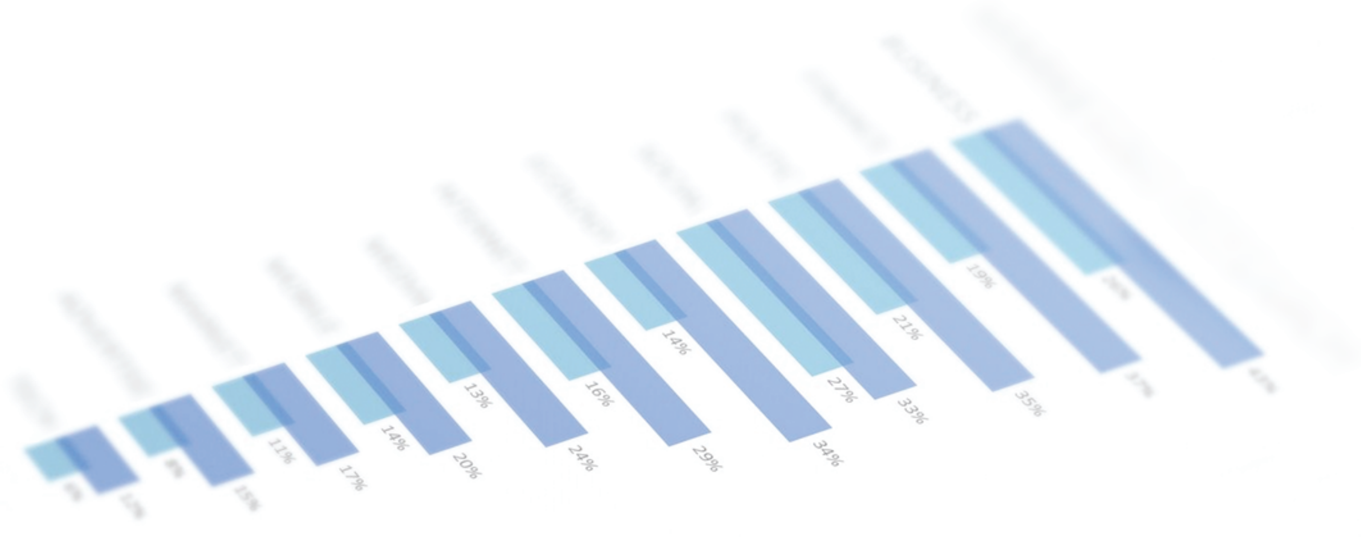
Manual
for the excel based Financial Planning Tool FPT



Medium-Term Financial Planning for **Local Governments** in the context of Albania - 2013

dldp
decentralisation and local development programme

Funded by:
Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development and Cooperation SDC

HELVETAS Swiss Intercooperation | ALBANIA

REPUBLIKA E SHQIPËRISË
MINISTRIA E FINANCAVE

Medium-Term Financial Planning for Local Governments in the context of Albania

Manual for the excel based Financial Planning Tool FPT

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

Prepared by:

Prof Stefan Pfaeffli & **Alex Loetscher**
University of Applied Sciences and Arts, Lucerne Business School, Switzerland

Supported by:

Valbona Karakaçi, Voltana Ademi, Elvin Hoxha
Decentralization and Local Development Programme (dldp), HELVETAS Swiss Intercooperation, Shkodër, Albania

Published by
Decentralization and Local Development Programme (dldp), HELVETAS Swiss Intercooperation, (HSI) Albania

Rr. Oso Kuka, Nr. 11,
4000 Shkodër, Albania

www.dldp.al

Honorable Heads of Local Government Units and Local Managers,

It is with pleasure, that I support the initiative of Decentralisation and Local Government Programme (dldp), financed by Swiss Development and Cooperation Agency (SDC), to publish the manual "Mid-term Financial Planning of Local Government"

The process of decentralization has had important achievements during these last years. A lot of functions and powers on services and public works were transferred and continue to be transferred to the local government. The fiscal desentralisation has been one of the most vital and important components of this reform. Important taxes have been transferred to the local level. These taxes have influenced not only the increase of the local revenues but they have also served and continue to serve as efficient instruments in compiling local fiscal policies, which are at the same time local development policies.

In accordance with the best experiences of the European Union countries, laws and sublegal acts on local taxes and tariffs were adopted; they have substantially increased the fiscal and financial autonomy of local governance.

One of the important challenges of public finances in transition countries is the collection and efficient use of revenues from taxes, a process which is becoming more and more important even in our country.

Law no. 9936, dated 26.06.2008 "On the management of budgeting system in the Republic of Albania", clearly defines the process and the procedures of compilation and implementation of the budget of institutions and public units, of central and local government.

This manual serves as a guideline to the local government units for the compilation of their mid-term budget programs.

I am convinced that this manual is heading towards the same directions with the investments carried out by the Albanian Government, on the modernization of the local administration and facilitation of work for the local managers.

This manual is an important instrument in supporting the finance employees and local managers to deepen and consolidate their knowledge in local budgeting, with the aim of increasing efficiency and effectiveness in using public revenues.

Once more, I would like to thank the Swiss Government for the support given and support it continues to give in relation to the modernization of the local finances.

Ridvan BODE

Minister of Finance

1. Introduction

Since the year 2009, Albanian local governments are obliged to prepare a medium-term budget based on law 9936 on Management of Budgetary System in the Republic of Albania. With the medium-term budget, the law requires an integrated policy and financial plan for a time-frame of three years. The medium-term budget is considered to be the interface between long-term strategic planning with a time-frame of ten years and more, and the annual budget.

Traditionally, budgets of public entities have a one-year time horizon only. The drawback of one-year budgets is its short-term orientation. Usually, in the short-term, there is little budget flexibility to allocate scarce resources in line with strategic development priorities. In order to gain more budgetary foresight, the medium-term budget orientation was introduced as a compliment to the annual budget. It was a good idea to start extending the budgetary planning horizon also in Albanian local governments; however, Albanian local governments were not ready to prepare medium term budgets in an appropriate way at this time.

The decentralization and local development project dldp, financed by the Swiss Agency for Development and Cooperation SDC and implemented by Helvetas Swiss Intercooperation started supporting decentralization and local development in Northern Albania in 2006. When the project entered in its second phase in 2010, support to local governance and public finance management became more important. From its first programme phase, dldp could build on the substantial experience in providing support for the elaboration of realistic and comprehensive strategic development plans SDP at the local level. The dldp methodology for SDP elaboration is characterized by a strong participatory approach. However, the existing first-phase planning methodology needed to be further improved; subsequently, application in a broader area of Albanian municipalities cold start. In addition to strategic development planning support, dldp elaborated a methodology for medium-term budgeting in collaboration with Albanian experts. Training material was elaborated and currently, interested LGUs are being trained in strategic development planning and medium-term budgeting. Since 2010, HSLU provides thematic support and backstopping for dldp on a regular basis.

