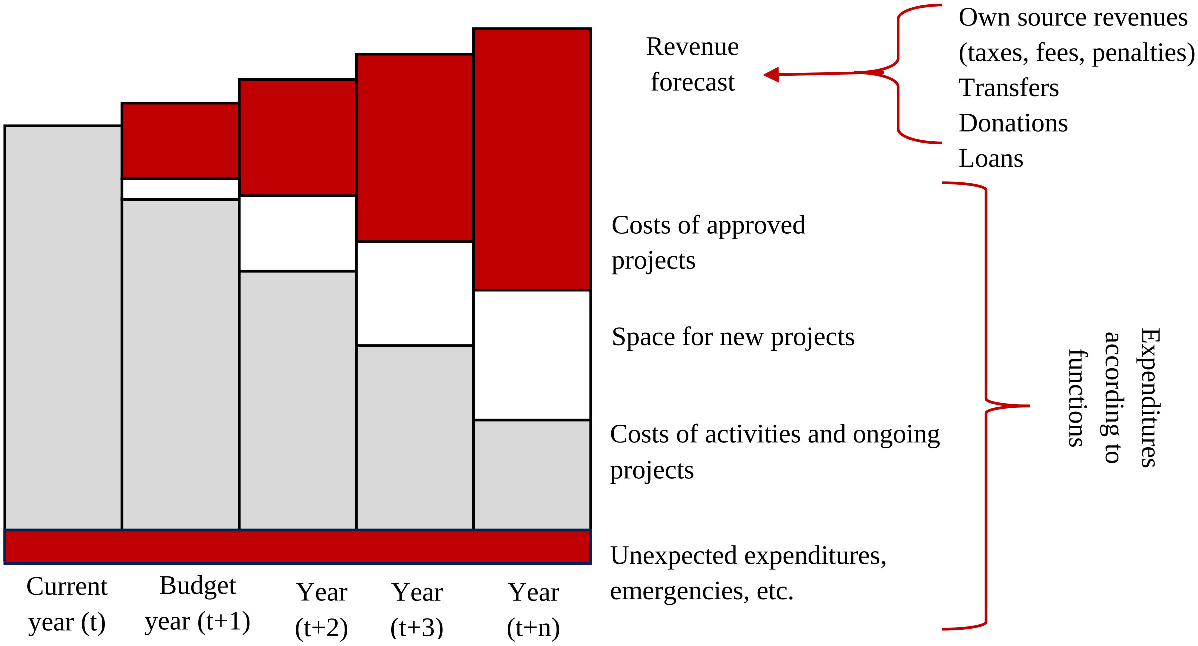
- Proper management of the local taxes, particularly of the tax on immovable property (tax on buildings, tax on agricultural lands, tax on land plots);
- Introduction of new financial instrument (such as fees on the improvement of local infrastructure, intensity bonus, programs for the transfer of development rights or programs for financing through the increase of specific taxes, etc.),
- This instrument not only will support good management but will also be beneficial for the improvement of infrastructure or revitalization of urban areas;
- Further use of the public-private partnership instrument for offering public services in the fields of public transportation, sports and recreational centers, waste management, water supply, collection points for the agricultural products, etc.

As for the increase of net operative surplus by reducing operating expenditure, the following steps can be undertaken:

- Process improvement for local service provision and reduction of costs using information technology;
- Reorganization of some of the local services through the expansion of the public-private partnership's programs;
- Refurbishment of local premises which in turn increases energy efficiency.

How can we make space for new projects? First, we have to assess revenues for each year (all revenues types of the LGU). Next, we must evaluate expenditures of activities and ongoing projects (also potential expenditures of the new projects, if the latter have already been approved). It is assumed that expenditures of activities and ongoing projects decrease as increasingly more projects are completed. When the revenues grow with each passing year and the costs of activities and ongoing projects fall, we will have more room to include new projects. This approach for funding new projects must be used intelligently during the preparation of the MTBP.

Figure 25. Financial planning – how to fund new projects



Source: Strategic Development Plan and Performance-Based Budgeting in the Medium-Term, dldp 2012

In the end, in case the municipality does not have sufficient financial resources, it can use financial instruments such as

- public funds (RDF, ADF, etc.),
- borrowing from the banking system (according to the legislation in force and after clarifying which assets owned by the local unit will be used as collateral), oriented primarily in support of the infrastructure development,
- funds from foreign donors (World Bank, USAID, etc.), or
- private-public partnership's forms that present a real opportunity to carry out capital investments.

4. Identification of the (co) financing possibilities

The size of the capital budget is estimated based on the historical data on revenues and expenditures, forecasts included in the MTBP document, and assumptions on the major sources of revenues and expenditures. A large capital budget provides space for financing new investment projects. Existing differences in the level of services provision, economic development, and social inequalities among different administrative units within the new municipalities demand large investments to reduce these disparities. Therefore, the improvement of the financial performance from the revenue side (particularly the increase of tax basis and number of taxpayers), and rationalization from the side of expenditures (particularly on current ones) are considered as crucial.

5. Prioritization of the investment projects

The identification and the evaluation of the capital projects must be performed in line with the strategic objectives delineated in the SDP/TDS, reflected as well in the proposals of the GLP. Regarding the inability to finance all the identified projects in the short term, a prioritization process is necessary to choose investment projects, based on a series of criteria agreed beforehand with the relevant agents. These criteria consider among others three important issues: (i) investment cost; (ii) lifespan of the investment; (iii) maintenance costs.

In addition to these three issues, the list of criteria that capital investments need to fill includes:

- The contribution of the project toward the accomplishment of the strategic priorities: how and how much does the project contribute to the achievement of the strategic objectives;
- The nature of the project; does the project influence the prevention/elimination of an emergency/dangerous situation;
- The status of the project; is it an ongoing or a new project and how has it been identified;
- Geographic/administrative location: what is the area covered by the project and to which administrative units does it provide a contribution;
- Number and nature of beneficiaries;
- Time needed to cover the project's costs: can the project generate revenues for the local budget? When do we start to see the first results;
- Possibilities to finance the project: is the project financed by the local capital budget or by the central government's programs.

4.6.4 Main stakeholders involved in the process

Citizens' participation in the process of the preparation of the capital investments plan may take different forms. Surveys can be used to find what citizens consider as priorities. Another alternative can be the establishment of a working group, which will revise the community's requests for investments and provide recommendations that can be included in documents such as the CIP. Public hearings and interviews with important stakeholders can also be a useful form of citizen's involvement. Encouraging the community's active participation in this process is important for several reasons:

The active involvement of the community is necessary to increase 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 and managed. Information sharing creates a bond of trust between the local government and the community. The confidence that collected revenues are managed properly facilitates the revenue collection process. When people see that financial resources are used to finance their priorities they will probably be more open to the idea of co-financing certain projects. Stakeholder involvement is particularly important for capital projects identification and prioritization. The more open this process is to the community and interest groups, the more the LGU's objectives will match the priorities of the local citizens.

Table 20. Characteristics of the different ways of citizens' involvement

Public hearings	• It is the most common way for public consultations and is organized as a formal open meeting between the community and the LGU's representatives; • Typically, this is the last chance for the citizens to give their opinions before the document is approved by the local representatives; • It is not the adequate forum to discuss complex ideas or present detailed information; • Public hearings can be dominated by individuals or groups with special interests.
Surveys/Questionnaires	• It is the fastest and safest way to measure the citizens' perception; • It is adaptable to the objective and the size of population; • It can assess more than one aspect at a time; • Costs are relatively high; • The responses may be biased or not truthful.
Focus groups	• They are used to discover how capital investment projects are perceived by the citizens or to collect information for a specific group of citizens on a particular project and to demonstrate the interest of local elects in the citizens' opinion. • They are not the best instrument to solve disagreements or to achieve consensus on critical issues.
Interviews with main stakeholders	• Stakeholder analysis reveals the attitudes of persons or organizations who can be affected by a program or who can affect a program. It reveals where local government will find support for the program and where it will find resistance against the program, and how to design a program to make it attractive for major stakeholders. • It requires time and expertise; it is a costly approach.

The Capital Investments Plan (CIP) is assessed to be not only a legal obligation but also a very important instrument in the hands of the local self-government units for a series of reasons. Firstly, the issues covered by the CIP are tangible and very interesting in case we want to adopt an approach that includes citizens' involvement. For this reason, the LGUs can strengthen the bonds with their citizens, when they are open to planning the capital investment in collaboration with the latter. Secondly, capital investments may have a positive effect on the economic development and may spur employment growth. Proper local infrastructure is a precondition for the local economic development – and when the local economy grows, most probably, the local tax base will also increase. Together, these have a positive impact on revenues from local taxes that, in turn, allow more opportunities to improve the local infrastructure.

Group Work 5. Selection of the investment projects

Assignment:	Discuss the list of investment projects identified in the Municipality of Ora. Set the priorities for the medium-term period and prepare a proposal for the distribution of the projects, possibly, over the next three years.

In the municipality of Bora, the working group had identified 5 investment projects, which must be financed over a three-year period:

Rehabilitation of the central park	300,000 ALL
Rehabilitation of the water supply	700,000 ALL
Rehabilitation of the school street	800,000 ALL
Placement of 10 containers	300,000 ALL
Installation of the electricity grid at District 1	400,000 ALL

The municipality can fund (based on the available financial resources) investments up to 800,000 ALL in the first year, 900,000 ALL in the second year, and 800,000 ALL in the third year.

Group size:	4-6 participants: 3 working groups (depending on the number of participants)
Time for group work:	40 minutes
Working materials:	A4 paper and flipchart.
Time for presentation:	10 minutes for each group.
Presenter:	1 person for each group.

4.7 Fiscal indicators as a crosschecking instrument

Fiscal indicators are useful for a quick appraisal of the state of public finances' health. The LGUs can use fiscal indicators in four different ways to analyze their budgets: (i) by comparing current values with target values, (ii) by comparing its own values with those of neighboring LGUs, (iii) by assessing current values of the LGU against values from the past, (iv) by evaluating whether the values calculated for the MTBP meet the target values or have a clear positive tendency if they were unfavorable in the past.

