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HANDBOOK FOR DETERMINING THE COSTS OF PUBLIC POLICIES AND REGULATIONS

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HANDBOOK FOR DETERMINING THE COSTS OF PUBLIC POLICIES AND REGULATIONS

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1 INTRODUCTION

The Handbook for Determining the Costs of Public Policies and Regulations (hereinafter: Handbook) is a supporting tool for public administration officers participating in the development of planning documents and regulations, i.e. the assessment of the costs of their implementation and the budget impact. This Handbook is primarily intended for officers in ministries and other bodies and organisations of public administration (hereinafter: institutions), given the specifics of the planning system and the budget procedure at the central level. However, the concepts and the methods of costing set out in this Handbook are also relevant for other levels of government and other actors involved in the development of planning documents and regulations and those who manage their implementation.

The content of this Handbook is based on the Law on the Planning System of the Republic of Serbia (*The Official Gazette of the Republic of Serbia*, No. 30/18) and supporting regulations: Regulation on the Methodology of Public Policy Management, Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents (*The Official Gazette of the Republic of Serbia*, No. 8/19) and the Decree on the Methodology for the Development of Medium-Term Plans (*The Official Gazette of the Republic of Serbia*, No. 8/19), as well as the provisions of the Law on the Budget System and regulations pertaining to their application. This Handbook was developed in cooperation with the Public Policy Secretariat of the Republic of Serbia and the Ministry of Finance.¹

Note: Public policies are determined by planning documents^{Error! Bookmark not defined.}, and in this Handbook the term *public policy costs* refers to the costs of implementing planning documents. The specifics of determining the costs of public policy documents are highlighted throughout the text.

In this Handbook, the term *costs of application (enforcement)* of regulations refers to the costs of application (implementation) **of regulations borne by public administration bodies and organisations.**

In this Handbook, the general term *cost* refers to both the costs of implementing planning documents and the costs of implementing regulations.

When determining the costs of implementing acts, as well as when assessing the financial impact on the budget, it is extremely important that institutions use a uniform methodology (established by the Ministry of Finance by means of *the Rulebook on the Manner of Expressing and Reporting on the Estimated Financial Impact of Laws, Other Regulations or Acts on the Budget, i.e. Financial Plans of Organisations for Compulsory Social Security*). In this regard, the aim of this Handbook is to ensure that a uniform methodology is applied, to provide practical guidelines for costing and guidelines for assessing the costing impact on the budget. The methodology presented herein provides information used in the assessment of the impact of the implementation of planning documents and regulations in a broader context².

The costing principles and methodology presented in this Handbook are in accordance with examples of good practice and guidelines from the Collection of Tools and Experience in the Work of

¹ The Law on the Planning System defines the following planning documents: 1) development planning documents (development plan of the Republic of Serbia, autonomous provinces and local self-government units, investment plan and spatial plans); 2) public policy documents (strategy, programme, policy concept and action plan) and 3) other planning documents. The costing presented in the Handbook does not apply to spatial plans.

² The methodology and procedure for assessing the impact of public policies and regulations are explained in detail in the [Handbook for Public Policy Impact Assessment](#).

SIGMA organisation³ and the European Commission Instruction on Costing from the Methodological Guidelines for Costing of Structural Reforms from 2019.⁴

The examples provided in this Handbook were based on the existing public policy documents of the Republic of Serbia as a way of making the practical instructions more relevant and tailored to the needs of officers who develop and implement public policy documents and regulations.

This Handbook is divided into five sections.

Following the **first section** *Introduction*, the **second section** entitled *Costs of Implementing Planning Documents and Regulations — Conceptual and Methodological Framework* presents the basic concepts, elements and principles used in costing, the types of costs and the different methods and approaches to costing, and specifies the method of costing prescribed by the Ministry of Finance.

The aim of the **third section** *Determining the Costs of Implementing Planning Documents and Regulations – the Procedure* is to provide practical instructions for determining the necessary financial resources and sources of funding for the implementation of planning documents and regulations. To make it easier to follow and to understand, the procedure follows the structure and the elements of public policy documents, i.e. action plans as the most detailed of all public policy documents. The same principles and methodology are used to determine the costs of implementing regulations and other planning documents stipulated by the Law on the Planning System, in accordance with the instructions of the Public Policy Secretariat of the Republic of Serbia.

The purpose of the **fourth section** *Assessment of Financial Impact on the Budget* is to provide technical guidelines and practical examples for assessing the financial impact of the implementation of the planning document or regulations on the budget. Additionally, this section explains the relationship between costing and estimating the financial impact on the budget.

The **fifth section** *Public Policies, Medium-Term Planning and Budget* describes the connection between determining the costs of implementing public policy documents and medium-term planning and budgeting, i.e. mechanisms and procedures which ensure that funds are allocated in the budget for implementing policy documents in accordance with priorities and fiscal possibilities. At the end, this section explains why the moment in the annual budget calendar in which the public policy document is proposed and adopted is very important for providing the necessary funds for the implementation of measures and activities determined by that document.

The Glossary provided at the end explains the terms used in this Handbook.

³ Joint initiative of the Organisation for Economic Cooperation and Development (OECD) and the European Union (EU), available at: <http://www.sigmaweb.org/publications/strategy-toolkit.htm>.

⁴ Available at: https://www.cef-see.org/files/Costing_Guidance.pdf.

2 COSTS OF IMPLEMENTING PLANNING DOCUMENTS AND REGULATIONS — CONCEPTUAL AND METHODOLOGICAL FRAMEWORK

Determining the costs of planning documents and regulations is part of the broader impact assessment of their implementation. Timely information on estimated costs is one of the key tools in managing the system of public policies and legislative activities.

Public policies — set out in planning documents or regulations are only valid as long as those documents are enforceable. The key precondition for their implementation is that the objectives set in them are realistic, which is confirmed or denied, among other things, by determining the costs for their achievement in the envisaged period and defining the sources of their funding. Similarly, if the objectives are clearly and correctly determined and the measures (i.e. activities) for achieving those objectives are precisely determined, it is easier to determine the necessary resources and calculate the costs of their implementation.

Costs serve to achieve objectives. Whether more or fewer resources are to be invested will depend on the ambitions of the proposers, primarily, in terms of the dynamic and the scope of the reform that is intended to be realised.⁵

The Purpose of determining costs

In order for planning documents and regulations to be implemented, it is necessary to engage a certain amount of resources, and this accrues costs.

Cost information helps decision makers at all levels of the government to understand the **financial impact of the reform they are implementing and the decisions they are making**. Funds for the provision of public goods and the delivery of public services are limited, and cost information is needed to maximise the society's benefits of a given resource.

For the Government, information on expenditures is important so that it may provide the necessary funds in the budget or other sources of funding (such as donations, loans, etc.) in order to achieve the planned socio-economic changes. Good management of public finances is possible only if the costs are well calculated and sources for their funding are provided and planned.

The existence of costs raises **questions about the sources of funding**, i.e. the provision of funds for covering the costs which will arise during the implementation of planning documents and regulations. If there is a difference between the estimated costs and the available funds, decision makers must align the measures and the activities for the implementation of planning documents and regulations with the available sources of funding or reallocate resources.

Determining costs is a necessary step in conducting an *ex-ante* and an *ex-post* implementation impact assessment of public policy documents and regulations.⁶

⁵ For example, the goal is to cover a distance of 700 kilometres. If one drives at an average speed of 100 kilometres per hour, which is the speed at which the least petrol is consumed, they will cover the distance in seven hours. To get there faster, that is, in five hours, they would have to drive 140 kilometres per hour, but such a faster ride requires higher petrol consumption, and thus incurs higher travel costs.

⁶ An *ex-ante* impact assessment is an analytical process, based on relevant facts and data, conducted during the planning, the development and the adoption of public policy documents and regulations. The purpose of this impact assessment is to see the changes to be achieved, its elements and the cause-and-effect relationship between those elements and the choice

Cost information helps to see the impact of the implementation of the planning document or regulations on the budget, as well as to determine the best measures for achieving the objectives set out in the planning document, i.e. to prescribe the best solutions.

The cost of implementing public policy documents is closely linked to the development of medium-term and financial plans (i.e. programme budget) of institutions participating in the implementation of public policy documents, which are explained in detail in section 5 below.

Determining costs should provide the decision makers with:

- information on the amount of funds required for the implementation of planned changes in the thematic areas of the planning document or regulation;
- the opportunity to plan public funds in a timely manner in order to be able to implement smoothly the planned changes and achieve the set objectives;
- effective management of limited resources;
- information on the planned sources of funding of the proposed planning document or regulation;
- an indication of a **possible lack of financial resources** (*financial gap*) or the amount of missing funds that may jeopardise the implementation of planned measures and activities and the achievement of established objectives;
- information used in determining the price of public goods and services.

of best measures to achieve the objectives set out in the assessed documents. An *ex-post* impact assessment is the same, except that it is conducted during and after the implementation of adopted policy documents and regulations, and it serves to evaluate the impact, to review and to improve those policy documents, i.e. regulations.

2.1 Key costing components

2.1.1 Basic notions

Resources — funds (human resources, goods and services, investments, etc.) that need to be engaged in order to implement the established measures, i.e. activities and thus achieve the objectives set out in the planning documents or regulations within the prescribed deadlines.