Based on the existing collaboration between HSLU and Helvetas Swiss Intercooperation with dldp's local experts, the idea was developed to facilitate the medium-term budgeting process with an electronic financial planning tool FPT. The tool should be low-cost, tailor-made to the Albanian context and applicable in any typical Albanian municipality. Furthermore, it should be designed in compliance with international budgeting recommendations and respect the legal requirements of Albania for budgeting. HSLU and dldp financed the development of the FPT jointly, experts from HSLU designed and programed the software, based on excel. The local experts of dldp tested the software together with dldp partner LGUs in autumn 2011 and spring 2012 and provided valuable comments on how to customize the FPT in an optimal way to the Albanian needs. Furthermore, they translated the FPT into the Albanian version. Experts from the Albanian Ministry of Finance were consulted in case of open questions. The FPT is embedded in the comprehensive SDP/eMTBP package of dldp, where SDP stands for Strategic development planning, MTBP for the medium-term budget program, and e for the electronic FPT.

Since summer 2012, the FPT is ready for use. The present manual should help budget officers of Albanian LGUs to work with the FPT. However, the manual does not substitute a proper training on medium-term budgeting and on the use of the FPT.

It is our hope that the FPT will be widely used in Albania, facilitating the medium-term budgeting processes and making it more reliable and transparent. The developers of the FPT want to thank all who have contributed making the FPT real. A special thank goes to dldp, Helvetas Swiss Intercooperation, the Albanian experts of Coplan and ISB, the Albanian test-LGUs, the experts of the Albanian Ministry of Finance, and HSLU.

Stefan Pfaeffli & Alex Loetscher

Table of Content

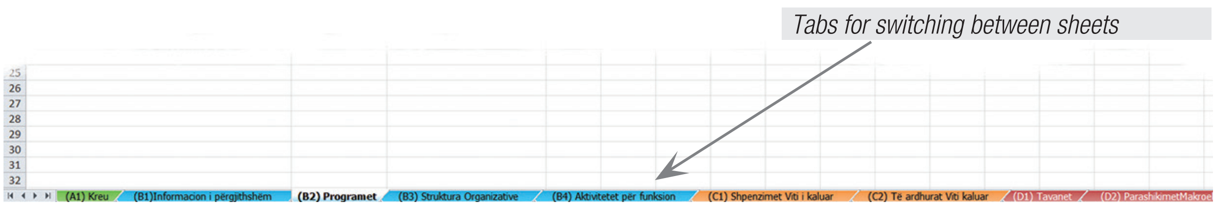
Figures

Tables

2. Overview and layout

At the margin of your sheets, you find the tabs that allow you to jump from one sheet to another. These tabs come in different colours. Each colour represents a different class of sheets as represented in Figure 1.

Figure 1: Tabs in colour representing different classes of sheets



There are different classes of sheets which are represented in Table 1. A distinction can be made between input and output sheets. Input sheets have to be filled in manually. Output sheets are produced automatically by the FPT. For input sheets, the responsibility for generating the information and filling it into the form must be clearly defined. Responsibilities indicated in Table 1 can be used as a default solution for timely and correct processing the forms.

Table 1: Classes of spread sheets and their character

Code	Colour of tab	Content of sheet	Character of sheet	Responsibility for data input
A1	green	Cover page	output / read-only	-
B1-B4	light blue	Budget-Structure and Organisation	input	Department of Finance[1]
C1-C2	orange	Last year figures	input	Department of Finance
D1&D2	light burgundy	Budgeting instructions (ceilings and macroeconomic assumptions)	input	Department of Finance

1) In LGUs without a proper Department of Finances, this is the organizational unit of the LGU responsible for the LGU finances. In this manual, the term Department of Finances will be always used in this sense.

E1-E5	silver	Revenue estimation	input	Department of Finance
BRF1-BRF22	red	Budget request forms	Input	Line departments
F1 & F2	green	Overview of revenues and gross expenditures (tables)	output	-
F3	light green	Overview of expenditures per function gross (graph)	output	-
F4	green	Overview of expenditure per function net (table)	output	-
F5	light green	Overview of expenditure per function net (graph)	output	-
F6	Green	Overview of expenditure per program gross (table)	output	-
F7	light green	Overview of expenditure per program gross (graph)	output	-
F8	Green	Overview of expenditure per program net (table)	output	-
F9	light green	Overview of expenditure per program net (graph)	output	-
F10	Green	Overview of expenditure per type of activity gross (table)	output	-
F11	light green	Overview of expenditure per type of activity net (graph)	output	-
F12	Green	Overview of expenditure, economic classification gross (table)	output	-
F13	light green	Overview of expenditure, economic classification gross (table)	output	-
F14	Green	Overall financial statistics	output	-
F15	Green	Fiscal indicators	output	-
F16	Green	Discrepancy check	output	-
G1	dark yellow	Translator	input	Translator

3. Processing the input tables

For each of the different species of input tables, a detailed instruction follows below. The manual explains the rationale behind the table; in addition, it gives instruction how to fill it in. Only for the areas highlighted in yellow or optionally in olive, there is information needed to fill in.

3.1. Title (A1)

The form “A1 Title” is generated automatically. No data entry is required. In effect, this is the first output table. It is discussed already here to follow the logical order of the forms under the FPT.

3.2. General information (B1)

The form “B1 General Information” is needed to define the planning period. This information will be used to customize all the forms of section C to F and for the title page. The lower part of the form is used to complete the title page.

Form B2 is filled in by the Department of Finances. Please, fill in only the yellow fields of this form!

3.3. Programmes (B2)

The form “B2 Programmes” is needed to define the programme structure of a specific LGU. The FPT leaves room for 16 programmes maximally. Please, use meaningful, tangible titles as programme names! Fill in the programme name and the name of the head of the programme correctly in the reserved fields highlighted in yellow! This information is used to customize a series of input and output forms. Incorrect or incomplete entries at this stage cannot be amended in the subsequent forms. It is not possible to overwrite the fields highlighted in sapphire blue.

Form B2 is filled in by the Department of Finances.

Special hint: In the budget request forms, there is only room for three activities per program area. If this is not sufficient, then please open the same programme twice in form B2, giving the first one the index 1 and the second one the index 2! However, consider aggregation of programme activities to limit its number to three per programme if this is possible.

3.4. Organisation (B3)

The form “B3-Organisation” is represented in Figure 2; you need this form to define the content of a programme in terms of LGU functions. Albania’s functional classification comprises 22 functions. Twenty of these functions are standardized country-wide, i.e. clearly defined by law. You find these functions in row A and B of Figure 2. Two functions are reserved for optional use, i.e. function 18 and 19. For this reason, function 1 to 17 and 20 to 22 are highlighted in sapphire blue and silver; you cannot overwrite them. Only function 18 and 19 are highlighted in yellow. If an LGU wants to use these optional functions, a meaningful title for them must be entered here.

The central purpose of form B3 is linking programmes with functions. A programme is a broader category than a function. Each programme comprises one or more functions; one function only belongs to one programme. To link programmes with functions, just go the programme fields in row F to G, click on the arrow button to the right of the yellow fields in row G, and select the appropriate programme from the list. This list is generated automatically from form B2. The heads of programmes are added automatically if you filled out form B2 correctly. Also the programme number is added automatically. Do not fill in the programme names into the yellow fields of row G by typing them in! If you do so, an error message will appear. Just select the names from the box!

To complete this form, define the administrative unit responsible for a function and fill in the name of the head of the administrative unit in row D and E. This information will be used for the Budget Request Forms.