The first three ways are relevant for ex-post budget control, i.e., the control after the implementation of the budget. The fourth way is helpful for ex-ante control, i.e., the control during the preparation of the budget, before budget's implementation. As long as the fiscal indicator values are deemed unsatisfactory through the ex-ante control for a certain year of the medium-term budget, the budget is not in a good position. Thus, we need to take measures to improve the budget for that year. The target values for indicators should be defined in the financial strategy of an LGU.

Table 21. Financial indicators according to the FPT

Indicator	Interpretation
Total expenditures/Total revenues	If total expenditures are higher than total revenues, the LGU creates deficits.
Total revenues from fees and taxes/Total revenues	The higher this ratio, the higher local independence on the one hand, but the higher the tax burden on the other. There exists a trade-off between these two concerns, that of independence and that of a low tax burden for local citizens.
Own source revenues/Total revenues	An indicator for independence and fiscal strength of an LGU.
Capital expenditures/Total expenditures	An indicator for the extent of development orientation of the LGU finances.
Personnel expenditures/Total expenditures	An indicator of the efficiency of local public sector
Long-term loans/Revenues from general sources	An indicator of the financial dependence of the LGU
Long-term loans/Own source revenues	An indicator of the financial dependence of the LGU
Payments of outstanding liabilities/Revenues from general sources	An indicator of the LGU's fiscal discipline

Source: FPT Manual

Short exercise

Calculate the basic financial indicators for your LGU and compare them to the values calculated by your colleagues for their LGUs. Discuss the observed differences.

The indicators presented in the table above are neither the only possible choice. The LGUs can add additional indicators, particularly for internal monitoring or for assessing the performance in specific service areas. However, in any case, the number of indicators should be kept under control. Otherwise, there exists the risk that the indicators become insignificant when their number grows too much. The SMG should be careful to select the most appropriate financial indicators.

We can distinguish between two types of indicators: (i) static indicators that are used to assess a situation for a certain period and (ii) dynamic indicators that are used to measure changes over time.

Table 22. Examples of static and dynamic indicators

Static indicators	Dynamic indicators
Revenues from intergovernmental transfers/Total annual revenues	% change of revenues from intergovernmental transfers compared to the last year.
Revenues from taxes/Total annual revenues	% change of total expenditures compared to the last year.
Operational expenditures/Total annual expenditures	The level of change of capital expenditures compared to the last year.
Capital expenditures/Total annual expenditures	% change of revenues per capita compared to the last year.
Total expenditures/Population of the LGU	

Static or dynamic indicators are devised by a step-wise approach, comprising 6 stages: 1) selection of relevant indicators, 2) choice of the unit of measurement, 3) indication of the 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 type of problem you want to analyze. Avoid the introduction of new indicators without a particular purpose. Each indicator you use should be tailored to the question under review.

Step 2: Choice of the unit of measurement

Decide, whether you better use absolute values (or value changes) or percentage values (or percentage changes). Which unit of measurement would be more appropriate?

Step 3: Indication of the reference period

The reference period must match the issue under review. Will you calculate annual indicators or average indicators?

Step 4: Data collection and calculation of indicators

The data must be collected from reliable sources. For example, if you need to calculate revenues per capita, the data on the number of the population must be accurate. Usually, they are taken from the Civil Registry Office. If you need to measure the potential of the annual vehicle registration tax, the data should be taken from the Regional Directorates of Road Transport Service. Nonetheless, if you are interested in devising an indicator related to the building tax, the data may be incomplete. The Immovable Properties Registration Office (IPRO) does not possess a complete inventory. In this case, you may either work with partial data on a property or collect information from alternative sources (e.g., field work).

Step 5: Data analysis and interpretation

The analysis of a trend is one thing, and the analysis of the deviations from that trend is another. The examination of both these aspects could turn useful for assessing the impact on the environment, appraising the success of policy interventions in the past, or drawing conclusions on future developments.

Step 6: Presentation of results

The presentation of results must be carried out through an easily understandable format. The use of graphs and tables can be helpful in this case. A recommended way for the indicators presentation is the “traffic light system” with green, orange, and red colors. However, to make the traffic light system operational, the green, the orange, and the red zone must be clearly defined in advance. If the indicators end up in the red zone, the elaboration of corrective measures becomes mandatory.

5. Program budgeting

Objectives

Participants in the training:

- are able translate strategic goals and objectives into program goals, objectives, products and activities.
- are familiar with input planning and identifying the costs of program outputs and activities

Content:

5.1 Introduction to Module 5
5.2 Strategy oriented budgeting for results
   5.2.1 Hierarchy of planning and reporting instruments
   5.2.2 From strategic goals to activities
   5.2.3 Results-oriented program planning approach
   5.2.4 Limitations imposed by budget programs ceilings
   5.2.5 Distinction between projects, activities, and products
5.3 Calculating the costs of projects and activities
   5.3.1 Calculating the costs of new projects and activities
   5.3.2 Costs of new program elements
5.4 Coding system, from strategy to activities

5.1 Introduction to Module 5

The Medium-Term Budget Program serves as an instrument for the implementation of the SDP/TDS-GLP through the continuous execution of the CIP. Based on the general strategic framework, the LGUs elaborate or review their activities, including objectives and expected results, and identify suitable ways and actions for policies' implementation in the medium-term.

The MTBP serves as a medium-term document which integrates policy aspects (development strategy) with financial elements. Practically, as stated in the former chapter, the MTBP reflects directly the investment projects proposed in the CIP, which will be implemented over the next three years. The preparation of the MTBP is a long and inclusive process which starts with a detailed analysis of earlier years (t-n) and continues with the assessment of indicators of the current budget year (year t). Next, after analyzing the data on historical developments, the relevant structure begins with planning of the revenues from all available financial sources regardless of their nature. Based on the information on the strategic priorities of the LGU on the one hand and the assessment of the current financial situation and the availability of financial resources for the near future, the responsible structures set the expenditures ceilings. For the definition of the budget ceilings for each sector/program and spending category, a top-down approach is used. This is a responsibility of the mayor together with the SMG. When the ceilings are approved by the local council, they are passed on to the respective directories, the PMTs leaders. From that point on starts the bottom-up budget process. Within the limits set by the budget ceilings, the program directors have the freedom to prepare medium-term plans for the program under their responsibility. However, the program directors have an obligation to put the medium-term expenditures plans in line with the strategic priorities, while adhering to principles such as efficiency and effectiveness and legal requirements.

In this chapter, we will follow a principle, according to which: *"If resources are provided, activities can be undertaken; if activities are undertaken, products will be generated; if products are generated, objectives can 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 wand" that leads automatically to higher levels of financial resources. It is an instrument that reflects the way financial resources are raised and allocated in the medium-term, in accordance with legal and sub-legal acts that regulate the management of the budget system in the Republic of Albania.

5.2 Strategy oriented budgeting for results

Budget is an indispensable instrument for financial management regardless of the legal form of organization. It determines the level of expenditure on programs and activities. However, policy making is complex. It includes various actors inside and outside the LGUs. In any case, it is important that program policies take into account the economic and the fiscal reality of an LGU. The budget of the program should reflect precisely the adopted policies and make them operational.

If policies are defined only during the annual budgeting process, then it is likely that more attention is given to short-term issues, by overlooking or ignoring long-term objectives. Daily activities and day-to-day issues are overstated to the detriment of strategic priorities. Surely, there are activities that do not affect the achievement of strategic objectives, such as various product quality inspections, parking management, etc. However, these activities can support the attainment of specific strategic objectives. For instance, cleaning can be an important activity for LGUs, supporting the strategic objective of transforming the city into an "attractive place to live, work, visit and enjoy." As long as any activity is required, it should be included in the program with its budget.

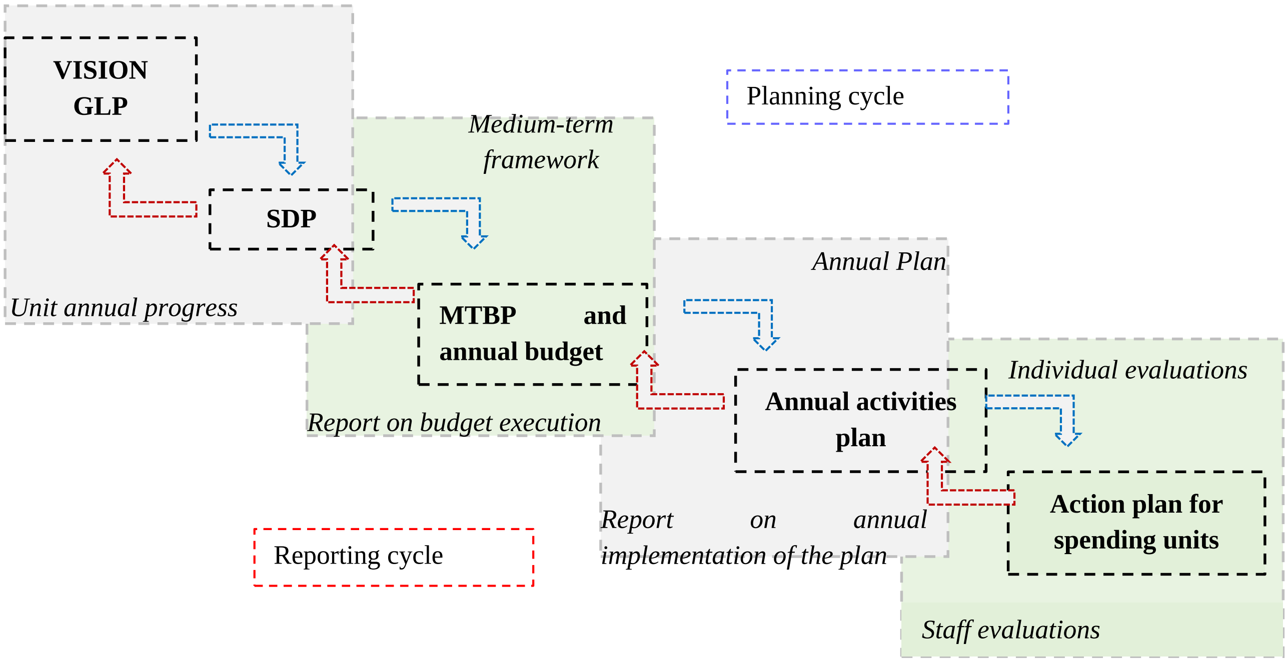
5.2.1 Hierarchy of planning and reporting instruments

Within the hierarchy of policy planning instruments, the GLP has the highest position and a duration of 15 years. Among the GLP documents, based on the purpose of this manual, the Territorial Development Strategy (or the Strategic Development Plan) and the Capital Investment Plan are the documents that contain the strategic orientation of the LGU. These two documents serve as reference documents in preparing the MTBP and detailing the annual budget. During this process, strategic policy objectives and program specific objectives are translated into the procedures and activities needed to achieve strategic goals. Moreover, the measurable results that define the framework for monitoring and evaluation of the program are approved.