Cost represents the monetary value of resources engaged for the implementation of measures or activities and the achievement of set objectives. The cost is determined by multiplying the price and the amount of resources needed.

Price is the amount paid to procure a resource necessary to carry out a measure or an activity. A price is also the amount which the public administration charges for the provided goods or services. In relation to market prices, the price set by the Government for public goods and services is based on the cost of delivering the goods or service. The goal of the Government is not to make a profit. It is the responsibility of the state to create additional benefits for the society as a whole with each additional cost. Additional costs of public service are equal to its additional price because it is formed on a non-market principle — each additional dinar of public service costs should be equal to one dinar of additional benefits from the delivery of such public service. The government cannot charge more than the established costs, but it can charge less than the costs, for example, to ensure fairness, to reduce negative economic impact on the service users and to achieve public policy objectives (how many railway lines would be maintained if there was no state interest in making them available to a larger number of citizens or how many health services would be provided if the state did not subsidise them).

Note: Planning documents have a prescribed standard structure and mandatory elements. While action plans, as the most operational policy documents, necessarily contain **objectives, measures and activities**, strategies or programmes include **objectives and measures**, but not activities for their implementation. Also, other planning documents may specify activities (e.g. Action Plan for the implementation of the Government Programme or medium-term plans of bodies) or only objectives and measures of public policies (e.g. development plans).

During a regulation impact assessment, the objectives which the given regulation intends to achieve are determined, as well as the solutions, i.e. measures and/or activities which need to be implemented through the application of that regulation.

Hereinafter, the terms *measures and activities* refer to measures and activities determined by planning documents, as well as to **measures and activities for the implementation of regulations which are within the purview of public administration bodies and organisations**.

2.1.2 Costing principle

The development of the planning document and regulations starts from the definition of the change that is intended to be realised, while the costing starts from the measures and activities that need to be implemented in order to achieve that change.

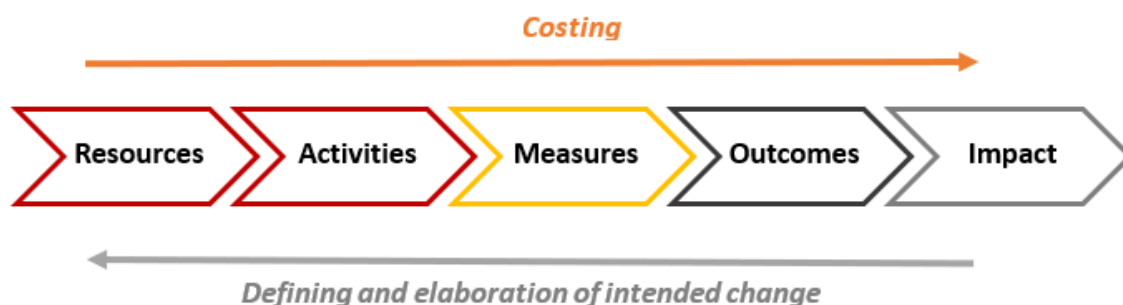


Figure 1. The process of costing and the process of drafting a planning document and regulations.

As a rule, determining the costs of implementing the planning document and regulations **begins by determining the costs of activities** — **if the activities are determined** by the document, i.e. the *bottom-up* method is applied (described in Subsection 2.4.1). As the measure consists of several related activities, **the sum of the costs** required to carry out the **activities constitutes the cost of**

Measures are a set of related activities which are carried out in order to achieve the objectives, i.e. the desired impact of implementing a public policy document or a regulation.

Activities are more specific directions of action and direction of resources in order to implement a measure, i.e. to achieve the objectives set out in public policy documents and regulations. Each activity has a fixed duration and the resources required for its implementation (hereinafter: input resources).

implementing the measure. The total cost of implementing the document is the sum of the costs of achieving the objectives, which are determined by adding up the costs of implementing the measures.

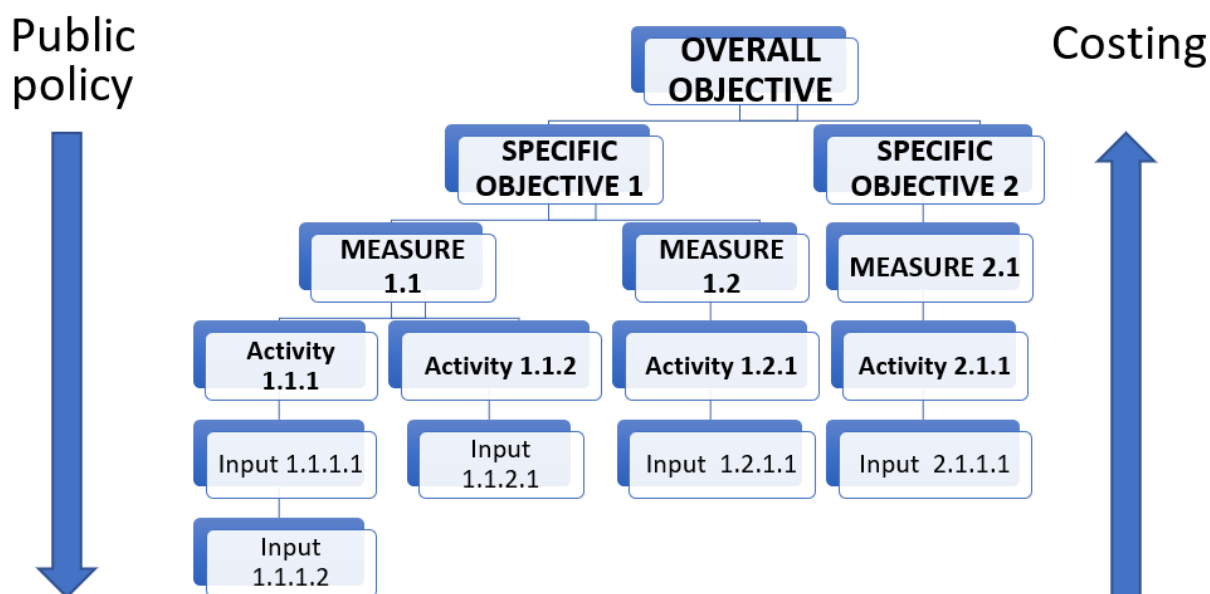


Figure 2. Elements of planning documents and the costing principle.

When **activities or requests for resources required to carry out activities cannot be determined precisely, the costs of implementing the measure are determined.** In this case, the top-down method described in Subsection 2.4.2 applies.

2.1.3 Quantification of input resources

Input resources can be divided into the following categories:

- **workforce** — newly hired officers;
- **goods and services** — consulting services, office supplies, fuel, lease of premises, etc.;
- **investments** — buildings, equipment, software, roads, subsidies, etc.;
- other.

Costing implies quantification of input resources necessary for the implementation of the planned measure or activity, i.e. financial and value expression of input resources.

The financial expression of input resources is determined by multiplying the determined price of a unit of resources by the amount of resources necessary for the implementation of the planned activity. The price used to determine the cost may be:

1. An average (unit) price;
2. A "historical" price of similar products and services;
3. An average reference price.

Average (unit) price — is determined by dividing the total value of the resource (product or service) which was procured over a longer period (through several procurement procedures) with the total amount of the procured resource. The average price is used when resource prices change frequently over time, e.g. due to external market factors (exchange rate differences, changes in world market prices, etc.). In that way, the impact of external factors on the price of the resource in the previous period is neutralised in order to predict its price more precisely in the following period.

"Historical" price of products and services — is determined based on the prices of the same or similar products or services that were procured in a previous period. These are mostly prices

that are not subject to frequent and significant changes in the medium term, e.g. the purchase of office supplies and equipment, the prices of utilities, etc.

Average reference price – is determined based on market research or taken from other external sources. For instance, when looking to procure specialised services, studies, analysis, software development, development of promotional material, etc., the price can be determined by enquiring about it directly with the manufacturers or service providers (by phone, e-mail, etc.). The use of reference (market) prices is especially recommended when the expected future prices differ significantly from the current ones and when the use of "historical" data would not give accurate estimates.

2.2 Basic cost types

2.2.1 Non-recurrent and recurrent

When calculating costs, it is important to consider **how often the planned measure or activity is to be repeated and how often it will incur costs**. If the cost is incurred only once (e.g. one training session or one-time investment in the development of IT systems), then it is a **non-recurrent cost**.

However, if the planned measure or activity is to be repeated for several years in a row, the input resources will be used several times during its implementation, then it is a **recurrent cost**. If the cost is to be incurred over several consecutive years, then it is necessary to calculate the cost for all the years in which the costs will be incurred by identifying the amount of the costs by year and the number of years in which there will be costs.

2.2.2 Direct and indirect

It is also necessary to determine whether the **costs** that will be incurred as a result of the implementation of measures or activities are **direct or indirect**.

Direct costs are directly related to the implementation of a certain measure or activity, the delivery of products or the provision of services. More precisely, if a certain measure or activity was not implemented, these costs would not even exist. Such costs include, but are not limited to, salaries, training material, etc., and directly depend on the scope and the dynamic of the implementation of the measure or activity. For example, if a ministry organises a training for 25 civil servants, the direct costs incurred on that occasion are the costs of renting a training room, catering, hiring a trainer, printing material, etc. If citizens' passport applications are processed, other examples of direct costs would be the salaries of officers handling passport applications and passport documents, the procurement of material used to make passports, the training of passport processing and passport officers, and so on.