Hint: Check in the Budget Request Forms whether the names for the administrative unit are split in a correct way in the Budget Request Forms. If not, you can adjust this in form B3. You can find an example in field D6.

The Department of Finances will fill out form B3.

Figure 2: B3 - Organisation

Yellow = to fill in by department fo finance

(B3) ORGANISATION STRUCTURE

Number	Function	Administrative unit	Head of function	Corresponding program	Name of program	Head of program
Function 1	General administration	Presidency	Anna Fo	Program 1	Public Services	Hamit Hoxa
Function 2	Cleaning and greening	Environment	Zico Rames	Program 1	Public Services	Hamit Hoxa
Function 3	Water sewage	Public Services		Program 9	Planning. Managing.	Isak Mehmeti
Function 4	Road management	Transportation	Till Shaquiri	Program 4	Public Transport	D
Function 5	Public transport	Transportation	Till Shaquiri	Program 4	Public Transport	D
Function 6	Tourism development	Economy	Artan X	Program 10	TBD	J
Function 7	Urban planning and housing	Construction		Program 15	TBD	O
Function 8	Public lighting	Public Services	Max Bill	Program 15	TBD	O
Function 9	Economic development	Economy	Artan X	Program 15	TBD	O
Function 10	Local forests	Economy	Artan X	Program 15	TBD	O
Function 11	Environment	Environment		Program 15	TBD	O
Function 12	Sport development	Presidency		Program 15	TBD	O
Function 13	Culture programs	Presidency		Program 15	TBD	O
Function 14	Social care	Social & Health		Program 15	TBD	O
Function 15	Education	Education		Program 15	TBD	O
Function 16	Healthcare	Social & Health		Program 15	TBD	O
Function 17	Civil emergencies	Presidency		Program 15	TBD	O
Function 18	Public spa	Economy	Artan X	Program 15	TBD	O
Function 19				Program 15	TBD	O
Function 20	Other public services	Finances		Program 15	TBD	O
Function 21	Short term debt service	Finances		Program 15	TBD	O
Function 22	Long term debt service	Finances		Program 15	TBD	O

3.5. Functional structure (B4)

Form “B4 - Functional Structure” is used to identify the activities/projects and their character for each function. This information is needed for the organisational set-up of the Budget Request Forms as well as for the output tables. The number of activities/projects is limited to three per function. With this limitation, the volume of the FPT is kept under control. Please, aggregate activities/projects under one function in a reasonable way that no more than three activities are spelled out per function. The FPT makes a distinction between on-going and new activities/projects and between exclusive, shared and delegated LGU functions. You find an extract of this form in Figure 3.

Fill in meaningful titles for the activities/projects in the yellow fields of row C of Figure 3 . Select from the boxes in row D, whether the activities/projects are on-going or new and from the boxes in row E whether these activities are part of exclusive, shared or delegated functions. Just click on the arrow buttons to the right of the respective yellow fields of row D and E, and you can make your choice. Do not try to over-write these fields by typing in information. If everything is filled in correctly, the “OK!” signal will appear, if not, it is flagged with “INCORRECT ENTRY!”.

The Department of Finance will fill out this form.

Figure 3: B4 - Functional structure

Yellow = to fill in by department fo finance

(B4) ACTIVITIES PER FUNCTION

	Name of the Activity / Project	Activity / Project: ongoing /new	Activity / Project: exclusive / shared / delegated	
Function 1	General administration			
Activity / Project 1a	Major's Office	Ongoing activity	Shared function	**OK!**
Activity / Project 1b	Registry Office	Ongoing activity	Delegated function	**OK!**
Activity / Project 1c	Elections	New activity	Delegated function	**OK!**
General administration				
Function 2	**Cleaning and greening**			
Activity / Project 2a	D	Ongoing activity	Shared function	**OK!**
Activity / Project 2b	E	New activity	Exclusive function	**OK!**
Activity / Project 2c	F	Ongoing activity	Delegated function	**OK!**
Cleaning and greening				
Function 3	**Water sewage**			
Activity / Project 3a	G	Ongoing activity	Shared function	**OK!**
Activity / Project 3b	H	New activity	Exclusive function	**OK!**
Activity / Project 3c	I	Ongoing activity	Delegated function	**OK!**

3.6. Last year expenditures (C1)

In form “C1 – Last year expenditures”, expenditures and specific revenues related with the activity or project are compiled in an overview for last year and for the current year. The form follows the functional classification. Take the information for last year from the annual financial report and for the current year from the budget for the current year as it was adopted or amended by the municipal Council. The FPT copies the information automatically into the budget request forms.

Firstly, form C1 requires information on the gross expenditure per activity for last year and the current year; secondly, information is required on fees and ring-fenced revenues per activity. The information on fees and ring-fenced revenues is required because the FPT will present the gross and net expenditure per activity in the budget request forms. The following example explains the logics behind this idea. Let’s assume a LGU improves its system of waste collection by introducing a system of separate collection. Gross expenditure is 1,000,000 LEK. Fees: 500.000 LEK, contribution from a donor: 200,000 LEK. This means that net expenditure is 300,000 LEK only. Why is this information important? Maybe the Council wants to assess the costs without separated collection of waste. Gross expenditure would certainly be lower but probably, the donor would be unwilling to pay a contribution.

You find an extract of this form in Figure 4. The Department of Finance just fills in the yellow fields of form C1. Subsequently, line departments will use the information as a starting point for planning their budgets.

Figure 4: C1 - Last year expenditure

Yellow = to fill in by department fo finance

ACTIVITY PLAN LAST YEAR							
		2011			2012		
		Last year			Current year (budget)		
		Expenditures	Fees	Ring-fenced revenues	Expenditures	Fees	Ring-fenced revenues
Function 1	**General administration**						
Activity / Project 1a	**Major's Office**	177,000	0	0	197,000	0	0
Activity / Project 1b	**Registry Office**	290,000	128,500	50,000	293,000	130,000	50,000
Activity / Project 1c	**Elections**	218,900		150,000			
General administration		685,900	128,500	200,000	490,000	130,000	50,000
Function 2	**Cleaning and greening**						
Activity / Project 2a	**D**	1					
Activity / Project 2b	**E**	2					
Activity / Project 2c	**F**	3					
Cleaning and greening		6	0	0	0	0	0

3.7. Last year revenue (C2)

In form “C2 – Last year revenues”, revenues for last year and the current year are compiled in an overview. You find an extract of this form in Figure 5. This form follows the conventional classification for local revenue sources.

For the following classes of revenue, specify what kind of revenue is considered and fill in the name of this revenue source in the yellow part of row B where applicable:

- shared taxes,
- fees,
- fines,
- revenue from assets,
- revenue from enterprises
- conditional grants and sponsorships,
- grants from regional development fund
- contributions,
- loans

See field B19 to B22 or B 40 to B42 as an example.

Take the information for the last year from the annual financial report and for the current year from the budget for the current year as it was adopted by the municipal Council. The information is used as a starting point for revenue estimation via the forms E1 to E5. The information is automatically copied into these forms.

The Department of Finance just fills in the yellow fields of form C2.

Hint: How to handle transfers to Qark? Use area "Contributions", i.e. one line of line 88 to 97, in form C2, and fill in this contribution with a negative sign as it reduces the financial room to manoeuvre of the LGU.