The Medium-Term Budget Program aims to inform about the activities that the LGU intends to undertake during the planning period and their financing methods. Through the MTBP, the LGUs aspire to implement all the exclusive functions and powers delegated by other levels of the government. The MTBP and the annual budget are drafted in the same format, and the first year of the MTBP is the annual budget. The Medium-term Budget Program and the annual budget document are organized in programs according to the functions defined in the Classification of the Functions of Government (COFOG) methodology and implemented in the GFIS (Government Financial Information System). The list of relevant functions and programs is prepared by the MFE along with their description. At this moment, the GFIS includes 9 functions (regarding local government) and 36 budget programs. This list is not static. Depending on further changes on the allocation of functions to the upper and lower state level that may occur, the list of programs and sectors may be narrowed or expanded. Program and sub-functions codes are defined by the MFE. Also, the same function/sub-function/budget program structure is strictly followed by the FPT, which helps in drafting the MTBP document.

The following figure presents in general terms the relationship between different levels of planning and reporting. The upper part of this figure illustrates the long-term planning cycle opposed to the medium and short-term planning. The bottom part is devoted to reporting and evaluation.

Figure 26. Hierarchy of planning and reporting instruments



For clarity and simplicity of interpretation, the following are the technical terms used for the budget programs (sectors) and will be illustrated with one example each.

Table 23. Terms, definitions and examples

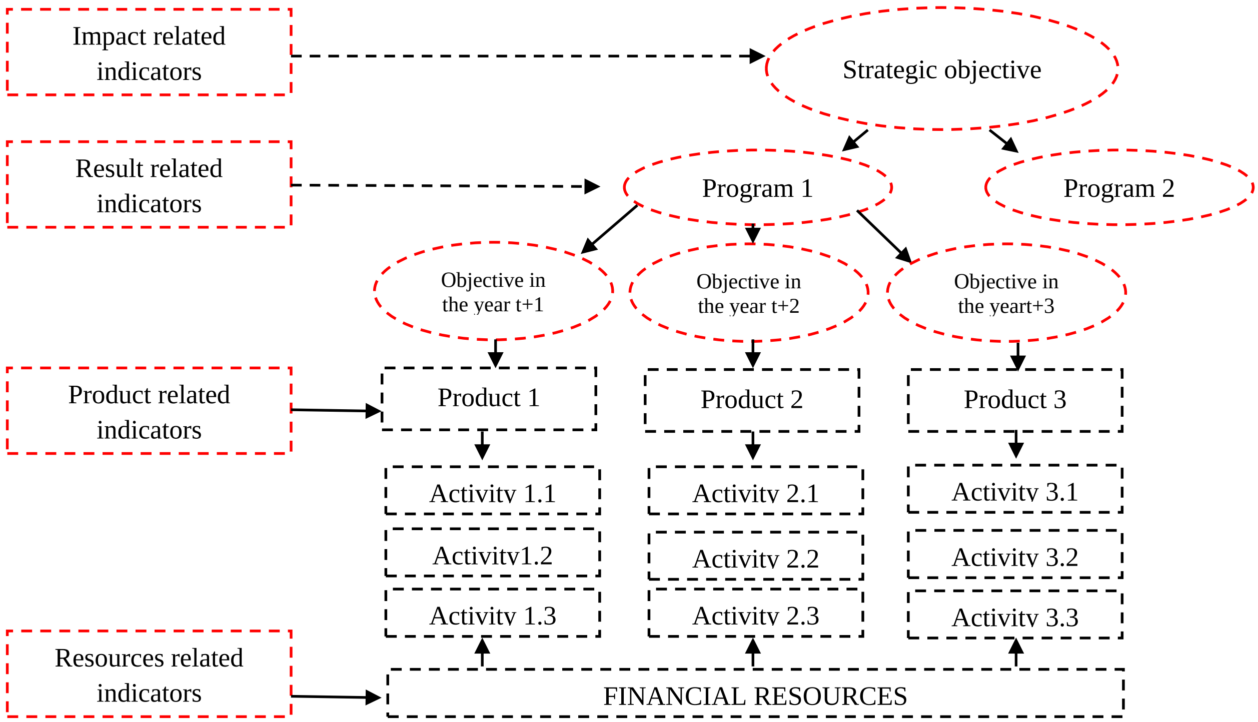
<table>
<tr><th>Term</th><th>Definition</th><th colspan="2">Example</th></tr>
<tr><td>Vision</td><td>Describes where the LGU will be in the future, based on the common values of all actors involved. Orientations for future development.</td><td colspan="2">“Gramsh Municipality is a municipality with high living standards, well-integrated with regional and national road networks, with consolidated urban and rural areas that have good access to each other. Gramsh Municipality is a municipality with developed economy, based on the agricultural-livestock sector and tourism developments, but also in the services and industrial sectors.”</td></tr>
<tr><td>Policy Statement of the Program</td><td colspan="3">For each program that has a standard description, a program policy statement containing policy purpose, policy objectives, and performance indicators should be prepared.</td></tr>
<tr><td>Program Policy Objectives</td><td>Specific results are measured precisely in time units, quantity and cost terms, which can be realized in the short to medium term and which constitute intermediate steps towards achieving the goal of the policy. All unit costs should contribute to the achievement of stated objectives.</td><td colspan="2">The number of families connected to the sewage system increases from 15,000 to 2018 at 19,000 in 2019 and 20,000 in 2020.</td></tr>
<tr><td>Products</td><td>The final product to be provided</td><td colspan="2">20 km renovated water wystem; 18 km of sewerage systems completed.</td></tr>
<tr><td>Activities</td><td>Activities and actions taken to secure the product. The ongoing process accomplished to achieve a policy objective</td><td>Renovation of the pumping station in the city.</td><td>Installing new technology for the maintenance system.</td></tr>
<tr><td>Spending unit</td><td>The organizational unit responsible for the correct execution of the budget and for achieving the planned results for that unit.</td><td colspan="2">Director or administrative office or public service enterprise, public enterprise etc.</td></tr>
</table>

Source: Territorial Development Strategy, Gramsh Municipality, Co-PLAN 2017

5.2.2 From strategic goals to activities

Following the drafting of the program's policy, budget expenditures planning starts. Expenditure planning includes their breakdown by economic classification: wages and social security, operating expenses, and capital expenditures. Closely related to the strategic goals of the LGU is the planning of program capital expenditures as they have direct links to the TDS/SDP through the CIP (which should be reflected in the policy statement of the program). After the placement of program expenditure ceilings (upper spending limit), the detailing of products, activities, and investment projects follows (translation in implementable terms of the strategic objectives).

Figure 27. From strategic objectives to activities and indicators



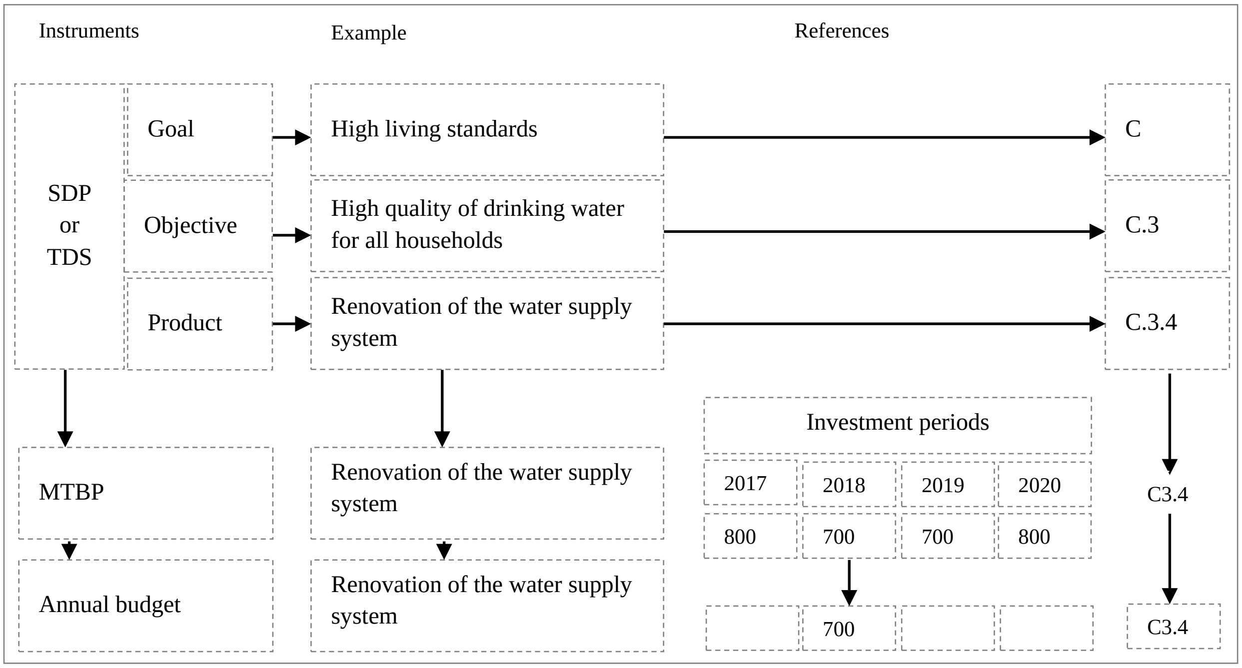
The implementation of the SDP/TDS through the MTBP and the annual budget should be verifiable. Consequently, measurable indicators are needed to assess the success (or not) of the implementation of the SDP/TDS. Here we can distinguish between four types of indicators: (1) indicators related to the impact of the strategic objectives, (2) indicators related to the outcomes of the program objectives, (3) indicators related to the activities, and (4) indicators related to data on the resources used. The use of indicators (quantitative, measurable) facilitates the monitoring and the evaluation of performance in the management of public funds of the LGU. This leads to increased transparency and accountability.