Indirect costs are costs that are not directly conditioned by the implementation of measures or activities and cannot be directly and precisely associated with the production of a particular public good or the provision of a particular public service (e.g. office rental costs, utility costs, internet costs and other overheads).

These are costs that are associated with the exercise of all competences of an institution. These costs are difficult to associate with a particular activity because they are common to several different activities. Indirect costs cannot be fully or easily linked to specific services or products, but without them the provision of such services would not be possible. For example, when training for civil servants is organised, the indirect cost would be the consumption of electricity and the use of telephone and internet by the institution responsible for organising the training (e.g. the National Academy for Public Administration).

2.2.3 Fixed and variable

The following manner of classification of costs is to divide them into **fixed and variable**.

Fixed (unchangeable) costs are constant and do not depend on the scope and dynamic of the implementation of a particular measure or activity (e.g. office rental costs, utility costs, etc.). Fixed costs are, for example, salaries of employees, use of electricity, water and heating, internet and telephone.

Variable (changeable) costs are costs that change depending on the scope of the measure or activity carried out, or the quantity of products delivered and/or the volume of services provided. These include material procurement costs, communication costs, training costs, etc. For example, fixed costs of the training of civil servants would be the costs of electricity, telephone, water, heating, while the variable costs would be the costs of printing material or catering, etc. Variable costs also depend on the scope of activities carried out, so the costs of organising training for 25 and 125 civil servants would not be the same. Their difference stems from the fact that the costs of catering and printing material are higher for 125 trainees than for 25 trainees. In the example of processing citizens' passport applications and issuing passports, variable costs could include the costs of purchasing the material used to make the passports, training officers to process passport applications and to issue passports, while fixed costs would be the costs of electricity, internet, heating, etc.

As a rule, when calculating the costs of implementing a planning document or a regulation, the most important thing is to determine which **direct and variable** costs will arise from their implementation. It is these costs that create the financial burden on the budget, it being additional to the existing budget of an institution.

2.3 Costing or calculation by the additional costing method compared to the total cost method

2.3.1 Costing or calculation by the additional costing method

Costing by applying the **additional costing** method takes into account *only* the costs of implementing measures, i.e. activities that are **additional** to the situation (cost) when the measure or activity would not be implemented, i.e. the *status quo* option. The *status quo* option corresponds to the cost in the year before the implementation of the measure or activity (baseline

Planning documents, i.e. changes in regulations, as a rule, include only 1) new (reform) measures and activities or 2) measures and activities with a changed scope or coverage of implementation.

- When it comes to a new activity, the cost of the *status quo* option is **always zero**.
- If it is an activity with a changed scope or coverage, the cost in the *status quo* option is never **zero**. The additional cost in relation to the *status quo* option is **positive** if the scope of activities expands. The additional cost will have a **negative sign**, i.e. savings are achieved if the scope of activities decreases (in relation to the *status quo*).

Fixed costs (either direct or indirect), such as salaries of former civil servants, utility or telephone costs **are not included** in the calculation by the additional costing method.

Example of calculating the additional costing of implementing activities with a changed scope: In the new Action Plan for the Implementation of the Public Financial Management Programme, one of the planned results is an increase in the percentage of certified accountants in the public sector. To achieve the result, it is necessary to increase the number of training sessions presently conducted (training sessions were conducted in the previous period as well). When calculating the additional costs of training activities in the new document, only the costs incurred due to the increase in the number of training sessions are taken into account. These are **additional costs compared to the cost of implementing the existing training programme** and include the costs of hiring additional trainers, renting premises, catering, sound systems, etc.).

Costing by the **additional costing** method includes only **direct and variable costs**, because these types of costs create a financial burden that is **additional** to the *status quo* costs.

Costing by the additional costing method includes the costs of civil servants, but only when new institutions and/or organisational units are established or when new civil servants are hired to carry out activities. If new employees are hired, the costs of additional office space that may need to be provided and the fixed costs of new offices (utilities, telephone, internet, etc.) are considered.

Not all variable costs are additional. For example, an institution is already conducting training and certain variable training costs arise in the process. If the institution had decided to extend the training coverage to new officers and institutions, then only the increase in the variable costs incurred from the expanded training coverage will be the additional cost, and not the training which existed before expanding its coverage (i.e. the baseline year cost).

2.3.2 Costing by the total or full costing method

Calculating the costs of implementation of a public policy document by way of the total or full costing method implies calculating the costs of implementation of planned measures or activities, including all cost elements (direct and variable) as well as fixed and indirect costs.

When costs are calculated using the total costing method, it is necessary to determine which part of the "joint" (fixed and indirect) costs is related to the implementation of each measure or activity, i.e. it is necessary to determine the proportional cost of salaries, contributions and compensations of existing civil servants who have indirect connections with the implementation of the planned measure, or activity, as well as the proportional consumption of electricity, internet, telephone, etc. When applying this method, one needs to take extra care not to calculate the costs of implementation of a measure or an activity twice. The choice of this method for costing can affect the duration of the planning document and, thus, the effectiveness and the efficiency of public administration.

If, for example, the costs of organising training were calculated using the total costing method, the salaries of civil servants who, in addition to their regular duties have the obligation to continue their professional development, would be calculated since they would certainly be paid for that training day. However, it is important to calculate the cost of wages proportionately if the training were to last several hours of a working day and not a full working day. Or, for example, the costing of organising a specific training would include the salary of civil servants working in the National Academy for Public Administration in proportion to the amount of working hours that these employees spent organising that specific training. Also, the costing of training should include the proportional consumption of electricity, internet and utilities necessary for organising the planned training.

In order to simplify the process of costing and assessing the impact on the budget, and to ensure timely and efficient development of planning documents and regulations, the Republic of Serbia has prescribed the costing by the additional costing method.⁷

⁷ At the time of publication of the Handbook, the Ministry of Finance prepared a draft amendment to the Rulebook on the Manner of Expressing and Reporting on the Estimated Financial Impact of Laws, Other Regulations or Acts on the Budget, i.e. Financial Plans of Organisations for Compulsory Social Security prescribing the costing by applying the additional costing method costs as a basis for assessing the financial impact of budget acts.

2.4 Bottom-up costing versus Top-down costing

2.4.1 Bottom-up costing approach

The **bottom-up** costing approach implies the breakdown of measures into their constituent components — activities, as well as a detailed analysis of the required resources and an assessment of the costs of their implementation. The cost of carrying out the activity is calculated by multiplying the amount of resources required by unit prices. The cost of implementing the measure is calculated by summing the costs of implementing the activity. Typically, this approach requires experience in assessment combined with thematic experience, i.e. joint work of officers in the field of finance and in the field that is the subject of the planning document or regulation. This approach is considered the "gold standard" for determining costs because it provides the most detailed estimate of the specific cost. It is applied when officers know what needs to be done to achieve the planned results and when they can obtain information on the resources required and unit costs at a reasonable cost. The bottom-up costing approach allows for an analytical insight into the various cost components and helps to understand the effects of change.

2.4.2 Top-down costing approach

The application of the **top-down** costing approach implies that the costing is based on measures and determines the so-called parametric costs. The cost of implementing a new measure is estimated on the basis of the established relationship between "historical" costs and the technical specifications of similar measures.

For instance, the cost of building section XY of a highway is estimated based on the technical characteristics of section XY to be built and the "historical" cost of building sections of similar technical characteristics. Technical characteristics refer, for example, to the length of the section, the type of terrain (plain or mountainous terrain), the number of lanes of the highway, etc. It is important to identify those technical characteristics that have the greatest impact on the costs of implementing the measure, e.g. the type and complexity of the terrain on which section XY is being built (e.g. mountain terrain compared to plain terrain).

It is assumed that the same factors which affected past costs will affect future costs. The parametric relationship can be defined through unit prices (e.g. the price of a kilometre of a six-lane highway), but also more complex mathematical expressions, formulas or regression equations.

Regardless of the individual case, the goal is always to create a statistically valid model of cost estimation using "historical" data. This model is then used to estimate the cost of the new programme by entering its characteristics into a parametric formula. This approach is usually used when activities or the resources required to carry out the activities cannot be determined in detail, otherwise needed for the bottom-up approach.

When comparing bottom-up and top-down approaches, it is likely that the bottom-up approach will give more accurate costs. Moreover, the data needed to calculate costs using the bottom-up approach may be more accessible than the data needed to calculate costs using the top-down approach.

When the timeframe of the planning document is longer than the period covered by the adopted action plan, the costs can be calculated accurately only for the implementation of measures and activities contained in the action plan. In that case, it is not possible to determine precisely the costs for the entire planning document — the costs of implementing measures and

activities in the period not covered by the action plan can be determined only at the level of aggregate estimates, which include the application of the top-down approach.

Dilemmas and possible solutions in applying the **bottom-up** costing approach

Line ministries may **not be able to identify adequately measures and activities** in terms of precise, quantified results, or they may not be able to identify accurately input resources. This leads to uncertainty about how realistic the estimated costs are. In such cases, the support of officers or experts with more experience in creating equal or related public policies and determining the costs of implementing those policies is necessary in order to reduce the inaccuracy of costing to an acceptable level. Measures which cannot be determined precisely, which are not of a reform nature,⁸ which do not contribute to changing or improving the operation of the system or any part of it and cannot be determined in time (for which implementation deadlines cannot be set), as a rule, should not be included in the planning document.