Figure 5: C2 - Last year revenue

Yellow = to fill in by department fo finance

(C2) REVENUES: LAST YEAR AND CURRENT YEAR

		2011	2012
		Last year	**Current year (budget)**
TAXES			
Small business tax			
Building tax		455,000	460,000
Acricultural land tax		340,000	370,000
Hotel tax			
Infrastructure impact tax			
Property transfer tax			
Vehicle registration tax			
Public space tax			
Billboard tax			
Temporary tax			
Advertising tax			
Shared tax 1			
Shared tax 2			
Shared tax 3			
Shared tax 4			
Overall tax revenue		**795,000**	**830,000**
FEES			
Cleaning fee			
Public space fee			
Potable water fee			
Lighting fee			
Sign fee			
Landscape fee			
Advertisement tax			
Parking fee		25,000	30,000
Slaughter fee			
Administration fee			
Social service fee			
Sports and culture fee			
Other services fee			
Overall fee revenue		**25,000**	**30,000**
FINES			
Fine 1	parking fines	5,000	5,000
Fine 2	littering		
Fine 3			
Overall of fines		**5,000**	**5,000**

3.8. Ceilings (D1)

Ceilings are used by the political authorities, i.e. the Head of LGU, the GSBI (group on strategy, budget and integration) and the Council, as a means to guide bottom up budgeting of line departments in a strategic way. For this purpose, the ceilings must be decided by the political authorities at an early stage of the budgeting process. Ceilings should be put in line with the strategic priorities of the LGU, based on the existing strategic development plan SDP. Furthermore, the ceilings must respect the financial limitations of the LGU. The revenue estimation process under E1 to E5 will reveal these financial limitations.

It is important that ceilings are communicated to the line departments as soon as possible.

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

The Department of Finance fills out the yellow part of form D1. The minimum level of capital investment is computed automatically. The information on the ceilings is imputed into the Budget Request Forms automatically. The ceilings are defined in terms of the national currency, i.e. the Lek, and not as a relative share, i.e. percentage of expenditure. You can find an extract of form "D1 Ceilings" in Figure 6.

There are three requisites for defining the ceilings:

- Firstly, an accurate and reliable estimation of the overall LGU revenue for each of the years of the medium-term budget is absolutely indispensable. This information is produced in the subsequent section E of the FPT.
- Secondly, the LGU needs a local development strategy. Only then, the ceilings can be determined in a strategic way.
- Thirdly, the political will for guiding the medium-term and annual budgeting process in a strategic way must be existent.

Figure 6: D1 - Ceilings

Yellow = to fill in by department fo finance

	(D1) CEILINGS			
		2013	**2014**	**2015**
F1	**General administration**			
	Ceiling on saleries and social insurence	350,000	355,555	360,000
	Ceiling on consumption (excl. salaries and soc.in.)	100,000	100,000	100,000
	Minimum level of capital investments	50,000	49,445	250,000
	Overall ceiling	500,000	505,000	710,000
F2	**Cleaning and greening**			
	Ceiling on saleries and social insurence			
	Ceiling on consumption (excl. salaries and soc.in.)			
	Minimum level of capital investments	0	0	0
	Overall ceiling			
F3	**Water sewage**			
	Ceiling on saleries and social insurence			
	Ceiling on consumption (excl. salaries and soc.in.)			
	Minimum level of capital investments	0	0	0
	Overall ceiling			

3.9. Macroeconomic assumptions (D2)

The macroeconomic assumptions of form D2 give information about relevant estimated figures from the macro-economic environment, which affect medium term budgeting. This information is used at each stage of the budgeting process, i.e. budget preparation, assessing of the budget proposal and its adoption, the execution of the budget and subsequent control. These assumptions are key for the budgeting process; they should be based on estimates of qualified and generally recognized economic forecasting institutes and confirmed by the political level, i.e. the Head of LGU, before they are made official. In most cases, the macroeconomic assumptions of LGUs can rely on the planning assumptions used by the Ministry of Finance. These assumptions are made available to LGUs by the Ministry. However, economic growth or inflation may be higher in areas of fast economic growth than the national average. The opposite could be the case in rural areas of the country. It is recommended to reflect the planning assumptions and adjust them to the local realities in a prudent way. When planning assumptions deviate from national estimations, the reasons should be well explained.

Please note, that the macroeconomic assumptions are not automatically used for revenue or expenditure estimation. Each budgetary entity will have to take this information into account and estimate the impact of forecasted inflation, real economic growth, etc. on the revenue and expenditure under their direct control.

The Department of Finance fills in the information on the macroeconomic assumptions and communicates the information to each of the concerned line departments when line departments are asked to launched bottom-up budgeting.

The FPT pre-defines five economic indicators; there is room for additional indicators that are considered to be important for LGUs.

The form “D2 Macroeconomic assumptions” is represented in Figure 7.

Figure 7: D2 - Macroeconomic assumptions

Yellow = to fill in by department fo finance

MACROECONOMIC ASSUMPTIONS

	2011	2012	2013	2014	2015
	Last year	Current year (budget)	Budget year t+1	Budget year t+2	Budget year t+3
Inflation rate	3.00%	4.00%	3.00%	3.00%	3.00%
Real economic growth rate	1.00%	2.00%	2.00%	3.00%	3.00%
Wage growth rate (nominal)	3.00%	4.00%	4.00%	4.00%	4.00%
Interest rate (3 months)					
Interest rate (5 years)					

3.10. Revenue estimation I: Taxes (E1)

The form E1 is used for forecasting all classes of taxes. The FPT requires you to forecast each tax individually. However, the procedure is the same for each of the different taxes. Finally, the bottom line for this form is the overall tax revenue for each year.

The FPT considers seven tax influencing factors. These are the seven influencing factors: (1) inflation, (2) real economic growth, (3) population growth, (4) legal adjustment of the tax law, (5) other relevant exogenous impact factors, (6) improved use of tax potential, (7) tax rate changes.

Unfortunately, the information on the influencing factors is not perfect; part of it can be taken from the macro-economic assumptions, however part of it must be assumed. This is the first difficulty. Then, the tax specialists of the LGUs must assess the impact of each of the influencing factors on each tax. This is the second difficulty. It is obvious that some input factors are more relevant for certain taxes than for others. For example, economic growth will hopefully have a positive impact on the small business tax but not on the agricultural land tax. However, to assess the extent of this impact on a certain tax needs a great deal of experience. The use of statistical skills can be helpful, but it cannot substitute experience. There is only one way to do it: try it, discuss estimation errors and learn from them.

In Figure 8, you can see an extract of form "E1 – Taxes"; only the first two taxes are represented here, the small business tax and the building tax. In the upper part, you find the headers for the seven influencing factors; the background of the fields is kept in white. Below, in the yellow fields, you can fill in the expected impact of each of the influencing factors on the respective tax for each of the years.