Funding the implementation of the GLP is a major challenge for local government units. Under limited budget conditions, the LGUs should make significant efforts to improve their financial management practices. They need effective and efficient management processes in order to achieve the strategic goals and objectives gradually. The best-performing alternatives should be used, and costs should be kept to a minimum. An important aspect in this context is the selection of investment projects to be included in the next MTB.

When selecting a capital project, the LGU staff should identify the period in which the project implementation will commence and end. Thus, there are two categories of capital projects, one year and multi-year projects. The implementation of the multi-year projects can go beyond the period covered by the MTBP. In the case of multi-year projects, the budget of each year is affected. Each year, the project costs of that year and the funds to cover them fall into the budget. For each year of implementation, these annual project costs and necessary revenues should be reflected in the MTBP in the form of commitments. To provide an example, if the costs for a three-year project are 1 million and 500 thousand ALL, the corresponding costs enter into every annual budget, e.g., 300 thousand ALL in the first year, 700 thousand ALL in the second and 500 thousand ALL in the third one.

The following example represents the linkage of strategic objectives to capital expenditures for multi-year projects in the MTBP and the annual budget. This way of operating serves as a monitoring and accountability instrument for the elected locals.

Figure 28. The link between the strategic objectives – activities and expenditures



5.2.3 Results-oriented program planning approach

The document that guides the long-term development and planning of the LGUs is the GLP. But how will the LGU break down the strategic goals into sectorial/program policies? Let us first analyze the example of water supply and then move to other policy areas.

Table 24. Description of program policy: water supply

Unit	Municipality of Bora
Goal of strategic development	High quality of life of the community
Program	Water supply
Program goal	The program provides drinking water for residents and businesses within the municipality.
Program objective	Provision of high quality drinking water for all households in the city by 2020.
Result impact	Increase the satisfaction of citizens with drinking water from 80% to 95% by 2020.
Outcome	Reduce the number of people who get sick due to contaminated water from 50% to 30% in 2020. Increase collection of water fees from 60% to 80% by 2020.
Products	Clean drinking water provided for 95% of households. Water meters installed for 95% of households by 2020.
Activities	Repair of existing water storage; Maintenance of the water filtration facility; Installation of 1,000 new water meters.
Sources/Inputs	Financial, human and material resources used for planned activities.

Group Work 6. Elaboration of the program policy's description

Objective:	Enable participants to prepare policy descriptions.
Assignment	Participants are invited to create a description of the program policy for one of the following policy areas: fire protection services; general economic, commercial, and labor issues; transport; reduction of pollution.
Group size:	4-6 participants: 4 working groups (depending on the number of participants)
Time for group work:	30 minutes
Working materials:	A4 paper and flipchart.
Time for presentation:	10 minutes for each group.
Presenter:	1 person for each group.

5.2.4 Limitations imposed by budget programs ceilings

Based on the definitions provided by the law no. 9936/2008 "*On Budget System Management in the Republic of Albania*," law 68/2017 "*On Local Self-Government Finance*," and the details contained in the "*Supplementary Instruction for the Preparation of the Budget of the Local Government Units*," one of the main tasks of the SMG is the elaboration of initial spending ceilings for the Medium-Term Budget Program and preparation of requests for reviewing the program expenditures.

The paragraph 5 of article 34 of the law 68/2017 "*On Local Self-Government Finance*" asserts *"based on the approved medium-term forecasts on revenues and intergovernmental transfers prescribed in the Instruction of the Ministry of Finance on local budget preparation, the Chairman of the local self-government unit prepares and presents to the council of the local self-government unit the initial expenditure ceilings of the Medium-Term Budget Program, at the program level.* The council of the local self-government unit must adopt the initial expenditure ceilings no later than March 15th. Next, *"the Chairman of the local self-government unit approves the instruction on budget preparation and distributes it to all subordinated spending units."* In the budget preparation instruction, budget programs and respective program management teams, preparatory ceilings according to the three-year MTBP programming periods, deadlines for the preparation of budget requests for each of the budget programs should be set out. Thus, the costs of each program (the FPT identifies 36 of them) should be within the spending limits for each of the periods considered. For this purpose, the PMTs must identify and evaluate all the existing and the new products they anticipate undertaking for the coming years and plan them in a realistic way so that no overspending will result.

Table 25. Expenditure representation according to the budget Program

	Typology	**T**		**T+1**		**T+2**	
		Ceiling	Planned	Ceiling	Planned	Ceiling	Planned
Function 1. General public services							
Program 1	*Planning, management, and administration*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 2	*Financial and fiscal issues*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 3	*Civil status*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						

Overall ceiling							
Program 4	*Payment on domestic debt service*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Function 3. Order and public safety							
Program 5	*Local police services*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 6	*Firefighting and civil defense*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 7	*Community relationship*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Function 4. Economic affairs							
Program 8	*Support for economic development*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 9	*Market issues, inspection, and accreditation*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 10	*Agricultural services, inspection, food, and consumer protection*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 11	*Irrigation and drainage management*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 12	*Forests and pastures management*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 13	*Rural roads network*						

Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 14	*Public transportation*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 15	*Development projects*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 16	*Tourism development*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Function 5. Environmental protection							
Program 17	*Waste management*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 18	*Wastewater and sewage management*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 19	*Environmental protection programs*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 20	*Raising environmental awareness*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Function 6. Social housing and social commodities							
Program 21	*Local urban planning*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 22	*Development programs*						
Wages and insurances	600-601						
Other current expenditures	602-606						

Capital expenditures	230-231						
Overall ceiling							
Program 23	*Local public services*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 24	*Water supply*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 25	*Road lighting*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Function 7. Health care							
Program 26	*Primary care services*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Function 8. Recreation, culture, and religious issues							
Program 27	*Sports and entertainment*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 28	*Cultural heritage, artistic and cultural events*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Function 9. Education							
Program 29	*Basic education including pre-school education*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 30	*Secondary general education*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 31	*Vocational education*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						

Overall ceiling							
Function 10. Social protection							
Program 32	*Social care for sick and disabled individuals*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 33	*Social security*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 34	*Social care for families and children*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 35	*Unemployment, education, and professional background*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Program 36	*Social housing*						
Wages and insurances	600-601						
Other current expenditures	602-606						
Capital expenditures	230-231						
Overall ceiling							
Reserve fund							
Contingency fund							
TOTAL EXPENDITURES							

The Financial Planning Tool (FPT) uses a total ceiling for every program, and within each program there are three types of sub-ceilings: the first for wages and social insurances; the second for the purchase of goods and services (consumption with the exemption of staff compensation); the third for capital investments. While the first and the second represent consumption ceilings, the third represents the minimal demand for capital expenditures. The ceiling for capital expenditures is what is left from the subtraction of the two consumption ceilings from the total ceiling. When the consumption ceilings are set, the Chairman and council of the LGU can handle the strategic allocation of the resources, according to the functions, limited by the total ceiling; in addition, the political authorities can incite investment and keep under control staff expenses through the control of the sub-ceilings. The sum of the ceilings of the respective programs would give the ceiling for each of the 9 sectors included in the FPT.

5.2.5 Distinction between projects, activities, and products

To avoid misunderstandings, we need to draw a clear distinction between projects, activities, and products. The term "activity" is used here for output-oriented actions or work. Products are goods or services provided by LGUs~~.~~ Activities have a continuous nature, as they are not discrete points in time. By contrast, projects (capital or not) are not continuous, and have a clear start and end. In the case when projects are foreseen (capital or not), it is important to plan expenditures for the activities related to the projects or products. Both the projects and products together with the related activities enter the MTBP and the annual budget. Of course, the same applies to the new recurring activities for new services. The following examples illustrate the difference between projects, activities, and products.

Table 26. Distinction between projects, activities, and products

Unit	Sub-unit	Example
Projects	Projects for capital expenditures	Reconstruction of the road; Procurement of machinery for waste collection; Installing the information technology network; Rehabilitation of the City Museum; Planting 100 new trees in the city.
	Projects for non-capital expenditures	Special staff training; Promoting local business; Citizens' awareness on environmental issues; Design of pedestrian crossings; Preparing local development plans; Knowledge of community with gender budgeting; Introduce the MTBP process to an LGU.
Activities	Activities related to investment projects	Planning of investment projects; Cost calculation; Designing feasibility studies; Preparation of tender documents; Announcement of tender procedures; tendering; Announcement of the winner; Signing of the contract; Supervision of implementation; testing;
	Ongoing activities	Cleaning of roads; Civil registration; Collection and removal of waste; Distribution of drinking water; Budgeting, accounting, reporting, monitoring, and evaluation; Tax collection.

Program products	From project activities or ongoing activities	Waste accumulated / waste disposed of or recycled according to the rules; Illuminated street lights; Trained children. New subscribers; Exhibitions in the city's museum.

Group Work 7. Definition of program products

Objective:	Enhance the techniques used to describe the products and to plan activities within the programs.
Assignment:	Participants are invited to define program products for two programs, cleaning and preschool education, and identify the activities that are required for the products of these programs.
Group size:	2 working groups (depending on the number of participants)
Time for group work:	50 minutes
Working materials:	A4 paper and flipchart.
Time for presentation:	10 minutes for each group.
Presenter:	1 person for each group.

5.3 Calculating the costs of projects and activities

Reliable estimates of product costs (activities) are crucial for a good budget process. This holds true both for the MTBP and the annual budget. For practical reasons, a distinction is made between cost calculations for ongoing activities (those currently being developed) and new activities and projects. In the case of ongoing activities, the cost calculation can rely to a certain extent on the data from previous years. In the case of new activities and projects, there are no previous figures, as there is no history on which to base our assessment. In this case, we have two possibilities: (1) products can be purchased from the private sector at market prices, or (2) products are produced by the public entity itself. If the products are to be produced independently, a precise internal cost-setting process needs to be developed. In each case, it is strongly recommended to check and verify cost estimates with partner LGUs that operate under similar conditions.