The budget for the implementation of some **measures or activities can be determined in advance**, e.g. when the funds are secured by a loan or grant agreement.⁹ In such cases, the calculation of **bottom-up** costing approach is effectively replaced by the allocation of funds by top-down approach or, in other words, the key question is no longer how much funds are needed to carry out planned activities but how much can be achieved with available funds. Good practice in creating public policy in such cases requires the line ministry to adjust the action plan and results to the available funds.

2.5 Standard prices/costs

In order to calculate more easily the costs of implementing public policies and regulations, and to ensure the costs of similar input resources are mutually comparable (e.g. salary costs of newly hired civil servants, office equipment costs, travel expenses of civil servants, costs of hiring external experts, etc.), **standard prices are used. Prices/costs are standardised only for certain categories of goods and services**, and are updated once a year.

Table 1 is a list of standard prices / costs prepared by the Public Policy Secretariat of the Republic of Serbia in cooperation with the Ministry of Finance.

Table 1. Standard costs/prices

Standard costs	Measurement unit	Price in dinars	Price in euros
Salaries of civil servants and transportation costs			
Senior civil servants	Average gross monthly salary and transportation costs	214,753	1,790
University-educated civil servants	Average gross monthly salary and transportation costs	104,462	871

⁸ Reform measures, i.e. new measures which had not been implemented, yet.

⁹ This means that the grant or loan agreement clearly determines the amount of funds that will be used for the purpose specified in the contract (project).

Standard costs	Measurement unit	Price in dinars	Price in euros
Secondary school-educated civil servants	Average gross monthly salary and transportation costs	46,360	386
Training sessions			
In the country (excl. travel)	Person/training session/day	8,275	69
In the country (incl. travel)	Person/training session/day	14,366	120
Training costs without travel			
Space rental	Per day	30,000	250
Preparation and printing of material	Per page	252	2.1
Catering (food and drinks)	Per person	1,200	10
Educator fee	Per hour	3,600	30
Training preparation and testing	Per training session	39,597	330
Travel costs in the country			
Travel (Transportation)	Per person	1,487	12
Accommodation	Person/day	4,455	37
Daily subsistence allowances	Per day	150	1.3
Abroad	Person/training session	54,427	454
Participation fee	Per person	18,000	150
Travel expenses abroad			
Travel (Transportation)	Per person	23,027	192
Accommodation	Person/day	11,600	97
Daily subsistence allowances	Per day	1,800	15
Costs of consulting services			
International junior expert	Per day	60,000	500
International senior expert	Per day	96,000	800
National junior expert	Per day	14,100	118
National senior expert	Per day	30,000	250
Costs of office supplies and equipment			
Office supplies	Employee/annually	5,400	45
Office equipment	Employee/annually	27,500	229
Utility services	Employee/annually	30,000	250
Space rental	Employee/annually	108,000	900
Computer equipment costs			

Standard costs	Measurement unit	Price in dinars	Price in euros
Average computer for office operation without special technical specifications	Piece	40,000	333
Average depreciation amount (computer maintenance)	Piece/annually	12,000	100
Vehicle purchase costs (prices shown include the VAT)			
Passenger vehicle, by class			
Higher-medium class	Vehicle	3,780,000	31,500
Medium class	Vehicle	2,940,000	24,500
Lower-medium class	Vehicle	1,102,320	9,186
Lower class	Vehicle	1,059,300	8,828
Passenger van	Vehicle	3,499,200	29,160
Publication costs			
Prepress, design	Per page	240	2
Print	Per page	12	0.1
Translation	Per page	1,200	10
Hiring a graphic designer	Expert/hour	1,200	10
Proofreading and text correction	Per page	300	2.5
Promotion costs			
Commercial advertising	Average per 1 second (Radio Television Serbia (RTS) commercials — price list)	3,693	31
Organisation of conferences, public hearings and other events			
Simultaneous interpretation	Per day	30,000	250
Sound system	Per day	6,000	50
Presentation equipment	Per day	12,000	100
Space rental	Per day	30,000	250
Catering (food and drinks)	Per person	1,200	10
Promotional [gift] package (folder, pen, notebook)	Per person	110	0.9
Banners	Piece	4,800	40

Source: Public Policy Secretariat of the Republic of Serbia

If input resources for which prices are standardised are used for the implementation of measures or activities, the cost of implementing the measure or activity is calculated by multiplying the standard price per **unit of input resource** (specific product/service) by the **planned number of such units**.

For example, the category of *employee expenses* shows monthly standard costs as salaries, contributions and compensation of employees are calculated monthly. When calculating the costs of expert services, the standard price per day is applied, since those services are delivered and based on the number of days the expert is hired.

It is important to note that there are situations in which the calculation of costs can deviate from the standard prices:

1. **if specialised services or products are procured that deviate from the established standard prices due to technical specifications, but fall into the same category of costs** (e.g. procurement of computers with special characteristics required due to the type of work performed by the institution, procurement of specialised hospital equipment, digitisation of public service, etc.). In this case, the costing relies on expert assessment, market research or the “historical” cost of implementing similar activities/measures (more on this in Subsection 2.2.3).
2. **if costs in a particular category cannot be standardised**, such as costs in the categories of *subsidies, donations, grants and transfers* or *investments*; in this case, the costing relies on expert assessment, market research or the “historical” cost of implementing similar activities / measures (more on this in Subsection 2.2.3).

If it is not possible to use standard prices for costing, it is necessary to explain¹⁰ the reasons for deviations from their use, as well as a detailed cost calculation. For example, the purchase price of specialised vehicles for emergencies is not standardised. In that case, the institution that calculates the cost of purchasing such vehicles uses the same formula as when using standard prices (unit cost * quantity), noting how the unit price of specialised vehicles is determined (using the method of average unit or “historical” price of the same or similar products or services, by applying a reference price or expert assessment).

¹⁰ The explanation of the deviation from the use of the standard price is presented in a special column of the costing matrix, which is described in Section 3.3.

2.6 Sources of funding

One of the basic preconditions for the implementation of planning documents and regulations is to provide the necessary financial resources. Proposers are obliged to take into account both the objectives that are intended to be achieved and the funds that are available. Through the process of drafting planning documents and regulations, not only the main problems in a certain area and the ways in which the state plans to solve those problems are determined, but also a realistic financing plan in accordance with the determined costs and priorities of the state.

Action plans and other public policy documents must state how the implementation of planned measures or activities will be financed, i.e. how much funding is planned for the implementation of measures or activities from the budget of the Republic of Serbia, from loans, donor funds (multilateral or bilateral), budget of an autonomous province or local self-government unit or other sources. If the implementation of measures or activities is financed from the budget of the Republic of Serbia, the elements of the programme budget within which the funds for financing the implementation of a specific measure or activity are to earmarked, as well as the sources of funding the budget of the Republic of Serbia.

Information on costs and sources of funding for the implementation of planning documents and regulations is the basis for determining the **missing funds** — that is, the difference between the *required and available* funds. Information on costs is important in order to determine the **impact of the implementation of the planning document or regulations on the budget**, as well as the amount of funds that may need to be provided from other sources.

2.6.1 Correlation between established costs and the budget of the Republic of Serbia

The costing is the input information for the assessment of the financial impact of the act on the budget and for the preparation of the financial plan of the institution, i.e. the budget of the Republic of Serbia.

The funds earmarked by the financial plan must be sufficient for the smooth implementation of the planning document or regulations in the next three years, and in line with the approved budget limits (restrictions) of the institution. If the necessary funds are not provided, it is necessary to review the priorities and dynamic of the implementation of the planning document or regulations.¹¹

When preparing the financial plan of an institution (i.e. the budget of the Republic of Serbia), the estimated costs of implementing planning documents and regulations are taken over and classified according to the **budget classification** prescribed by the *Rulebook on Standard Classification Framework and Chart of Accounts for the Budget System*.

Budget classification includes economic classification of revenues and incomes, economic classification of expenditures and expenses, organisational classification,

¹¹ Rulebook on Standard Classification Framework and Chart of Accounts for the Budget System (*The Official Gazette of the Republic of Serbia*, Nos. 16/16, 49/16, 107/16, 46/17, 114/17, 20/18, 36/18, 93/18, 104/18, 14/19, 33/19, 68/19 and 84/19).

functional classification, programme classification and classification according to sources of funding.