Figure 8: E1 - Taxes

Yellow = to fill in by department fo finance

(E1) REVENUE ESTIMATION TAXES

	2011	2012	Impact of inflation in %	Impact of real economic growth in %	Impact of population growth in %	Estim. impact of legal adjust. of tax law %	Estim. impact of other factors in %	Improved use of tax potent. In%	Tax rate change in %	2013	2014	2015
Small business tax	0	0								5,000	5,750	7,188
		Current budget										
		t1										
		t2	10.0%	5.0%								
		t3	10.0%	5.0%				10.0%				
		Base value of new tax				5,000						
		Introduction of tax				t+1				**OK**!		
Building tax	455,000	460,000								473,805	483,281	488,114
		Current budget	1.1%									
		t1	3.0%									
		t2	2.0%									
		t3	1.0%									
		Base value of new tax				-						
		Introduction of tax								**OK**!		

The two cases, represented in figure 8, are different.

- The first tax, i.e. the small business tax, is an example for a newly introduced tax. Please, take note that for this tax, there was no tax revenue in the preceding years, neither in the last year 2011 nor in the current budget year 2012.

  In the case of a newly introduced tax, you have to fill in the year of introduction and the expected volume for the first year. Use the olive-green fields for that! Fill in the expected volume for the first year; furthermore, determine the year of introduction by clicking on the arrow button to the right of the field reserved for the year of introduction. In our example, this is the year t+1. We are currently in year t; this is the year of the current budget. Therefore, t+1 is the next year from now. For this reason, you only have to consider the impact of the influencing factors for the year t+2 and t+3, as it is done in our example.

  Please take note that we assume in our example that only three of the tax influencing factors are relevant for the small business tax: inflation, economic growth, and the improved use of the tax potential. You find the result of the estimation for this tax in the silver boxes on the right hand side of the form.

- The second tax, i.e. the building tax, is an example for an already existing tax. You find the revenue from this tax for last year and for the current year according to the annual statement and the current budget in the orange field in the first line of this tax.

  The starting point for forecasting is the figure of last year. This figure is on solid grounds; it was taken from the annual statement. In contrast, the budget figure is not solid enough; therefore, we will not use it as our starting point for forecasting.

  In our example, we assume that inflation is the only relevant influencing factor. We assume that the value of buildings will increase because of inflation. This value increase will have a positive impact on the building tax provided this tax is based on the market value of the buildings.

  Don't forget to calculate the percentage increase of the tax volume for the budget year compared with the last year figure. In our example, it's an increase from 455.000 to 460.000, i.e. 1.1%. This step is required because our starting point for planning is the previous year. We cannot skip the budget year.

  Again, you can find the result of the estimation for this tax in the silver boxes on the right hand side of the form.

For all other remaining taxes, the forecasting procedure remains the same.

3.11. Revenue estimation II: Fees (E2)

Form “E2 Fees” is used for the estimation of all classes of fees. This form is constructed in a similar way as the form for tax estimation. What was explained there is applicable here as well. However, there are only five fee influencing factors considered here: (1) volume changes of activity, (2) use of fee potential, (3) legal adjustments, (4) other factors, (5) changes of fee per unit.

An extract of form E2 is represented in Figure 9. There, we give the example of three estimations.

- The cleaning fee is used as an example for an already existing fee. Again, don’t forget to fill in the percentage increase of the fee in the budget year when it increases from 150.000 to 160.000; it’s an increase of 6.67%.
- The public space fee will be newly introduced one year from now, and we assume that this fee will generate 50’000 in this year. Use the olive area to fill in this initial information. For the following years, use the yellow area. When everything is filled in correctly, we get the flag with the “OK!” sign. We see the results of our estimation for this fee in the silver field on the right hand side of the form.
- Also the potable water fee is an example for a newly introduced fee. This example is flagged with an “INCORRECT ENTRY” sign. What went wrong? When we introduce this fee in t2, i.e. two years from now, we cannot have an increase of this tax in the yellow part for the same year. This wouldn’t make sense. So, delete this increase and amend the base value of this fee if needed! Then, the estimation will be flagged with “OK!”.

Figure 9: E2 - Fees

Yellow = to fill in by department fo finance

(E2) REVENUE ESTIMATION FEES

	2011	2012	Expected volume increase of activity in %	Improved use of fee potential in %	Estimated impact of legal adjustments in %	Estimated impact of other factors in %	Increase of fee per unit in %		2013	2014	2015
Cleaning fee	0	0							167,999	176,399	188,747
		Current budget		6.7%							
		t1		5.0%							
		t2		5.0%							
		t3		2.0%	5.0%						
		Base value of new fee									
		Introduction of fee						OK!			
Public space fee	0	0							50,000	60,000	66,000
		Current budget									
		t1									
		t2		20.0%							
		t3		10.0%							
		Base value of new fee									
		Introduction of fee						OK!			
Potable water fee	0	0							0	100,000	100,000
		Current budget									
		t1									
		t2		20.0%							
		t3		20.0%							
		Base value of new fee					100,000				
		Introduction of fee					t+2	INCORRECT ENTRY!			

3.12. Revenue estimation III: Fines (E3)

Basically, form E3-Fines follows the same logic as E1 and E2. Please, consult the instruction for E1 and E2 on how to fill out the form. However, form E3 considers only two influencing factors; these are the estimated growth (increase of frequency of a fine) and the increase of the fine per unit.

There is room for three types of fines. Please, enter the type of fines in sheet "C2 Last year revenue". In the case presented below in Figure 10, two fines are put in place, a parking fine and a fine for littering. However, these are just examples.

Figure 10: E3 - Fines

Yellow = to fill in by department fo finance

(E3) REVENUE ESTIMATION FINES

	2011	2012	Estimated growth in %	Increase of fine per unit in %		2013	2014	2015
parking fines	10,000	10,000				11,000	13,200	21,120
		Current budget						
		t1	10.0%					
		t2	20.0%					
		t3	10.0%	50.0%				
		Base value of new fine						
		Introduction of fine			OK!			
littering	0	0				5,000	5,250	8,138
		Current budget						
		t1						
		t2	5.0%					
		t3	5.0%	50.0%				
		Base value of new fine			5,000			
		Introduction of fine			t+1 OK!			

3.13. Revenue estimation IV: Others (E4)

Form "E3 Others" is used for recording expected revenue from assets in the form of sales or letting/leasing. Furthermore, expected revenues from LGU-owned enterprises are also recorded in form E4. Please, identify the particular sources in form "C2 Last year revenue", field b40 to field b53. The information is automatically imputed in form E4. Just fill in the expected amount in the reserved yellow fields of E4.

Form E4 is presented below in Figure 11. Examples are filled in. It includes revenues from assets, from LGU owned enterprises and a potential carry-over from last year.

Figure 11: E4 - Others

Yellow = to fill in by department fo finance

(E4) REVENUE ESTIMATION FROM ASSETS							
		2011	2012		2013	2014	2015
Building sale	-	-	-		500,000		
Land sale	-	-	-			750,000	750,000
Sale of other properties	-	-	-				
Land lease	-	-	-				
Building lease	-	-	-		50,000	50,000	50,000
Overall of revenues from assets		-	-		550,000	800,000	800,000

(E4) REVENUE ESTIMATION FROM ENTERPRISES							
		2011	2012		2013	2014	2015
Revenue from enterprise 1	-	100,000	100,000		100,000	100,000	100,000
Revenue from enterprise 2	-	-	-				
Revenue from other enerprises		-	-				
Overall of enterprises		100,000	100,000		100,000	100,000	100,000

(E4) CARRY OVERS FROM THE LAST YEAR						
	2011	2012		2013	2014	2015
Carry overs from the last year	-	-		50,000	0	50,000
Overall carry overs from last year	-	-		50,000	-	50,000

In Figure 12, it is demonstrated how to fill in the required information in form C2 as a preparatory step for having a complete form E4. Notice the yellow fields of line 40 to 53 and compare with Figure 11!