5.3.1 Calculating the costs of new projects and activities

When calculating costs for new activities or projects, we need to determine the desired product and the required activities. For simplicity, we take as an example the construction of a road, so we have an investment project.

Project Product:	Rehabilitation of the "ABC" road, within the planned deadline;
Activity:	Asphalting 2,200 m^2 of the "ABC" road.
Standards:	Road with a length of 200 m, width 10 m, sidewalks on both sides of the road with a width of 1 m each.

When assessing the costs of our project, we must consider total spending. Total expenditures consist of direct (investment) and indirect (indirect expenditures) costs. Direct costs relate to the project in the narrower sense, hence the planning and construction costs in our example. Indirect costs relate to the project management. However, it is recommended to allocate indirect costs schematically. Extremely ambitious approaches to determine indirect costs are usually fruitless. Determining the costs of new activities and projects is the responsibility of the PMT.

5.3.2 Costs of new program elements

When calculating the costs of new elements of existing programs that have not been procured by the private sector, we must follow a systematic, step-wise process. In this context, a step-wise approach can be followed as following

Table 27. Steps for determining the program costs

Step1	Describe program objectives in a clear and understandable way.
Step 2	Describe its products and specifications in a measurable way: quality, quantity, frequency, and place of delivery (if any). These specifications are required for each year included in the MTBP.
Step 3	Determine activities for each product and identify activities that contribute to more than one product at a time.
Step 4	Calculate staff costs: • Number of working days per each category of the staff. • Prices for each staff category. • Salaries costs for each staff category. • Social insurances costs. Consider the structural changes in wages for staff categories or social security.
Step 5	Calculate the costs for purchasing goods and services. Use the data provided by the finance and budget office for operating expenses (lights, phone, travel, services, allowances, vehicle maintenance, office products, overtime payments, computer equipment, printer ink, spare parts, etc., costs of operational maintenance).
Step 6	Sum all costs.
Step 7	Compare the program cost (PC) with the budget ceiling (BC) (and costs in similar LGUs) If PC ≤ BC implement the program activities. If PC > BC review the activities and the corresponding costs (choose the best option: the fewest resources for the best result).

Generally, for new projects or activities, two processes are of particular importance for determining the costs:

- Identifying the activities that are needed to produce the desired products.
- Determining the costs of the identified activities.

The steps for determining the program cost can be used as a checklist for identifying the activity. One of the purposes of this control list is to eliminate unnecessary activities, which make the provision of services a longer and more expensive process. By streamlining these processes, we earn from efficiency gains and these savings make possible the generation of additional services, i.e., more value for money.

Table 28. Step-wise activity identification

Step 1: Determine a list of systematic actions for each product;
Step 2: Identify activities that are used for more than one product and assign the cost shares;
Step 3: Eliminate all unnecessary activities, simplify processes;
Step 4: Determine alternative activities for achieving the same objectives, if possible;
Step 5: Carry out the final list of activities needed for each product.

Table 29. Example of planning products and activities

LGU	Municipality of Bora		
Program	Road infrastructure		
Strategic objective	Access to contemporary roads for all citizens by the year 2020.		
Program product	Maintenance of 20 km of internal roads by the year 2020.		
Product related activities	Year 2018	Year 2019	Year 2020
Preparation of the study	1 employee		
Establishment of the maintenance sector with 5 maintenance employees	2 employees	3 employees	-
Maintenance expenditures	2,000,000	2,200,000	2,500,000
Periodic inspections	12	12	12

Identifying the inputs required for each activity is of utmost importance for calculating program costs. Even in this case, it is recommended to use a step-by-step procedure for the identification of the inputs.

Step 1: Specification of planned products (products): type, quantity, and quality.

Example: Organization of 5 training seminars for the Program Management Teams (PMT).

Step 2: Identify the activities that are needed to produce the product.

Example: Presentation of new products, facilitation of group discussions, counseling of working groups.

Step 3: Identification of inputs (type, classification code, unit of measurement, quantities required).

Inputs	**Unit of measurement**	**Required amount**	**Code**
Preparation	Days		
Consultants	Days		
Facilitators	Days		
Pencils	Pieces		
Folders	Pieces		
Calculators	Pieces		
Conference room	Total amount		
Fuel	Liters		
Diet	Pieces		

Step 4: Finding potential savings: Is there a chance for efficiency gains? Is it possible to use any part of the material from elsewhere without recurring costs?

Step 5: Calculation of input quantities per year.

Example: Calculation of training material package for each year. Calculation of inputs required for each year of the 3-year period covered by the MTBP. Please keep in mind the figures and experiences from previous years or from similar LGUs, when possible.

- Number of participants in a seminar.
- Number of planned annual seminars.

Step 6: Cost calculation per input unit depends on the type of input factor. Calculation of allowances is based on contracts. For constantly purchased goods and services, the current market price is included in the cost calculation. However, keep in mind that if we make wholesale purchases, we should ask for discounts.

Step 7: The final stage of determining the cost of the activity. If you have identified the units that are needed for the input factor and the input unit costs, the costs for input categories can also be determined. By collecting costs for input categories that are used for a specific activity, the cost of the activity is also established.

The idea of defining activity costs is exemplified in the following table for activities identified as important regarding waste management program.

Table 30. Example of activity costs determination

Activity	Inputs required	Costs calculation
Employment of 3 new persons for the waste collection and disposal service	Number of annual working day per each employee. Costs per working day. Costs of equipment for each worker.	222 working days x 3 employees = 666 working days x 1,000 ALL/working days = 666,000+(3 x 2,000 ALL equipment/employee) = 672,000 ALL/year
Purchase of new containers for this service	Number of containers. Price per piece.	20 containers x 1,000 ALL/piece = 20,000 AKK

Apart from the calculation of direct costs, the costs directly incurred due to the program products, we must also calculate indirect costs. This cost category is not easy to calculate but it is important to calculate the total cost of each product or activity. In the aforementioned case, in addition to direct costs, we must find the number of required working hours for a given activity, i.e., the time required by the staff for the general administration of the process (human resources, IT, finance office, etc.), including the management time that the PMT needs. Moreover, this also comprises the necessary time for the LGU's office to promote a certain policy through the local council.

The assignment of indirect costs in the product lines is widely discussed in textbooks. Practical experience suggests that it is better to allocate overall costs in a simple and systematic way, according to practicable and appropriate indicators. In doing so, indicators such as the number of offices used for an activity, the number of personnel for a task, etc., can be used. Naturally, this approach is never perfect. However, it is not worth killing oneself for absolute accuracy in this area.

5.4 Coding system, from strategy to activities

In budgeting according to the budget programs, a challenge in itself is the budgeting of strategy-oriented programs. This step serves to draw the link between strategic development goals and clear and transparent program elements for the government, council members, administrative staff, and all interested citizens. For this purpose, a coding system was developed that clearly demonstrates how the strategic goals of the programs are implemented and how the program's activities and products are motivated by strategic development goals. When this approach of codification is properly implemented by budget institutions and supervised by control institutions, then we can rest assured that the public administration activities are fully in line with the Strategic Development Plan.

An illustration of the codes can be seen in section 3.2.2, figure 11 (in the last line). If an LGU has specified five strategic objectives in the SDP/TDS, then these five objectives will be respectively coded as O1, O2, O3, O4, and O5. For each strategic objective, there can be more than one strategic program, e.g., O1P1, O1P2, O1P3, etc. In this case, we will assign a number to each strategic program. Hence, we can say:

Strategic Objective 1 (O1)	High quality of life!
Strategic Program 1 (P1)	“High quality of drinking water for all the families of the city.”
Program P06330	Water supply service program.
Project P1	Project no. 1.

Let us take another look at the example of the water supply program, which includes a project called "Rehabilitation of the water supply system" (project No. 1 - P1), which will be categorized in the program *"Water supply service"* with the code “06330” and this project belongs to the strategic program no. 1 (P1) of the strategic objective number 1 (O1). So, the full code of this project will be O1P1P06330P1.

Table 31. Codification example

<table>
<tr><td colspan="6">VISION: The Municipality of Bora will be an important economic, education, and regional exchanges center, which will develop in full harmony with the history of the city, culture, and people, turning it, with its natural environment, to a glamorous place for living, working, and visiting.</td></tr>
<tr><td>Strategic objective</td><td>Strategic program</td><td>Budget program related to the strategic objective</td><td>Projects / Products</td><td>No.</td><td>Value (000/ALL)</td></tr>
<tr><td rowspan="3">Goal 1: Municipality of Bora, with a local attractive economy and dynamic business environment, where support and encouragement are expressed through production, trade, tourism, and business services that operate successfully within the regional market.</td><td rowspan="2">O1P1: Increase by 20% of the total number of businesses operating in the industrial zone in 2019, compared to 2018.</td><td>Provision of potable water</td><td>O1P1P06331P1 Improved network of water supply</td><td>1</td><td>35,000</td></tr>
<tr><td>Public lighting</td><td>O1P1P06441P1 Improved lighting for the industrial area</td><td>2</td><td>15,000</td></tr>
<tr><td>O1P2: Increase from 3 to 8 mechanisms that provide services and support for small and medium-sized enterprises (SMEs) in the city, by 2020.</td><td>Promotion of local businesses</td><td>O1P2P04131P1 Establishment of a one-stop office in the municipality.</td><td>3</td><td>10,000</td></tr>
</table>

Group Work 8. Calculating costs of activities and products

Objective: To enable participants to identify programs’ products and activities. To enhance their knowledge on aspects related to the calculation of the costs of activities and products.

Assignment: Participants are invited to identify the products and activities for two budget programs: environmental production and sewage management. Moreover, examples of these products and activities should be calculated in a transparent way.

Group size: 2 working groups (depending on the number of participants)
Time for group work: 45 minutes
Working materials: A4 paper and flipchart.
Time for presentation: 15 minutes for each group.
Presenter: 1 person for each group.