- **Economic classification of revenues and incomes** shows income and earnings on the basis of regulations, other acts based on law or contract which determines the sources of income, i.e. earnings.
- **Economic classification of expenditures and expenses** shows individual goods and services and transfer payments made.
- **Organisational classification** shows expenditures and expenses by users of budget funds, with the distribution of appropriations among users.
- **Functional classification** shows expenses and expenditures by functional purpose for a certain area and is independent of the organisation that performs that function. The user of funds can perform activities within one or more functions. Multiple asset users may have the same functional classification. The purpose of the funds is represented by the **classification of expenditures by function** (public order and security, defence, economic affairs, education, etc.).
- **Programme classification shows the classification of programmes of budget users.** Programme classification consists of three programme categories: programme, programme activity and projects in which expenditures and expenses are grouped. These programme categories are arranged in two hierarchical levels. At the higher level are the programmes, and at the lower level are the programme activities and projects that belong to them. More information on the establishment of the programme classification is given in the *Instruction for the Preparation of the Programme Budget* of the Ministry of Finance.¹²

On the other hand, the classification according to the **sources of budget funding** shows revenues and incomes from which expenditures and expenses for certain types and purposes are covered. The following is a list of sources of funding the budget of the Republic of Serbia:

Sources of funding of the budget of the Republic of Serbia

Source 01 – General revenues and budget earnings;
Source 02 – Transfers between users at the same level;
Source 03 – Social contributions;
Source 04 – Own revenues of budget users;
Source 05 – Donations from foreign countries;
Source 06 – Donations from international organisations;
Source 07 – Transfers from other levels of government;
Source 08 – Voluntary transfers from natural and legal entities;
Source 09 – Income from sale of non-financial assets;
Source 10 – Income from national borrowing;
Source 11 – Income from foreign borrowing;
Source 12 – Income from repayment of loans and sale of financial assets;
Source 13 – Unallocated surplus income from previous years;
Source 14 – Unspent funds from privatisation from previous years;
Source 15 – Unspent funds from donations from previous years;
Source 16 – Parental dinar for extracurricular activities;
Source 56 – European Union financial assistance.

¹² See:

<https://www.mfin.gov.rs/UserFiles/File/budzetski%20korisnici/2017/Uputstvo%20za%20pripremu%20programskog%20budzeta.pdf>.

3 DETERMINING THE COSTS OF IMPLEMENTING PLANNING DOCUMENTS AND REGULATIONS – THE PROCEDURE

The implementation of planning documents and regulations usually involves several institutions (ministry, constituent body, agency and / or holder of public authority responsible for the implementation of planned activities). The institution responsible for coordinating the development of the planning document or regulation is also responsible for coordinating activities related to the costing, and the costing of implementing the measure or activity is performed by the institution in charge of its implementation. The costing is performed by the institution's organisational units responsible for the implementation of measures and activities in cooperation with the organisational units dealing with finances and budgeting. It is this cooperation between different services in the same institution or between different institutions that is key to a realistic assessment of costs and a timely provision of funds for the implementation of planning documents and regulations.

An action plan is the most detailed public policy document that takes over the general and specific objectives and measures set out in the public policy document it is elaborating. Establishing a set of related and similar activities that implement the measures and achieve the objectives set out in the public policy document enables a more efficient management of resources and creates greater prospects for achieving the objectives set out in the document being implemented.

This section provides practical instructions for costing through an overview and a description of the identified steps in the process of quantifying the resources necessary to implement the defined measures and activities within the given deadlines.

When calculating the costs of implementing public policy documents (strategies, programmes), other planning documents or regulations for which no activities have been identified, the costs of implementing the measures are calculated using a multi-assumption aggregate assessment, which includes a **top-down approach** (described in Subsection 2.4.2).

Hereinafter, the terms *measures and activities* refer to measures and activities determined by planning documents, as well as to measures and activities determined for the implementation of regulations for which public administration bodies and organisations are competent.

3.1 Regulation enforcement costs

An assessment of the impact of regulations, as a rule, is preceded by an assessment of the impact of the implementation of planning documents, which includes the establishment of costs and assessment of financial impact, and thus contains the information needed to assess the impact of implementation of regulations.

If a regulation is adopted or amended to prescribe measures or activities set out in a planning document (e.g. a public policy document), the costs of implementing that regulation will be determined taking into account the costs of implementing measures and/or activities set out in that planning document.

An assessment of the impact of regulations shows the objectives that the implementation of the regulations seeks to achieve, as well as solutions, i.e. **measures and/or activities that need to be implemented in the application of those regulations** (see example below).

The costs of regulations in the context of this Handbook refer to the costs of those measures and activities set out for implementation, i.e. application of regulations, for which the bodies and organisations of public administration are competent. The assessment of the impact of regulations, in addition to these costs, also includes costs borne by the economy or citizens in the application of regulations.

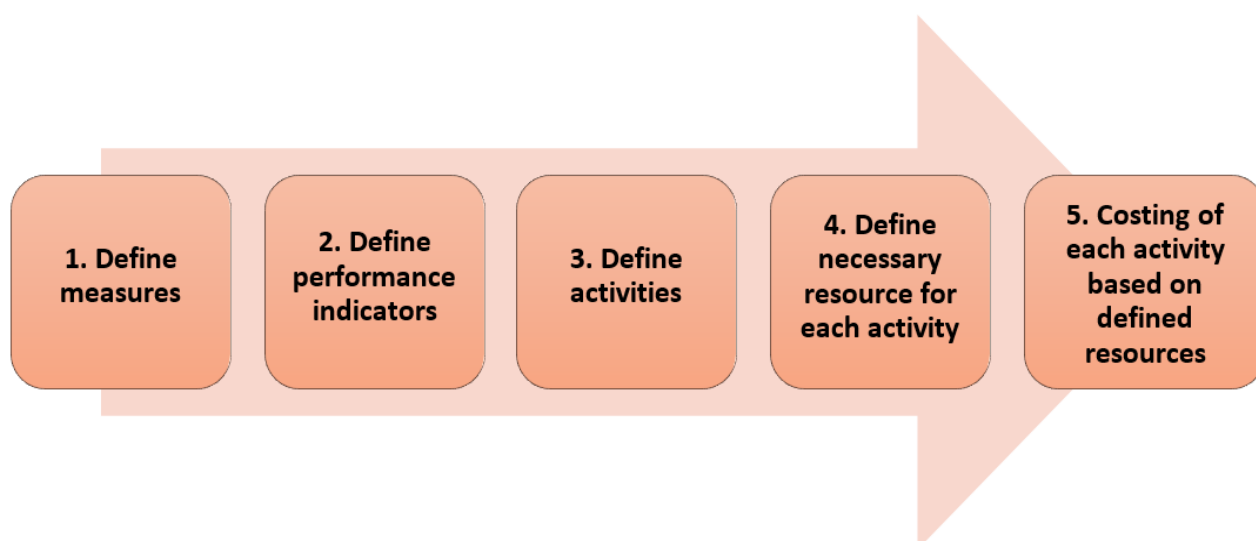
Example: Activities carried out by public administration bodies and organisations in the implementation of the Law on Census of Population, Households and Dwellings 2021

- Development of census questionnaires, instructions and other methodological instruments for data collection and control;
- Review of the existing network of statistical and census districts and development of a map of census districts;
- Development of IT systems for data collection and processing;
- Communication campaign;
- Procurement of laptops for enumerators;
- Training of direct participants in the field census;
- Census and control of collected data;
- Data processing, analysis and sharing of census results.

The costs of application of this law refer to the costs of carrying out the mentioned activities.

3.2 Steps in determining the cost of implementing planning documents and regulations

The steps in determining costs are interrelated and cannot be easily observed in isolation, but in principle it is possible to identify the **five steps illustrated in Figure 3**.



Note: The steps in Figure 3 mostly illustrate how to determine costs of implementing **strategy and programme action plans**, which as a rule contain all the stated elements (measures, performance indicators, activities). The same logic and principle will apply when determining costs of other planning documents and regulations, but only with those steps that are relevant.

When determining costs of planning documents or regulations for which no implementation activities have been defined, then the calculation will be at the level of measures by an aggregate estimate, i.e. the **top-down approach**.

Figure 3. Steps in costing, modified based on source: SIGMA, 2016.

The result of each step represents the input information for the next step. Also, in each subsequent step, the decisions made in the previous step are reviewed and changed if the need arises. If, for example, in step 2 it is not possible to adequately determine the performance indicators of the measure, it is necessary to return to the previous step and review the decisions made in determining the measures. If it is determined in step 5 that the available funds are less than the funds needed to engage resources in order to carry out the activity in the established scope and dynamic, or to achieve the planned target values of the indicator, it is necessary to return to steps 2, 3 and 4 and the target values of the indicators, the scope of activities and the dynamic of its implementation, so that the input resources are harmonised with the available funds.¹³

¹³ It is obligatory to return to the previous steps when the Ministry of Finance gives a negative opinion on the request to provide additional budget funds (or funds from other sources) for the implementation of the measure or activity in the current year or the next two (by increasing the limit) and based on the estimate of the impact on the budget submitted by the proposer to the Ministry of Finance (see section 4).

Detailed instructions for identifying measures, indicators and activities (steps 1–3) are given in the *Policy Management Handbook*.

3.2.1 Step 1: Define measures

The objectives of the planning document or regulation are achieved through the implementation of measures and activities.

The measures consist of several related similar activities, the implementation of which contributes to the achievement of the planned results. The implementation of measures affects the **change of the existing situation** and therefore, when they are established, they should be defined in accordance with the desired change of the situation and the improvement of existing practices and systems.

The examples of measures are provided in the text below.



Examples of measures set in the Draft Action Plan for the Implementation of the National Strategy for Gender Equality for the period 2019 and 2020

Specific objective: Equal participation of women and men in parenting and economy of care

Measure 2.1.1: Increased take-up of parental leave by fathers

Measure 2.1.2: Create and ensure access to alternative and new services for the care of children, the elderly and people with disabilities

Measure 2.1.3: Support single parents by systematically solving the issue of non-payment of alimony

Examples of measures set out in the National Environmental Protection Programme

Programme Objective: To increase the rates of reuse and recycling of packaging waste (glass, paper, cardboard, metal and plastic) to 25% of its quantity

Measure: Establishment of a system of extended liability of manufacturers/importers for reuse and recycling of packaging.