Figure 12: Extract of form C2 - specific information needed for form E4

FROM ASSETS			
Building sale	Town Hotel		
Land sale	Residential land reserve 001		
Sale of other properties			
Land lease			
Building lease			
Overall of revenues from assets		**0**	**0**
FROM ENTERPRISES			
Revenue from enterprise 1	Municipal spa	100,000	100,000
Revenue from enterprise 2			
Revenue from other enerprises			
Overall of enterprises		**100,000**	**100,000**

3.14. Revenue estimation from grants (E5)

Use form E5 for the estimation of revenue from grants, contributions and loans. Fill in your estimation for (1) unconditional grants, (2) conditional grants, (3) competitive grants out of the regional development fund, (4) contributions from donors, etc., and (5) revenue from loans in the yellow fields of this form.

Form E5 must be prepared in advance via form C2 in a similar way as form E4 (see there). The preliminary information is needed to specify the different inflows from conditional grants, competitive grants, donor contributions, loans. Relevant information on grants for the upcoming three years is provided by the Ministry of Finance annually.

Form E5 is filled out by the Department of Finances. However, it is strongly recommended that the Department of Finances consults line departments regarding the estimations for conditional grants, competitive grants and donor contributions.

3.15. Budget request forms BRF (B1 - B22)

The budget request forms BRFs are used by line departments to prepare their budget requests within the ceilings determined by the Head of LGU. By doing this, the broad top down process of budget preparation is combined with a detailed bottom up process. It is highly recommended that line departments have the responsibility to process the BRFs, where they are concerned. A consultation process within the line departments should take place then, and all concerned parties should be involved. This procedure guarantees that concerns of the practitioners are fully respected when the budget is elaborated; by doing so, the budget becomes more realistic and is better understood at the front line.

It is crucial, that line departments are given enough time to prepare their budget requests. According to international standards, a timeframe of at least 4 weeks would be ideal. This timeframe must be embedded in the LGU's budget calendar.

In accordance with the functional classification, there are 22 BRFs in total; for each function, a separate BRF is used. To keep track of the information, the number of activities/projects is limited to three per BRF. Please, present the most relevant two individually and the rest in an aggregated form.

The BRF is composed of four areas (see Figure 13):

(1) the header (line 1 to 7)

(2) Overview of the budget request (9 to 20)

(3) Compliance with ceilings (line 24 to 38)

(4) Detailed budgets per activity/project (line 40 to end of page). Please, take

note that Figure 13 doesn't show this area for the second and third activity/project! Only the template for the first activity/project is represented.

Ad (1) Header of the form

The header area presents general information of the function. In line 2, you find the name of the function, the responsible line department, the corresponding programme name. In line 3 to 7, the activities/projects of this function are spelled out and their nature and type are characterized. All this information is generated in advance by the Department of Finances and imputed automatically into the BRF. Nothing has to be done manually in this area.

Ad (2) Overview of budget request

The overview area presents the total of expenditures for the function in gross and net terms. You can find a breakdown of gross expenditures according to the economic classification in three categories: salaries, expenditures for goods and services purchased (non-salary consumption), and capital investments. Fees and ring-fenced revenues make the difference between gross and net expenditures. This area is compiled automatically. The information in the orange fields comes from information collected by the Department of Finance; the figures in the silver fields are computed based on information in area 4 of the BRF. Nothing has to be done manually in this area.

Ad (3) Compliance with ceilings

In this area, the budgeted expenditures are compared with the ceilings set by the Head of LGU. The ceilings are filled in automatically, based on information of form D1, whereas the expected expenditures in total (line 25), in form of salaries (line 29), non-salary consumption (line 33) and capital investments (line 37) are the result of what is budgeted in area 4 of the BRF. Line 26, 30, 34 and 38 indicate whether the ceilings are respected or not. Just watch the "OK!" or "STOP!" sign!

Ad (4) Detailed budget per activity/project

As already mentioned, each BRF leaves room for or three activities/projects. In the title line which is highlighted in turquoise (#40, #74 and #108), the following information is imputed automatically: number of function, name of function, number of activity/project, name of activity/project.

Below the title line, you find three subareas:

(i) the left side is dedicated to expenditure estimation,
(ii) the right side for revenue estimation,
(iii) and below (line 105 and 106), there is room left for explanation.

Figure 13: B1 to B22 - Budget request form

Number	Function	Administrative unit	Head of function	Name of program	
Function 1	**General administration**	Presidency	Anna Fo	Public Services	

	Activity	Nature	Type of function
Activity / Project 1a	Major's Office	Ongoing activity	Shared function
Activity / Project 1b	Registry Office	Ongoing activity	Delegated function
Activity / Project 1c	Elections	New activity	Delegated function

OVERVIEW OF BUDGET REQUEST

	Last year	Current year (budget)	2013	2014	2015
Salaries and social incurance			98,900	100,010	101,120
Consumption (excl. salaries and social insurance)			554,700	580,848	615,251
Capital investments			50,000	50,000	50,000
EXPECTED EXPENDITURES	685,900	490,000	703,600	730,858	766,371
ESTIMATED REVENUE FROM FEE	128,500	130,000	128,500	128,500	128,500
ESTIMATED RING-FENCED REVENUES	200,000	50,000	50,000	50,000	50,000
NET AMOUNT REQUESTED	357,400	310,000	525,100	552,358	587,871
				23	

COMPLIANCE WITH CEILINGS

		2013	2014	2015
Overall ceiling		500,000	505,000	800,000
EXPECTED EXPENDITURES		703,600	730,858	766,371
Difference of overall ceiling (has to be < 0)	**STOP**!	203,600	225,858	-33,629
Ceiling on salaries and social insurence		350,000	355,000	360,000
Salaries and social insurance		98,900	100,010	101,120
Difference of ceiling on salaries and social incurance (has to be < 0)	**OK**!	-251,100	-254,990	-258,880
Ceiling on consumption		100,000	100,000	100,000
Consumption (excl. salaries and social assurance)		554,700	580,848	615,251
Difference of ceiling on consuption (has to be < 0)	**STOP**!	454,700	480,848	515,251
Minimum of capital investments		50,000	50,000	40,000
Capital Investments		50,000	50,000	50,000
Difference to minimum on capital investments (has to be > 0)	**OK**!	0	0	10,000

Function 1	**General administration**	**Activity / Project 1a**	**Major's Office**