6. Monitoring and evaluation in relation with the MTBP presentation

Objectives

Participants in the training:

- become familiar with the appropriate practices for the MTBP presentation;
- have the opportunity to use effective procedures and instruments for indicators-based reporting;
- have the necessary skills to monitor and evaluate the SDP and the MTBP

Content

6.1 Introduction to Module 6

Generally, performance management provides two main advantages. Firstly, it facilitates the strategic orientation of the planned activities within an organization and the consensus on performance objectives, linking strategic objectives to results. Secondly, it presents a tool for monitoring and evaluating the work and progress made by the LGUs and their staffs. The overall purpose of monitoring and evaluating is to ensure better control over the achievement of performance goals and objectives. Monitoring and evaluation can be used for all types of managerial responsibilities, e.g., the strategy, implementation approaches, activities, internal processes, inputs and costs, products, and achieved results.

We should make a clear distinction between formative and summative evaluation. Formative assessment is devoted to the continuous analysis of the reasons behind the discrepancy between the achieved results and the planned results. In contrast, in-depth assessment of the effectiveness of what is done, measured against the strategic goals of development, is called summative assessment. While the formative assessment focuses more on inputs and products, the summative assessment estimates the results and the impact. In this chapter, monitoring and evaluation will usually refer to the formative assessment, if not specified otherwise. This assessment can be carried out regularly, for example, three times a year or annually, while the summative evaluation makes sense only after a long period of time. It takes a longer time frame before we are able to measure the effectiveness of an intervention in terms of outcome and impact goals.

Performance reports provide information on the achievement of results, i.e., in the production of public services and the implemented processes. Based on these reports, monitoring and evaluation are possible where the achieved results are comparable to the objectives. Monitoring and evaluation are carried out to understand better and manage the budget implementation, as well as to make improvements when needed. Through monitoring and evaluation, the LGUs answer to the following questions:

- How well are we working?
- Did we achieve what we planned?
- Are the citizens satisfied?
- Are the expenses under control?
- What do we need to improve?

Answers to the questions above are necessary to make wise decisions on what must be done in the future.

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

Evaluation: The assessment of the budget implementation occurs ex-ante and ex-post. The ex-ante control estimates whether the budget has been properly prepared and in compliance with the regulatory framework. The ex-post evaluation analyzes whether the budget was executed as planned. From the assessment, more in-depth questions can arise, going beyond the available routine information that is used for monitoring. A question for ex-ante and ex-post evaluations is whether lessons have been drawn from the past experiences.

Monitoring and evaluation should figure out whether the LGUs have made progress towards achieving their goals and objectives. Moreover, the positive or negative factors that have influenced the implementation of the budget can be identified afterward.

Box 4: *OECD definitions on monitoring and evaluation*

The Organization for Economic Co-operation and Development (OECD) defines monitoring and evaluation as:

"Monitoring is a continuous function that uses the systematic collection of data on specified indicators to provide management and the main stakeholders of an ongoing 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 ongoing or completed project, program, or policy, including its design, implementation, and results. The aim is to determine the relevance and fulfillment 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."

Source: *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 does this process take place?

Almost all the local government units implement procedures for monitoring and evaluating performance. However, in many units of local self-government monitoring and evaluation is limited to the presentation of numerical data for financial indicators, achieved and planned, by economic classification. Reports on achieving strategic objectives remain in the shadow, except in sporadic cases. Nowadays, when performance-based budgeting has become a work practice, the development of monitoring and evaluation activities is necessary, and municipalities are moving toward this direction. Therefore, the LGUs should be equipped with skills and instruments to present performance reports for the fulfillment of long-term strategic objectives. Members of the municipal council, citizens, or other interested group seek and have the right to be informed on the implementation method and the achieved results of the local budget and the local financial management.

6.2 Conceptualization and benefits of monitoring and evaluation

People monitor and evaluate every day: for example, they decide on which store to buy food items for their family, on which school to send their children, on which agency to make financial transfers, on which bank to deposit their savings, etc. When they make judgments and decide on something, they are evaluating. The only difference is that in a professional environment, monitoring and evaluation are performed in a more technical way.

In practice, monitoring and evaluation are two highly correlated processes, sometimes overlapping and always complementing each other. The terms 'monitoring and evaluation' are often used together and presented almost as an integral concept. However, monitoring and evaluation are two separate activities. They are not identical.

6.2.1 Monitoring – how and why?

As already said, monitoring is a continuous and systematic process of collecting and analyzing information on the budget implementation where the achieved results are compared to the planned outcomes. In the monitoring process, special attention is paid to the implementation of projects, programs of special interest and financial discipline supervision. It is the purpose of monitoring to have current and reliable information available for successful budget implementation. Monitoring facilitates early identification of the problems encountered during the implementation phase, facilitating their timely resolution. Monitoring is based on data reported by the budget implementation process and direct observations. It compares these results with the projected objectives and main project goals and analyzes discrepancies. Specifically, monitoring responds to the question of whether available resources are sufficient, whether they are used efficiently, and whether the LGU is moving in sync with the plan.

Furthermore, monitoring is a prerequisite for evaluation. It can serve as the first step of the evaluation process, which provides systematic information on the results achieved regarding inputs, processes, and outcomes, following measurable and intentional indicators.
Monitoring includes indicators related to outputs/products, inputs/resources, and activities/processes. This is a prerequisite for the successful monitoring, as monitored indicators are clearly defined when preparing the MTBP. Moreover, these indicators need to be defined in a

measurable way. In addition to this, monitoring indicators should be directly linked to the goals and objectives of the SDP/TDS.

Monitoring may fail when the indicators are not systematically defined during the MTBP planning phase or when data collection and reporting are insufficient. Data collection and reporting are wanting when the required data are missing or when there exists a discrepancy between the available and the required indicator data. One of the reasons behind such deficiencies may be the unpractical definition of the indicators. When determining the indicators, the feasibility of data collection needs to be carefully considered. Sometimes, indicators are defined in such a way that the data must first be produced. This may engender situations with very high costs.

One of the goals of monitoring is to identify the difficulties of the budget implementation. A major problem of budget implementation arises when the collection of local revenues is deficient, or when the expected grants are not received. Under these circumstances, the planned activities should be re-evaluated, and the need for postponement or cancellation for certain activities may arise. In such cases, monitoring will indicate that these activities are missing and will point to the shortcomings of revenue collection.

6.2.2 Evaluation– how and why?

Formative assessment is described as the continuous analysis of the reasons behind the discrepancy between the achieved and the planned results. Formative assessment takes one step further than monitoring. Monitoring refers to the identification of deviations, while the formative assessment explains these deviations and provides recommendations for relevant improvements.

However, the formative assessment may go beyond analyzing deviations from what was planned in the budget. The ex-ante budget estimation is used to assess whether the budget has been properly prepared. This implies that questions are asked about (1) viability and credibility of revenue calculation, (2) strategic orientation of the budget ceilings, (3) content of what is planned in each program, (4) sufficiency of planned implementation processes and cost estimates, (5) linkages and measurements of program indicators, (6) budget allocation effects (e.g., regarding gender equity), (7) budget viability (e.g., maintaining fiscal discipline), (8) completeness of budget documentation, its presentation, and understanding of public access to documents. In the ex-post evaluation, apart from the analysis of the deviation, it is also judged whether the budget was properly executed, i.e., legally, for example, in line with the procurement regulations and providing full transparency. A common question for both ex-ante and ex-post evaluations may be whether lessons are drawn from the experience.
The summative evaluation deals with strategic questions, such as whether the program is still needed (the relevance of the objectives), whether the focus of the program needs to be modified (objectives emphasis), or whether its approach should be changed (the appropriateness of the

methodology). It is developed as the medium-term or the final assessment of the SDP/TDS implementation and is considered a process of strategic review that assesses the development course of a local unit. Moreover, the summative assessment is used to evaluate the effectiveness, efficiency, and sustainability of a meticulous approach to a set of objectives. In this way, the program evaluation is necessary from time to time in order to provide clarity on the impact, efficiency, and sustainability of the program. Concerning the programs, summative assessments may focus mainly on the following issues:

- *Importance* – Is the program still consistent with the LGU priorities and central government sectorial strategies? Does it still meet the needs of the target groups?
- *Effectiveness* – To what extent have the program objectives been achieved? If the objectives have not been met, what are the reasons for their failure?
- Efficiency – Are the inputs (time, and human and financial resources) used in the best possible way, without waste?
- Impact – Does the program have the desired impact on the long-term goals of the local government unit?

Table 32. Monitoring and evaluation characteristics

	Monitoring	Evaluation	
		Formative	Summative
What?	Monitoring is a continuous and systematic process of collecting and analyzing information on the budget implementation where the achieved results are compared to the planned outcomes and controls for compliance with the fiscal discipline.	Analysis of identified deviations during the monitoring process and the provision of suggestions on how to overcome the problems during the implementation. The ex-ante evaluation checks the accuracy of the budget proposal. Ex-post evaluation checks whether the budget was properly executed (e.g., complying with procurement rules) including the analysis of deviations. Furthermore, formative assessment should also check whether lessons have been learned from previous assessments.	Assessing the impact of programs/projects at the end of a project, or examining the actual relevance of the program objectives and methodology applied to the ongoing programs/projects.
Why?	To have fresh and relevant information on the current situation and progress made in the budget execution; To identify problems during the implementation of the budget or, more specifically, of a program or project; To have the necessary information ready for improved budget execution and early problem solving if needed.	To understand the reasons behind the deviation of the program in order to take the necessary measures; To ensure that programs are important, effective, efficient, sustainable and that the budget is sufficient during its preparation; To ensure that we learn the appropriate lessons from experience	To assess the achievement of strategic goals and objectives regarding results and impact; To revise the activities, products, and strategic objectives; To partially examine its core strategy and assumptions; To revise the strategic allocation of resources.
When	Monitoring is a continuous process. Its frequency depends on the level of activity (daily, monthly, quarterly, annual, etc.).	During the year or at the end of the year.	In the middle of an intervention (program/project) or at the end of it.
How?	Monitoring can be performed by local staff based on internal information or by council members or interested citizens based on reports or findings from direct investigations.	Analyze available documents and evidence (MTBP, monitoring reports, annual reports, additional findings and observations) and discuss them with stakeholders (responsible staff, interested citizens where appropriate).Work out action plans if required and submit them to the relevant decision-making bodies.	It is preferable to be carried out by independent experts.