3.2.2 Step 2: Define performance indicators

In order for the holder of the implementation of the public policy document to be able to adequately determine the progress in the implementation of measures, i.e. in achieving the planned change, it is necessary to determine performance indicators for each measure. By monitoring the value of indicators of progress in the implementation of the measure, the effectiveness and efficiency of the implementation of the public policy document can be monitored — through the assessment of the results and spending of funds allocated for the implementation of a specific measure.

When determining performance indicators, they should be relevant, credible, easy to follow, not subject to different interpretations in understanding, etc. If it is not possible to determine adequate indicators for the measure, it is necessary to return to the step in which the measures were determined and review the decisions made in that step.

To measure the progress in the implementation of the measure, indicators of (output) results are most often used, which provide information on the immediate changes, products and services that have occurred during the implementation of the measure.

Based on the set target values of the result indicators, the scope and dynamic of the implementation of activities that must be carried out in order to achieve the target values are determined, and the scope of activities and the dynamic of their implementation directly affect the amount of funds required. On the other hand, the amount and dynamic of the implementation of activities that can be implemented depend on the amount of *available* funds, and thus the progress in achieving the target values of the indicators. If in step 5 (costing and determining the source of funding) it is determined that the available funds are less than the funds needed for the determined scope and dynamic of activities that ensure that the set target values of the indicator are achieved, it is necessary to return to step 2 and target values adjust to available resources.

Examples of result indicators: length of the constructed road (km), number of trained public administration officers, number or percentage of digitised services (in an area), etc.

For each indicator, its baseline value and year, target values during the period for which the policy document is adopted, the source of verification and other data entered are given in the table (see [Appendix 1](#)). More on data sources, identification methods, elements and types of performance indicators are provided in the Policy Management Handbook.

Table 2. Example of performance indicators — Action Plan for the Implementation of the PAR Strategy 2018–2020

Measure 4.3	Indicators	Baseline value	Target value
Introduction and promotion of mechanisms that ensure the quality of public services	Number of reports made on the basis of the analysis of citizens' satisfaction with the services provided by state and local self-government units	2017 0	2020 173

3.2.3 Step 3: Define activities

In the costing, it is crucial to break down the identified measures into clearly defined activities in order to create the conditions to determine as precisely as possible the resources necessary for their implementation.

If the cost of implementing regulations that do not include measures is calculated, this step determines the independent activities that need to be carried out by public administration bodies and organisations in order to implement the regulations.

Activities are the most operational element of the planning document or regulation, and must be formulated precisely, unambiguously and must indicate the specific output results (products and/or services) that will arise from their implementation.

Below are some criteria that indicate when it is necessary to identify individual activities:

- if the outputs are different (e.g. procurement of equipment and training of staff to use the equipment);
- if they require significant financial resources;
- if the deadlines for completion of activities differ from each other, i.e. if the completion of one activity is a precondition for the start of another (e.g. preparation of technical and planning documentation for the infrastructure project and execution of infrastructure works);
- only one institution can always be responsible for the implementation of one activity.

It is possible that costing will require activities to be broken down into sub-activities in order to identify all the necessary details and resources needed to implement them and to provide a reliable basis for costing. The action plan does **not show the detailed sub-activities** identified for costing purposes.

For example:

Activity 1.1: Development of a public policy document in the field of planning X

Sub-activity 1.1.1: Conducting an *ex-post* impact assessment

Sub-activity 1.1.2: Conducting public consultations

Sub-activity 1.1.3: Conducting a public hearing

Moreover, a more detailed breakdown of activities, when calculating costs using a *bottom-up* approach, may indicate that some of the identified sub-activities "deserve" to be raised to the level of activities, in accordance with the aforementioned criteria.

The scope and dynamic (frequency) of the implementation of activities should be determined in such a way as to enable the achievement of the performance determined in the measure performance indicator, as well as to contribute to the achievement of the performance determined in the specific objective achievement indicator. On the other hand, the scope and dynamic (frequency) of the implementation of activities are directly related to the costs of its implementation. If in step 5 (costing and determining the source of funding) it is determined that the available funds are less than the funds needed to implement the determined scope and dynamic of activities, it is necessary to return to step 3 and adjust the available funds to select activities, their scope and dynamic of their implementation.

3.2.4 Step 4: Define necessary resources for each activity

In the fourth step, it is necessary to determine the input resources necessary for the implementation of activities, i.e. to create the planned output results of the implementation of the measure.

In this step, special attention should be paid to accurately identifying all **key elements** important for the implementation of activities based on the planned results of the implementation of the measure and to determine the necessary resources and record them in the table used for costing (e.g. number

When identifying the resources needed to implement activities, such as **lawmaking, studies, strategies, etc.**, the following questions need to be addressed:

- Is it necessary to hire external consultants and/or experts to draft laws, studies, strategies, etc., or could existing employees develop such documents? (An example of a terms of reference for hiring external experts for the need to prepare an impact analysis, which provides more details on the time required for analysis and work for the expert, can be found in the [Handbook for the Analysis of the Impact of Public Policies and Regulations](#).)
- Will a working group be established for the purpose of drafting the document; will members of the working group be civil servants or will it be necessary to outsource experts?
- Is it necessary to hold consultations and public hearings for the purposes of drafting the document, how many public hearings etc. (Article 34 of the Law on Planning System obliges proposers to consult with stakeholders during the drafting of public policy documents)? (An overview of resources for conducting consultations and public hearings can be found in the [Handbook for Public Participation in Planning, Drafting and Monitoring Public Policies and Regulations](#)).

In the case of **infrastructure projects** and works, it should be identified whether the necessary documentation has been prepared (feasibility study, project-technical documentation and other documentation in accordance with the Law on Planning and Construction — preliminary feasibility study, feasibility study, environmental impact assessment, preliminary and main design with technical control), whether land expropriation was carried out, etc.

In the case of **incentive measures** (e.g. subsidies), it should be identified whether programmes have been developed on the basis of which funds will be allocated; whether it is necessary to hire external experts for the development of the programme and criteria for allocating funds; the form is the selection and monitoring of the implementation of the contract performed, etc.

persons needed to draft a regulation, the amount of money needed to digitise film material, the number of days needed to develop a new programme, the number of social service users, the number of municipalities in which new services will be provided, etc.).

In order to determine adequately the required resources (type and amount of resources) and determine the category of associated cost, it is necessary to answer the following questions:

What is needed to carry out the activity and what is the category of associated costs?

- Hiring new people falls into the **category of cost expenses for employees**. These costs refer to additional — newly hired civil servants, i.e. to those who need to be employed in order to carry out the planned activity. **Costs in this category are standardised**, and when calculating these costs, not only is the number of new employees taken into account, but also their qualifications, i.e. standard prices are applied for the appropriate qualification of new employees.
- Study and analysis drafting, training of employees, promotional campaigns, printing publications, office supplies, etc. fall into the **category of cost of goods and services**. Such costs are **standardised in most cases**.
- Purchase of IT systems, purchase or construction of new buildings, roads, railways, irrigation systems, purchase of vehicles, equipment, computers, etc. (in order to strengthen the institutional capacity/establishment of new institutions needed to implement the public policy document) fall into the **category of investment costs**. Such costs are **not standardised** in most cases.
- The activity may include the introduction of e.g. compensation for organic food producers or an increase in maternity benefits, which falls into the **category of the cost of the subsidy**. Costs in this category are **not standardised**.
- The activity related to the establishment of support for the development of cultural programmes of cultural institutions or civil society organisations will require costs that fall into the **category of donations, grants and transfers**. Costs in this category are **not standardised**.

The mentioned and other categories of costs of implementation of activities correspond to the economic classification of expenditures in the budget¹⁴, and they are also used to express the estimated impact on the budget.

What is the scope of the activity?

Is the training conducted for 50 or 1,000 civil servants, for one sector, the whole ministry or several ministries? Is 1,000 km or 100 km of roads being built? Is a wastewater treatment plant being built for 500,000 or 1,000,000 users? Is the incentive measure (reduction/increase of fees, payment of fees, subsidies to small and medium enterprises, co-financing of projects, etc.) intended for 1,000 users or for 10,000 users?

What is the frequency of activities, i.e. are the activities non-recurrent or recurrent?

Non-recurrent — changing the law, making studies, reconstructing a section of the road, procuring IT equipment or software — are some examples of activities that will be carried out only once during the implementation of the action plan.

Current — all activities that will be repeated several times during the implementation of the action plan, for example training of civil servants, study trips, promotional activities, etc.

¹⁴ Economic classification aggregated at the second level.

What impact is to be measured by performance indicators?

For incentive measures (subsidies, transfers, co-financing, payment of benefits, etc.) the amount of incentives depends on the impact to be produced, e.g. reduction of unemployment by a certain percentage, growth of budget revenues, growth of production by a certain percentage, export growth, increasing public administration efficiency, expanding the coverage of social service users, etc.

3.2.5 Step 5: Costing of each activity based on identified resources and sources of funding

The last step in costing is to determine the monetary values of input resources in each determined category of costs and sources of funding, and the amounts that will be allocated from each source of funding.

3.2.5.1 Key notes on costing

Costing by the **additional costing** method (prescribed method) takes into account only the costs of implementing a measure or activity that are additional to the situation (cost) when that measure or activity would not be implemented, i.e. in relation to the *status quo* option. The *status quo* option corresponds to the cost in the year preceding the implementation of the given planning document, i.e. regulation (baseline year).