EXPECTED EXPENDITURES

	Last year	Current year (budget)	2013	2014	2015
Expenditure for activity, first year	**OK**!				
Inflation		5.0%	5.0%	7.0%	8.0%
Expected structural changes		5.0%	5.0%	7.0%	8.0%
Expected efficiency gains			-10.0%	0.2%	0.0%
EXPECTED EXPENDITURES	177,000	197,000	194,700	222,386	258,013
DIRECT COSTS FOR PROJECTS & CAP. INVESTMENTS					
Salaries	600		10,000	10,000	10,000
Social insurance	601		900	910	920
Operation/maintenance	602		9,000	9,000	9,000
Other current expenditures	603				
Internal transfers	604				
External transfers	605				
Other transfers	606				
Capital investments	230 / 231		50,000	50,000	50,000
Interests			1,000	1,000	1,000
Other					
RECURRENT COSTS					
Salaries	600		80,000	81,000	82,000
Social insurance	601		8,000	8,000	8,000
Operation/maintenance	602		20,000	20,000	25,000
Other current expenditures	603				
Transfers	604, 605, 606				
Interests					
Other	OK!		15,800	41,948	71,351
EXPECTED EXPENDITURES	177,000	197,000	194,700	221,958	257,471

ESTIMATED REVENUE FROM FEE

	Last year	Current year (budget)	2013	2014	2015
Base value of new fee	**OK**!				
Volume increase of activity in %		10.0%	10.0%	10.0%	10.0%
Improved use of fee potential in %		10.0%	10.0%	10.0%	5.0%
Impact of legal adjustments in %			20.0%		
Impact of other influe. factors in %					
Increase of fee per unit in %		0.0%	0.0%	0.0%	0.0%
Fee per unit					
ESTIM. REVENUE FROM FEE	0	0	0	0	0

ESTIMATED RING-FENCED REVENUES

	Last year	Current year (budget)	2013	2014	2015
Conditional grants			50,000	50,000	50,000
Contributions					
Reserved carry overs					
Further sources (incl. fines)					
ESTIM. RING-FENCED REV.	0	0	50,000	50,000	50,000
EXPECTED REVENUES	0	0	50,000	50,000	50,000

NET AMOUNT REQUESTED

	Last year	Current year (budget)	2013	2014	2015
NET AMOUNT REQUESTED	177,000	197,000	144,700	171,958	207,471

Explanation	

Let's have a closer look at subarea (i) expenditure estimation and (ii) revenue estimation per activity/project now!

(i) The expenditure side of the budget request form

The subarea for expenditure estimation is again sub-divided in three sectors (see Figure 14): The upper part (line 44 to 48) is used for estimating the gross expenditure for an activity/project; the middle sector (line 50 to 60) is dedicated to a disaggregated estimation of the direct costs of bigger projects, such as capital investments; finally, the lower sector (line 61 to 69) is used for the disaggregated estimation of recurrent costs of the budgeted activity.

Figure 14: Expenditure estimation for activity/project

EXPECTED EXPENDITURES					
	Last year	Current year (budget)	**2013**	**2014**	**2015**
Expenditure for activity, first year	**OK**!				
Inflation		5.0%	5.0%	7.0%	8.0%
Expected structural changes		5.0%	5.0%	7.0%	8.0%
Expected efficiency gains			-10.0%	0.2%	0.0%
EXPECTED EXPENDITURES	177,000	197,000	194,700	222,386	258,013
DIRECT COSTS FOR PROJECTS & CAP. INVESTMENTS					
Salaries	600		10,000	10,000	10,000
Social insurance	601		900	910	920
Operation/maintenance	602		9,000	9,000	9,000
Other current expenditures	603				
Internal transfers	604				
External transfers	605				
Other transfers	606				
Capital investments	230 / 231		50,000	50,000	50,000
Interests			1,000	1,000	1,000
Other					
RECURRENT COSTS					
Salaries	600		80,000	81,000	82,000
Social insurance	601		8,000	8,000	8,000
Operation/maintenance	602		20,000	20,000	25,000
Other current expenditures	603				
Transfers	604, 605, 606				
Interests					
Other	OK!		15,800	41,948	71,351
EXPECTED EXPENDITURES	177,000	197,000	194,700	221,958	257,471

Expected expenditure:

In the case of an on-going activity, you find the expenditure for this activity/ project in the orange fields in line 48 for last year and the current year. In the case of a new activity/project, just fill in the expected amount in the appropriate field highlighted in olive in line 44. This figure serves as a starting point for new activities/projects. It must be based on a detailed costing; this costing has to be carried out as a preliminary step outside of the financial planning process. In this case, just fill in in the explanation area below (line 71-72) where the costing information can be found.

For the following years, fill in how you expect the expenditures to further develop, i.e. increase or decrease. The FPT accepts three influencing factors for that: inflation, structural changes, and efficiency gains.

- Inflation can be a cost driver because of higher wages, higher fuel costs, etc. However, make a careful assessment to what extent inflation matters! How was it in the past?
- Structural changes comprise a broad variety of influencing factors, e.g. demographic changes, improved quality standards, political decisions for enhanced services, etc.
- Efficiency gains should be used to increase value for the money. The source for efficiency gains can be based on improved production processes, better prices for goods and services purchased as an effect of improved procurement, and on lower overhead costs.

Assess the impact of each of these influencing factors on the expenditure expected in future years and fill in the information in the yellow field of line 45 to 47.

For ongoing activities/projects, don't forget to fill in the percentage expenditure change of the budget year compared with the base year, which is last year. In our example, expenditures are expected to rise from 177.000 (last year) to 197.000 (budget year). This is a percentage increase of 11.3%. We assume that 5.3% were due to inflation and 6% are the effect of structural changes. - Last year is always used as the starting point by the FPT because last year figures are a more solid basis than the budget figures of the current year.

In the case of new activities/projects, where you use the olive area of line 44, you can use the yellow fields below explaining the further cost development only for the years after the introduction of the new activity/project.

Please, use the explanation box below to describe noticeable issues!

Direct costs for projects and capital investments vs. recurrent costs:

Now let's switch to the additional two sectors of the expenditure part, which are dedicated to the direct costs of projects and capital investments on the one hand and to recurrent costs on the other hand. These two areas allow you to break down the forecasted expenditures according to the economic classification. In the case of a capital investment and other projects, the upper part, i.e. line 50 to 60, has more weight; in the case of on-going activities, the lower part is more relevant in many cases. However, bear in mind that also capital investments will cause recurrent costs in future years. The break down between project and capital investment costs on the one hand and recurrent costs at the other hand is needed because of the ceilings and reporting requirements. For the same two reasons, a break down in categories of the economic classification is necessary.

Please, bear in mind that if you forget to fill in this area, you will face problems with the ceilings if this instrument is used by the Head of LGU. In addition, the FPT will put not explained expenditures in the category "other" in line 68, which is used as residue. In addition to that, information from the two cost information sectors of line 50 to 69 are used for the output tables as well. When you miss to fill in these areas correctly, details of the aggregated financial plan will be presented in an inaccurate way, and not all output tables can be used.

(ii) The revenue side of the budget request form

The revenue-side of the budget request form consideres two classes of revenues: fees and ring-fenced transfers. Both classes must be directly linked with the activity/project under consideration. Under the green title, the net amount requested results as the remainder of the expected expenditures for this activity (left side of BRF, line 69) and the expected revenue in the form of fees and ring-fenced revenues (see. Figure 15).