6.3 Effective ways to monitor and evaluate

In the local context, it is the task of the Program Management Team (PMT) to define a set of indicators that are useful for monitoring and implementing programs and projects. These indicators should be approved later by the SMG. In the third chapter of this curriculum, we identified two types of indicators, static and dynamic. Both types of indicators can be useful regarding monitoring and evaluation.

Table 33. Examples of static and dynamic indicators

Static Indicators	Dynamic Indicators
Intergovernmental transfers/Total revenues	% change of transfer amounts year t/t-1
Revenues from local taxes/Total revenues	% change in revenues from local taxes year t/t-1
Revenues from local fees/Total revenues	% change in revenues from local fees year t/t-1
Revenues from local taxes/Revenues from local fees	% change of the ratio of revenues from local taxes/revenues from local fees
Operating expenditures/Total expenditures	% change in expenditures year t/t-1
Capital expenditures/Total expenditures	% change in capital expenditures year t/t-1
Total expenditures /Number of people	% change in total expenditures/people year t/t-1

In practice, there does not exist a clear limit for the number of indicators that can be used for each budget programs. However, human brain capacity to absorb quantitative information is limited. Thus, the information provided should be concise, as so the number of indicators chosen are the most significant.

Probably, the relevance of the included indicators is more important than their number. Indicators should answer the right questions. Therefore, it is very important first to assess the information needs of the LGUs and later assign the indicators. Let us take an example! A very exhaustive list of local revenue indicators will make the process more complex, and the collected information may not be significant. For example, some indices on local revenues may be: a) annual change of revenues from local fees; b) annual change of revenues from local taxes. Is this information important? Or is it more important to know: a) revenues from local taxes and fees per capita or capital expenditures per capita?

When the PMT members elaborate the indicators to use for each respective program, they should consider the importance of the information and choose the most significant ones. The number of indicators should be limited to three per program objective. There must be sufficient information, but the latter must also be important and accurate. Therefore, indicators should be set in SMART terms. If the indicators are duly drafted, the report becomes easy to write. The table below illustrates how program indicators should be linked to the products and feed with objectives for each year covered by the MTBP.

Table 34. Indicators related to the program products

No.	Product	Indicator	Last year result	Actual year result	Results within the MTBP period		
					t+1	t+2	t+3
1	Trainings of the managerial staff	No. of beneficiaries	50	45	60	70	90
2	Collection of obligations	No. taxpayers	3,000	2,500	3,200	3,400	3,500
3	Cleaning of the streets	No. of beneficiaries	10,000	10,000	12,000	13,000	13,500
4	Greening public spaces	m^2 green area/inhabitant	2.4	2.5	3	3.3	3.8
5	Planting new trees	No. of planted trees	100	130	150	200	250
6	Preschool services	No. of children	100	120	140	160	200
7a	Water supply	No. of children who benefit from the service	4,000	4,200	4,800	5,200	5900
7b	Drinkable water	% of pleased and very pleased citizens	50	52	57	62	70

6.3.1 Financial indicators in the FPT

It is especially important to have reliable and updated financial information always available. Continuous financial health monitoring of the LGUs is crucial to their well-being in the long run. This information should be transparent and presented in a way that is easy to read and understand from the actors inside and outside the LGU. Therefore, carefully selected financial indicators are indispensable. They make the assessment of the LGU resource management more real and important. Open and understandable financial information is one of the most important prerequisites for making government accountable to the citizens. The following table presents the financial indicators included in the Financial Planning Tool (FPT). These indicators are on the score sheets and are automatically calculated from the information provided on other sheets.

Table 35. Relevant financial indicators in the FPT

No.	Key financial indicators	Meaning	Formula	Fact year (t-1)	Plan year (t)	Plan year (t+1)	Plan year (t+2)	Plan year (t+3)
1	Ratio of overall expenditures to overall revenues	This ratio represents expenditures as a percentage of revenues. It shows the relationship between inflows of financial resources and expenditures. The ratio should be not greater than 100%, since expenditures cannot exceed revenues.	$\frac{Ov.\ Expenditures}{Ov.revenues}$*100					
2	Ratio of own source revenues to overall revenues	It gauges the fiscal autonomy of the unit. A high ratio is a positive signal for the unit as it shows that the LGU does not depend too much on external sources (such as intergovernmental transfers, grants, etc.).	$\frac{Own\ source\ revenues}{Overall\ revenues}$*100					
3	Ratio of actual revenues from taxes and fees to planned revenues from taxes and fees	A large or increasing difference between collected and planned revenues may be the signal of a general downturn in the local economy. If this difference is a common phenomenon, then the problem may lie with the collection of local taxes and fees due to inconvenient procedures, incorrect forecasts, etc. The ratio should be close to 100% or higher.	$\frac{Actual\ revenues\ from\ taxes\ and\ fees}{Planned\ revenues\ from\ taxes\ and\ fees}$ *10 0					
4	Ratio of capital expenditures to total expenditures	A high ratio shows a development-oriented management of local finances, allowing improvements of local services.	$\frac{Capital\ Expenditures}{Overall\ Expenditures}$*100					
5	Ratio of staff expenditures to total expenditures	An increase of staff expenditures may be a sign that labor productivity is falling. An increase of this indicator may imply that government is offering more services (has received new functions and competencies, an increase in the quantity or quality of offered services).	$\frac{Staff\ Expenditures}{Total\ Expenditures}$*100					

6	Ratio of long-term borrowing to total revenues	Long-term > 1 year A small number suggests that the LGU is able to pay its debts (interests and principal) within terms. Otherwise, if the ratio is too high, the local unit may be forced to reduce quantitatively or qualitatively the level of services.	$\frac{Long-term\ obligations}{Total\ revenues}*100$					
7	Ratio of long-term borrowing to own source revenues	The interpretation above holds true for this case as well. In this case, the ratio shows the level of dependence of the local unit to borrowing. It can also indicate a temporary peak of capital investments or a drop of own source revenue collection.	$\frac{Long-term\ obligations}{Own\ source\ revenues}*100$					
8	Ratio of short-term borrowing to total revenues	Short-term < 1 year It demonstrates the ability of the local unit to pay its short-term obligations. The lower the ratio, the better is the municipalities ability to pay. The increase of current short-term obligations as % against revenues by the end of the year could be the consequence of a negative liquidity situation and/or problems with expenditures that are financed through loans. A small ratio implies that short-term obligations can be repaid easily by the local annual revenues.	$\frac{Short-term\ borrowing}{Total\ revenues}*100$					
9	Ratio of outstanding liabilities to revenues from local taxes and fees	It represents the outstanding obligations of the local unit. A high ratio of outstanding liabilities to revenues accumulated from taxes and fees may be an indicator of careless PFM procedures or a high fiscal weight.	$\frac{Outstanding\ liabilities}{Revenues\ from\ local\ taxes\ and\ fees}*100$					
10	Ratio of expenditures on social services to total expenditures	A high ratio implies the undertaking of new policies or measures in the field of social services or the increase of the number of beneficiaries from these policies.	$\frac{Expenditures\ on\ social\ services}{Total\ expenditures}*100$					

6.3.2 System of the performance indicators

Each budget program must have its system of performance indicators. For each indicator, we need to verify whether goals and objectives have been achieved based on the achieved results. This sounds complicated, but in reality, it is not. Nowadays, the local government units apply quite a large number of indicators regarding monitoring and evaluation in their daily practice. However, these indicators are rarely reflected in the budget reports. Besides, there is often a lack of consistency from one year to the other. Currently, indicators are mainly used for monitoring revenues and expenditures, cash-flow movements, investments progress, served public areas, number of served consumers, 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 advisable to use indicators as long as a specific objective is still relevant.

Let us take a look at indicators in a more systematic way. We can distinguish between three dimensions of indicators:

- The first dimension refers to the level of impact (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 the efficiency and the effectiveness of the process. Here, we can also add sustainability, as an additional process quality.

Table 36. Summary of indicators in three dimensions

Indicator related to:	Description	Example
Level of Impact		
Inputs	Resources needed to carry out a process or to achieve a target product. Financial and human resources are also included, 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.
Products	Offers the desired products and services.	• km of constructed streets • km of maintained streets • tons of collected waste • km of finished canalizations, etc.
Outcome results	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 the 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 Impact		
Quantity	Amount, how much has been 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	The achievement of certain standards in providing services according to the citizens' needs.	• number of consumer complaints

		• percentage of citizens satisfied with the cleaning service • percentage of students satisfied with the teaching level
Process quality		
Efficiency	Used resources (usually related to costs) or the required time per unit of supplied good or service.	• Cost/ton of collected waste • Cost/m² of maintained road • Cost/m3 of produced water
Effectiveness	Achievement of strategic goals and 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

The success of monitoring and evaluation depends directly on the quality and relevance of the chosen indicators. The following table lists some features regarding the generation of good performance indicators.

Figure 29. Requirements for good performance indicators

- **Relevance** – Indicators must be related to the assessed activities and reflect the desired goals and objectives
- **Importance** – Indicators must provide important information on program products and the achievement of policy goals and objectives.
- **Accuracy** – Information used for indicators must be accurate.
- **Usability** – Indicators must be easy to use and analyze.
- **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 at the right time.
- **Clarity** – Indicators must be clear and comprehensible not only for the local staff but also for the citizens.
- **Low-cost data collection** – Costs for the data collection must be low.

6.3.3 Specific challenges during the monitoring of the SDP/TDS

During the processes of preparation, implementation, and evaluation of the link between the MTBP and the SDP, there are two crucial moments, regarding the dependence of the LGU from external authorities, that must be analyzed: (i) strategic priorities outside of the LGU competencies, and (ii) unpredictability of external funds.

(i) Strategic priorities outside of the LGU competencies

The SDP/TDS includes all projects that are carried out within the jurisdiction of the LGU, regardless whether they are part of the LGU functions or not. On the contrary, the MTBP takes into consideration only those projects that are covered by the fields on which the LGU has authority. For example, the construction of an electrical substation can be a project included in the SDP/TDS if 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 the LGU. In this case, the collaboration and coordination among all the actors involved in the power supply and local economic development are necessary. During the monitoring and evaluation processes, when progress in the implementation of the SDP/TDS is assessed, the local staff must exchange detailed information with the responsible bodies outside of the LGU, at the central level, which have the authority to implement strategic priorities, e.g., with the Department of Public Health for the renovation or reconstruction of health care centers etc.