- Planning documents, amendments/supplements to existing regulations, i.e. new regulations, as a rule, include only: 1) **reform measures or activities**, which are new compared to the previous period and which are implemented in order to achieve the objectives set by the planning document or regulation and changed the existing situation or 2) measures and activities with a **changed scope or coverage**.
 - When it comes to a **new measure or activity**, the cost of the *status quo* option is always zero.
 - If it is a measure or activity with a **changed scope or coverage**, the cost in the *status quo* option cannot be zero. The additional cost compared to the *status quo* option is positive if the scope of activities expands. The additional cost will have a negative sign, i.e. savings are achieved if the scope of activities decreases (in relation to the *status quo*).
- Costing by the additional costing method includes **only direct and variable costs** because these types of costs create a financial burden that is additional to the costs in the *status quo* option.
- Fixed costs (either direct or indirect), such as salaries of already employed civil servants, utility or telephone costs, are not included in the calculation. The costs of employed civil servants are taken into account only when new institutions and/or organisational units are established or when new civil servants are hired to carry out the planned activity.
- The *bottom-up* approach is used in the costing, which means that the **cost is calculated at the level of activities and aggregated at the level of measures**, *except* when specific measures and costs of their implementation cannot be precisely determined for planned activities. In that case, the cost is calculated at the **level of the measure**.
- Cost is calculated by **cost categories** (e.g. **costs of employees, goods and services**, etc.) that require the implementation of activities (or measures if the calculation is done at the level

of the measure). These cost categories correspond to the economic classification of expenditures in the budget.

- In the calculation of costs, activities that do not cause additional costs compared to the *status quo* option are also taken into account — in that case, **it is recorded that the activities are carried out within the existing capacities (or resources) of the institution**. The additional cost in that case is always zero.

For costs for which **prices are standardised**, the standard price is used as a unit cost whenever possible or it is explained why this rule is deviated from. The justification is entered in a separate column in the costing matrix (see Section 3.3).

Standard prices refer to costs in the categories of *costs of employees, goods and services* and, to a lesser extent, in the category of *investments* (in fixed assets). Costing in other categories relies on expert judgment, market research or “historical” prices (more on this in Subsection 2.2.3).

3.2.5.2 Costing for established resources

The cost of implementing the planning document is calculated for each year of its validity, to the extent possible. Most often, the cost of implementing measures and activities can be determined more precisely for the first few years of the document's validity, and for other years at an aggregated, less detailed level.

The cost of implementing the regulations is determined for the current (budget) year and the next two years.¹⁵

In the costing table for each year in which the cost occurs, the data are entered as follows:

- Select one of the standard costs in the selected category (and subcategories if subcategories are established¹⁶) and take the standard price from the established list. Then enter the amount and number of payments per year. The cost of a resource is calculated by multiplying its standard price by the amount and number of payments per year. See examples in Tables 2–5.

- Year $x + 1$ is the first year of validity of the planning document or regulation.

- Cost (for relevant categories) is also entered for the **baseline year (x)** – i.e. the last year before the year in which the implementation of the **planning document** begins. As explained in the previous section, if the cost of implementing a completely new measure or activity is calculated, the baseline year will be zero for all cost categories.

¹⁵ The financial impact of regulations on the budget must be estimated for the current (budget) year and the next two years.

¹⁶ For costs in the category of goods and services, the following subcategories have been identified for the purpose of cost calculation, i.e. simpler connection with standard prices: (i) training sessions/conferences /seminars, (ii) consulting services, (iii) office supplies, (iv) utilities (lease, electricity, water, internet, etc.) and (c) publications. For the category Investments (fixed assets) subcategories have been identified: (i) buildings and structures, (ii) machinery and equipment and (iii) other.

Table 3. Costs in the category of employee costs

Costs in the category of employee costs (refers to new employees)				
Standard costs: 1. Senior civil servants, 2. University-educated civil servants, 3. Secondary school-educated civil servants				
Year	Standard price (in this category refers to gross monthly salary in dinars) (A)	Quantity (in this category refers to the number of new employees) (B)	Number of payments per year (C)	Calculated cost (A* B* C)
Baseline year (x)				
x + 1				
x + 2				
...				

Table 4. Costs in the category of goods and services

Costs in the category of goods and services				
Subcategory: Consulting services				
Standard costs in subcategory: 1. International junior expert, 2. International senior expert, 3. National junior expert, 4. National senior expert				
Year	Standard price (in this category refers to consultants fee per day in dinars) (A)	Quantity (in this category refers to the number of consulting days) (B)	Number of payments per year (C)	Calculated cost (A* B* C)
Baseline year (x)				
x + 1				
x + 2				
...				

If the cost is not standardised, the name of the cost is entered in the appropriate column, followed by its unit price. The cost of a resource is calculated by multiplying its unit price by the amount and number of payments per year. See example in Table 4. The additional *Comment* column explains, where relevant, the deviation from the use of standard prices.

Table 5. Costs in the investment category¹⁷

Costs in the category of investments				
Subcategory of machinery and equipment				
Name of non-standardised cost: computer with specific characteristics				
Year	Unit price (of a computer in dinars) (A)	Quantity (number of computers) (B)	Number of payments per year (C)	Calculated cost (A* B* C)
Baseline year (x)				
x + 1				
x + 2				
...				

Table 6. Costs in the category of subsidies

Costs in the category of subsidies				
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¹⁷ Investments include buildings, roads, machinery, equipment, etc.

Subcategory: —				
Name of non-standardised cost: maternity allowance				
Year	Unit price (amount of maternity allowance) (A)	Quantity (estimated number of allowance beneficiaries) (B)	Number of payments per year (C)	Calculated cost (A* B* C)
Baseline year (x)				
x + 1				
x + 2				
...				

Based on the data set out in the costing table (as described above), an aggregated table of additional costs of implementing the measure or activity by year is prepared.

Table 7. Structure of costs of the measure or activity by years: (name of the measure) (in dinars)

Year	Employee expenses	Goods and services	Subsidies	Investments	Donations, grants and transfers	Other	Total
Baseline year (x)							
x + 1							
x + 2							
x + 3 ¹⁸							

Table 8 below shows the aggregation of the costs of the measure based on the calculated costs of activities within the measure, i.e. *bottom-up* approach.

Table 8. Determining the additional costs of the bottom-up approach measure.

Year	Employee expenses	Goods and services	Subsidies	Investments	Donations, grants and transfers	Other	Total
Activity 1 costs							
x + 1							
x + 2							
x + 3							
Activity 2 costs							
x + 1							
x + 2							
x + 3							
Activity costs 3 costs							
x + 1							
x + 2							
x + 3							

¹⁸ Costs are calculated for the entire duration of the action plan, and in order to simplify the tabular presentation, for example, tables for the action plan are given, which refers to a period of three years.

Costs of a measure comprising activities 1, 2 and 3							
$x + 1$	Sum	Sum	Sum	Sum	Sum	Sum	Sum
$x + 2$	Sum	Sum	Sum	Sum	Sum	Sum	Sum
$x + 3$	Sum	Sum	Sum	Sum	Sum	Sum	Sum

Accrued costs can be presented in aggregate at the measure or target level to make it easier for decision-makers, target groups and other stakeholders to present the final costs of reforms.

3.2.5.3 Identification of the sources of funding

- After calculating the costs, it is determined how the implementation of planned measures or activities will be financed: whether the necessary funds are provided from the budget of the Republic of Serbia, from loans, donor funds (multilateral or bilateral), budget of the autonomous province or local self-government units, some others sources or a combination of several manners of funding.
- If the implementation of measures or activities is financed from the budget of the Republic of Serbia, it is obligatory to state the code of the related budget programme and programme activity/project or it is indicated that a new programme activity will be established in the programme budget structure or a project for which funds will be earmarked to finance the implementation of a specific measure or activity.
- If the implementation of measures or activities is financed from the budget of the Republic of Serbia, some of the sources of funding determined in the *Rulebook on the Standard Classification Framework and Chart of Accounts for the Budget System* shall be stated. One measure or activity can be financed from several sources of funding.
- **The amount of funds planned from each source shall be given.**
- Based on the difference between the calculated required funds and the available funds for the implementation of the measure or activity from each source, any missing funds are identified (financial gap).

Example of activities the implementation of which is financed from various sources of the budget of the Republic of Serbia (theoretical example)

Activity from the Action Plan of the Programme for Increasing Food Safety: *Improving conditions with veterinary and phytosanitary inspection at border crossing XX through the construction of an adequate facility for inspection* is financed from the budget of the Republic of Serbia and Budget Programme 0109 – Food Safety, Veterinary and Phytosanitary Policy and Project 5012 *Construction of a facility for inspection of goods at border crossing XX* within the Programme 5012 and the following sources of funding: 01– *General revenues and receipts of the budget and sources*, 56 – *EU financial assistance*. In fact, the facility in question will be built with the EU funds (*IPA mechanism*), with co-financing from the state budget.

When determining the sources of funding, the following rules established by the Regulation on the Methodology of Public Policy Management, Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents should be taken into account:

- If funds for the implementation of different activities under one measure are provided under different programme activities and/or projects in the programme budget or donor projects that provide direct technical support, for each activity under the measure, it is necessary to assess the financial resources necessary for its implementation and sources of funding, programme activity

and/or project in the programme budget within which funds are provided for its funding or donor projects that provide direct technical support to the obligor of medium-term planning in the implementation of activities.