Figure 15: Revenue estimation within the budget request form

ESTIMATED REVENUE FROM FEE					
	Last year	Current year (budget)	**2013**	**2014**	**2015**
Base value of new fee	**OK**!				
Volume increase of activity in %		10.0%	10.0%	10.0%	10.0%
Improved use of fee potential in %		10.0%	10.0%	10.0%	5.0%
Impact of legal adjustments in %			20.0%		
Impact of other influe. factors in %					
Increase of fee per unit in %		0.0%	0.0%	0.0%	0.0%
Fee per unit					
ESTIM. REVENUE FROM FEE	0	0	0	0	0

ESTIMATED RING-FENCED REVENUES					
	Last year	Current year (budget)	2013	2014	2015
Conditional grants			50,000	50,000	50,000
Contributions					
Reserved carry overs					
Further sources (incl. fines)					
ESTIM. RING-FENCED REV.	0	0	50,000	50,000	50,000

EXPECTED REVENUES	0	0	50,000	50,000	50,000

NET AMOUNT REQUESTED					
	Last year	Current year (budget)	2013	2014	2015
NET AMOUNT REQUESTED	177,000	197,000	144,700	171,958	207,471

Let's have a look at the estimation of fees and ring-fenced revenues now!

For on-going fees, the starting point is the value of last year which will appear in the orange part of the bottom line for fee estimation. For new fees, use the olive part which is labelled with "Base value of new fee"; fill in the expected volume for the year of its introduction.

For the next years, five influencing factors are taken into consideration: (i) increased volume of activity, (ii) improved use of fee potential, (iii) impact of legal adjustments, (iv) impact of other influencing factors, (v) increase of fee per unit. The FPT works with expected percentage changes of the fee as an effect of these fife influencing factors. Make your assessment for each of the factors for every year and fill in your estimated impact in the yellow boxes. For the last influencing factor, increase of fee per unit, the percentage change is calculated automatically by the FPT when you fill in the fee per unit in the yellow boxes below the silver boxes. When you have completed all your estimations of the influencing factors and filled the information into the respective boxes of this sector of the BRF, the FPT calculates automatically the new volume of the fee for the coming years.

The estimation of ring-fenced revenues is fully based on information of the LGU and of its line departments. All available information should be used by the experts to make a realistic guess of what can be expected.

The total of both sources of revenues, fees and ring-fenced revenues are then summed up and the result appears in the boxes to the right of "Expected Revenue".

It is crucial for line departments that they have a clear view of what they can expect from users in terms of fees and from third parties in the form of ring-fenced revenues. The higher this direct, activity related revenue, the lower will be the net amount requested. Please, be aware of the following relationship: When a certain activity is reduced, then hopefully the expenditures for this activity will decrease as well. However, in many cases, also the fees will go down as well as ring fenced revenues. Therefore, if you reduce an activity by let's say 20%, then, the expenditure may go down by probably 15% (not 20% because of the fixed costs). In addition, when the direct, activity related revenue will go down, the savings in terms of net budget request are much lower than 20%, maybe 10%, depending on the relevance and the arrangement with these direct, activity related revenues.

Budget officers in the line departments should be aware of the relevance and of the potential of direct, activity related revenue. It strengthens the position of a line department and saves direct tax revenue of the LGU. These savings enhance the potential of the LGU to further improve the public services and make the LGU more attractive.

Budget officers of line departments and of the Department of Finances should sit together and make sure that estimations of the line department on direct activity related revenues are consistent with estimations of the Department of Finances regarding fees and ring-fenced revenues. The BRF of the FPT helps to make these estimations of the different LGU departments transparent and comparable; this is the basis for reaching consistency in financial planning.

4. Data output and their interpretation (F1 - F16)

The FPT produces two classes of output, tables and graphs. Sheet tabs for tables are highlighted in dark green; for graphs, they come in light green.

In total, the FPT produces 10 tables and 6 graphs which can be directly used for communication purposes. However be careful with presenting these tables and graphs. For a broader audience, do it selectively. Do not flood the audience with too abundant information. Select the graphs and tables that you find relevant. Highlight in a comment what is important to see and to know for each graph you select for presentation.

The FPT presents the overview of the revenues in table F1. Expenditure is presented in different ways:

- according to the functional classification (F2 to F5),
- according to the program classification (F6 to F9),
- per type of activity, i.e. on-going and new (F10 & F11),
- according to the economic classification (F12&F13)

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

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

Finally, in sheet F15, the FPT calculates the actual figures for 12 financial indicators (see Table 2). These indicators should be used to assess whether the medium term financial plan is in a good financial balance. For the interpretation and assessment of the indicator values, a financial strategy of the LGU with clear target values is required. This strategy can be part of the SDP; however a separate sector strategy seems more appropriate because this approach offers more flexibility.

Table 2: Financial indicators

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

The last output sheet, called discrepancy, is for internal use only. In this sheet, estimation for direct, activity related revenues, made by line departments, are compared with the same estimations made by the department of finances. Both estimations must match. If this is not the case, it is most likely that some revenue information is missing or false, either at the side of the line departments or the department of finance. This missing link must be found out in talks between the two sides, and false estimations must be amended until the discrepancies disappear. In addition to the ceiling check which is built-in into the budget request forms, the discrepancy check is an additional way to control whether the top down and bottom budget results match.

Correctness of the output tables and graphs depends on the accuracy and comprehensiveness of the data-input in the input area of the FPT.

5. List of technical terms and abbreviations

Term	Explanation
Activity	process carried out in order to reach a policy objective
BRF	Budget request form, used by line departments to prepare a draft budget per function and activity within their area of responsibility
Ceilings	Maximum amount allowed for spending for a certain item. The FPT provides the following ceilings: - Overall ceiling per program - Ceiling on salaries and social insurance per program - Ceiling on consumption per program (purchases of goods and services) - Minimum of capital investments
Co-Plan	Institute for habitat development, Tirana
Direct project costs	Costs for project preparation and implementation including project management. See also: recurrent costs.
dldp	Decentralization and Local Development Program
Efficiency gains	Improved procedures, cheaper input factors etc. can help reduce costs per unit. When the LGU realizes efficiency gains, more goods and services or new activities or projects can be financed more easily.
Financial indicator	Financial key figure used to assess the sustainability of local finances in an aggregated way
FPT	Financial planning tool

Function	Area of responsibility in the public sector, such as cleaning and greening, water sewage, road management, public transport, etc.
Gross expenditure	Total of expenditure including of what is covered by third parties (user fees, grants by central government, donor contributions, etc.). See also: net expenditure.
HSLU	Hochschule Luzern, i.e. Lucerne University of Applied Sciences and Arts
ISB	Institute for Contemporary Studies, Tirana
Macroeconomic assumptions	Planning assumptions on the economic development affecting LGU's finances during the medium-term planning period: economic growth, inflation, interest rates short and long term, growth of wages
medium-term	next three year
MTBP	Medium Term Budget Program
MoF	Ministry of Finance
Net expenditure	Total expenditure excluding costs covered by third parties (user fees, grants from central government, donor contributions, etc.). See also: gross expenditure.
Program	Policy area combining tasks (of an LGU) belonging together. Programs are usually broader than functions.
RDF	Regional Development Fund
Recurrent costs	Ongoing costs as an effect of a new facility. Example: When a new health centre is built, this will require staff, medication, heating, etc. in each of the following years. See also: direct project costs.
SDC	Swiss Agency for Development Cooperation
Structural change	Demographic development, new laws or legal adjustments, new procedures etc. can have an effect on program expenditure.