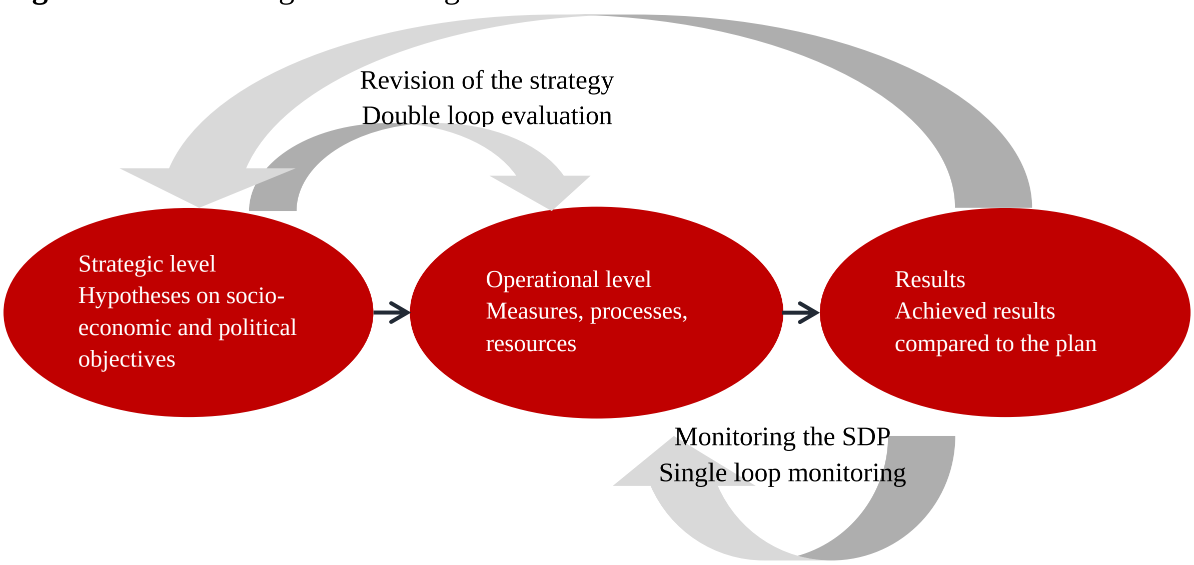
(ii) Unpredictability of external funds

Financing of capital projects by the regional development funds through competitive grants and donations is crucial for the implementation of strategic projects laid down in the SDP/TDS. However, the drawback of these external funds is their unpredictability. In the monitoring and evaluation processes, implementation problems, caused by rejected grant applications, should be openly addressed. When projects included in the MTBP cannot be implemented because of lack of external funds, monitoring and evaluation must make this fact explicit. Council members and other concerned citizens should be informed on how much of what was planned was implemented and why a planned project was canceled or postponed.

5.3.4 Learning through single and double loop

Monitoring and evaluation are not ends in themselves. They are useless if they are not followed by other actions. Therefore, monitoring should be organized as a learning process. If lessons are drawn from these experiences, then we have a process of continuous learning and improvement within the LGU. Henceforth, we should make a distinction between single loop and double loop learning. Single loop learning is continuous, whereas double loop learning takes place only once at long time intervals and only on the basis of an intensive process of reflection, conversation, and discussion.

Figure 30. Monitoring and revising the SDP/TDS



Source: Budgetierung im oeffentlichen Sektor, Bern: Haupt

When the LGUs monitor and evaluate the budget implementation, they assess their progress on the way towards strategic goals and objectives. Monitoring (together with the formative evaluation) is the first step. It measures progress at the product level. The second step is the summative evaluation, through which the outcome and impact of a program are assessed. Based on the findings of the summative evaluation, a re-evaluation or a re-formulation of strategic goals and objectives of the SDP can take place. The figure above depicts the difference between monitoring the SDP/TDS (with a single loop) and strategy review based on the summative evaluation (with two loops). SDP/TDS monitoring (together with the formative evaluation) can take place every year. Here, the achieved results are compared with the planned results, and the findings can be reported in a special section of the budget document.

The budget document should include corrective measures in case of major discrepancies between what was planned and what was achieved during the last year. When the second step, strategy review, is taken, the 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. Besides, considering the findings of the summative evaluation, strategy review questions the causes of deficiencies to address them 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.

Let us compare the three terms of monitoring, evaluation in the summative sense, and strategy review, again. These terms are interlinked, but we should avoid mixing them up.

Table 37. Differences between concepts

Features	Monitoring	Overall assessment	Strategy review
When is it performed?	Continuously	At the end of a project or a legislative period	At half-time, or towards the end of a SDP/TDS 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, Council 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?	PMTs, SMGs, and respective staff. In an aggregated form, council members are informed annually.	Mayor and council, the PMTs, SMGs, and respective staff, beneficiaries, other external stakeholders	Mayor and council, the PMTs, SMGs, and respective staff, beneficiaries, other external stakeholders
How are the results used?	Making small but continuous improvements (at the operational level) in preparing and implementing the MTBP	Readjusting projects, programs, or sector policies in order to improve overall effectiveness.	Making of strategic adjustments

Group Work 9. Development of performance indicators

Objective:	To equip participants with skills in constructing and selecting good performance indicators for the MTBP monitoring and evaluation To encourage participants in creating the necessary monitoring and evaluation format. To equip local staffs with skills for constructing and selecting performance indicators for other budget programs To build successful monitoring and evaluation practices for the LGUs staffs.
Assignment:	Each working group should choose a budget program. For the selected budget program, the group must devise performance indicators that reflect the program goals and objectives. In a second step, these performance indicators should be compared with the ones suggested by MoFE.
Group size:	2 working groups (depending on the number of participants)
Time for group work:	45 minutes
Working materials:	A4 paper and flipchart.
Time for presentation:	30 minutes for each group.
Presenter:	1 person for each group.

6.3.5 Is monitoring sufficient?

Monitoring is a necessary, but not a sufficient, step. It is 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 required to make the controlling system work. We have already delineated the formative evaluation, i.e., the 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 the proposals for corrective measures in a regular and a timely manner, and they should take decisions on follow up actions if necessary. Finally, the fourth step includes the verification that measures which had been decided before were implemented correctly. Besides, the responsibilities for each step should be clearly defined in each LGU.

6.4 Recommendations for presenting and reporting the MTBP

The Medium-Term Budget Program, as was explained in the training modules, is more than a simple financial planning document. It also serves as a policies' document, action guide, and communication tool. Therefore, the presentation and the layout of the budget document are particularly important. If the budget document is well designed, it explains what the 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 the better information, the relations of the Mayor with the major stakeholders are strengthened. This includes citizens, members of the local council, the LGU staff, institutions at the regional or central level, and donors. Improved budget transparency can be achieved when the budget presentation fulfills some technical requirements which are explained in the following sections.

A. Table of contents

The table of contents offers an overview of the budget structure and informs where the relevant information is to be found. Most readers will not study the entire budget document. The table of contents assist selective readers to pick out easily the issue of their interest. Furthermore, the elaboration of a table of contents helps structuring the elements of the budget document in a meaningful and logical way.

B. Main message or documents abstract

The main message is a crucial section for the preparation of the document. Its drafting method can serve as a catalyst to encourage the reader to read further. This section can be short or relatively long, depending on the LGU, its activity, and messages that need to be communicated.

When you draw the budget message, a systematic way is recommended. There are at least four steps to go.

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 on budget preparation as well as the priorities underlined in these guidelines. Besides, 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 included in the capital investment plan. Analyze what is already underway and what is planned for the near future.

Step 3: Identification of key issues for presentation

Identify the key issues you want to highlight in the budget message, e.g., improved productivity, better service delivered, neither new taxes nor increases in rates for citizens, services expansion in new areas of the municipality, etc. Explain the reason for choosing 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.

C. Budget presentation

The manner of presentation of the budget document has a strong influence on the attitude the public has toward the budget. A poor presentation – overloaded with 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 helpful instrument to provide information in an understandable way. They are particularly useful for explaining reasons or trends behind the budget or for highlighting distributive issues of the budget, e.g., to illustrate the composition of revenues or expenditures, the share of capital investments in total expenditures, etc. When tables with numerical information are used in the budget message, they should be kept simple and not overloaded with information.

Table 38. An overview of revenues according to sources

	Source	t-2	t-1	t	t+1	t+2	t+3
A	**Own source revenues**						
A.1	Revenues from local taxes						
A.2	Revenues from shared national taxes						
A.3	Revenues from local fees						
A.4	Other revenues						
B	**Revenues from central government**						
B.1	Unconditional transfers						
B.2	Conditional transfers						
B.3	Specific transfers						
C	**Borrowing**						
C.1	Short-term borrowing						
C.2	Long-term borrowing						
D	**Inherited revenues**						
D.1	Not dedicated inherited revenues						
D.2	Dedicated inherited revenues						
	Total revenues						

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

In addition to summative tables on revenues and expenditures, four other pieces of information must be included in the budget document: (i) a detailed overview of planned expenditures and revenues, (ii) detailed information on the tax level and fees changes, (iii) a separate budget portrait for each program, (iv) an overview of the major findings of the monitoring and evaluation process.

(i) A detailed overview of planned expenditures and revenues that covers 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 several useful charts automatically.

(ii) 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 all households and small businesses in the LGU. Nevertheless, taxpayers must be aware of the ongoing tax policy, and the local council must adopt that policy. Also, 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 has planned to make tax exemptions for special groups of the local community.

(iii) 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 expenditures for the last year, current year, and every year covered by the budget with details on the main items of the economic classification (e.g., wages, other operating expenditures, capital investments), main sources of revenues, indicators for performance measurement with targets for last year, current year, and every year covered by the budget.

(iv) 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 the strategic monitoring and evaluation processes. This information is necessary if we want to verify whether the new MTBP responds to the findings from strategic monitoring and evaluation. As soon as this information is made available and transparent, the monitoring and controlling loop becomes complete.

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