■ Implementation of one activity can be financed:

1. only from the funds provided within one programme activity and/or project in the programme budget;
2. from one or more donor projects that provide direct technical support to the obligor of medium-term planning (donor funds that are not recorded in the budget execution system);
3. from the funds provided within one programme activity and/or project in the programme budget and donor projects that provide direct technical support to the obligor of medium-term planning.

If, when calculating costs and determining sources of funding, it is identified that funding for the implementation of one activity is planned from different programme activities and/or projects — which is not in accordance with the above rules — it is necessary to consider how the activity can be adequately broken down into several activities in the action plan.

The identified ways and sources of funding for the implementation of each activity (and measures) are presented in the appropriate columns of the prescribed form of the action plan.

[Appendix 2](#) provides examples of how the costs of implementing measures and activities are calculated and the sources of funding are determined according to the methodology explained in this section.

3.3 Breakdown of calculated costs and sources of funding in planning documents

In planning documents, the cost of implementation of each planned measure or activity **on an annual basis** is expressed as the **sum of calculated additional cost** of implementation of measure or activity in a given year and **cost, if any, in the baseline year** (i.e. the year before the implementation of the planning document):

$$\begin{aligned} &\text{TOTAL COST OF MEASURE OR ACTIVITY (YEAR } x + 1 / x + 2 / \dots) = \\ &\text{CALCULATED ADDITIONAL COST OF MEASURE OR ACTIVITY (IN YEAR } x + 1 / x + 2 / \dots) \\ &\quad + \text{COST OF MEASURE OR ACTIVITY IN BASELINE YEAR (} x) \end{aligned}$$

In the case of a new measure or an activity, just defined in the planning document, the total cost of its implementation will be equal to the calculated additional cost. However, when a measure or an activity is "taken over" from a previous planning document, the cost of its implementation is equal to the sum of the cost in the baseline year and the calculated additional cost (the cost of the increased scope of the measure or activity compared to the baseline year). The identified costs are distributed according to the sources of funding.

Table 9. Total costs of a measure or an activity by year.

Implementation costs in baseline year– <i>status quo</i> (A)	Additional costs (by year)			Total cost (by year)		
	X + 1 (B)	X + 2 (C)	X + 3 (D)	X + 1 (A + B)	X + 2 (A + C)	X + 3 (A + D)

The total calculated costs for the implementation of each measure and activity and the identified sources of funding are shown in the appropriate columns of the prescribed form of the policy document (see Figure 4).

Measure:							
Indicator(s)	Measurement unit	Test source	Baseline value	Baseline year	Target value in year X+1	Target value in year X+2	Target value in the last year of the AP
Measure funding source	Reference to programme budget	Total estimated funds in 000 RSD					
		In year X+1		In year X+2		In year X+3	
Activity:	Implementing authority	Implementing partner(s)	Activity implementation deadline	Source of funding	Reference to programme budget	Total estimated funds by sources in 000 RSD:	
						X+1	X+2
						X+3	

Figure 4. Correlation between costing and a tabular presentation of an action plan

3.4 Costing matrix (tool) for implementation of planning documents and regulations

In order to facilitate and standardise the procedure of costing of implementing planning documents and regulations, the Public Policy Secretariat of the Republic of Serbia, in cooperation with the Ministry of Finance, has developed an Excel table that automatically calculates additional costs based on the choice of category and subcategory of implementation costs in certain year, standard or other prices, quantities and number of payments per year. After the costs are calculated, the connection with the sources of funding is determined and the planned funds for each of the sources are entered. The tool also allows you to automatically generate a table of total costs of implementation of activities, i.e. measures by year (based on calculated additional costs and entered costs in the baseline year).

The table for data entry, i.e. costing, is shown below.

Table 10. Matrix for data entry and costing (example of calculated costs of implementing activities within the measure)

Measure	Activity	Year	Cost category	Cost subcategory	Name of a standard cost/measurement unit	Standard price (in dinars)	Name of non-standardised cost	Price (in dinars)	Quantity	Number of payments per year	Total cost (in thousands of dinars)	Comment (if it is deviated from standard prices)	Fund purpose (to be completed if it is not clear from the name of cost activity or sub-activity what the funds are earmarked for)
1.1 Establishment of a legal framework	1.1.1 Preparation of cost-benefit analysis	2020	42 – Use of services and goods	Consulting services	National junior expert/per day	14,100			80	1	1,128		
1.1 Establishment of a legal framework	1.1.2 Presentation of the results of the analysis and consultation	2020	42 – Use of services and goods	Publications	Prepress, design / per page	240			100	1	24		
1.1 Establishment of a legal framework	1.1.3 Modification of regulations in accordance with the results of the assessment	2021	41 – Expenses for employees	Expenses for employees	University-educated civil servants/ gross monthly salary	1,235,258			2	12	29,646,204		Two senior associates in the Department of Legal Affairs (in accordance with the job classification)

3.5 Cost of implementing planning documents and regulations and assessment of financial impact on the budget

Costing is a prerequisite and key information for assessing the financial (fiscal) impact of the implementation of the proposed planning document or regulation on the state budget, which will be discussed in section 4 of this Handbook.

The proposer of a law, other regulation or act is obliged to assess the financial impact that the implementation of the act will have on the budget for the current year and the next two years, i.e. to fill in the form for a financial impact assessment (hereinafter: FIA Form). The content and instructions for filling in that form are set out by the Ministry of Finance.¹⁹

The FIA form shows changes in revenues and expenditures, income and expenditures for the budget and the next two fiscal years, proposals to cover increased budget expenditures and expenses, and proposals to cover reductions in budget revenues and income.

The calculated costs of implementing the planning documents and regulations in each cost category represent the input data for **filling in the FIA Form**, i.e. determining the impact on the **expenditure side of the budget**. These categories of costs correspond to the economic classification of expenditures in the budget, and in the FIA Form, the impact is expressed by the same categories. Also, in order to better understand the relationship between the costing by categories and the impact reported in the FIA Form, in the section entitled *Elements used to calculate the financial impact on expenditures and expenses*, the following data for each category (or subcategory) of costs are shown: or name of other cost (non-standardised), standard price or other unit price, quantity and frequency of payment (number of payments per year) — on the basis of which the cost in the category is calculated.²⁰

The costing of implementing a planning document or regulations and the assessment of the financial impact on the budget are part of an *ex-ante* assessment of the full impact that the implementation of the planning document or regulations may cause. An *ex-ante* impact assessment starts from the earliest stages of planning and drafting planning documents and regulations and lasts until their adoption. In some cases, it is the assessment of costs and budgetary impact that will determine the best option for a planning document or a regulation given the fiscal constraints in the medium term. That is why it is necessary to **consult the Ministry of Finance** on the amount of available funds within the medium-term expenditure when calculating the costs of a planning document or regulation in order to avoid excessive optimism in the implementation of reform activities at the beginning of the process.

¹⁹ See: <https://www.mfin.gov.rs/pages/article.php?id=11297&#txt11297>.

²⁰ The connection between the calculated costs by categories and the estimated financial impact on the budget is prescribed by the amendments to the Rulebook on the Manner of Expressing and Reporting on the Estimated Financial Impact of Laws, Other Regulations or Acts on the Budget, i.e. Financial Plans of Organisations for Compulsory Social Security.

3.6 Financial enforceability of planning documents and regulations

Through the assessment of financial impact on the budget, the financial feasibility of the planning document or regulation in the context of the medium-term framework of government expenditures is also assessed.

The planning document, as a rule, should not contain public policy measures (or activities) that are already in progress, but it may happen that new (reform) measures or activities rely on measures or activities that are in progress (represent the continuation of previously initiated reforms). Therefore, it is important for each envisaged measure or activity to know to what extent the determined costs are **allocated in the current budget**, and to what extent they will require additional allocations from the budget.

If the envisaged measure or activity represents a new initiative that requires **additional funds compared to the funds** that the institution responsible for its implementation has provided in the current budget or planned in the medium term expenditure framework, the request for additional funds should be considered in the context of **spending limits of a competent institution in the medium term period**.

If the Ministry of Finance does not give a positive opinion on the proposed act based on the estimated impact of the implementation of the act on the budget (expressed in the FIA Form), it is necessary for the proposer to reconsider **priorities among new initiatives which require additional costs** in one or more of the following manners:

- to reallocate funds from a lower priority area or objective to a higher priority one;
- to re-evaluate the objectives and target values that were initially set;
- to further adjust the list of priorities in the document by rejecting lower priority initiatives;
- to reduce the scope of the planning document or regulation or to reject some initiatives;
- to change the solutions of regulations so that the impact on the budget is reduced;
- to redistribute deadlines in which certain measures, i.e. activities will be implemented;
- to reject new initiatives that require additional costs, for example by finding other ways to achieve objectives that require fewer resources;
- to seek other sources of funding, such as donations, loans or public-private partnerships.

To ensure that what remains in the planning document or regulation after the revision of priorities or deadlines for the implementation of activities, i.e. that the course of its implementation as planned (both in terms of time and in terms of its planned results) is not hampered by lack of funds, it is necessary that the proposer and institutions participating in its implementation **work closely with the Ministry of Finance** throughout the document process.

4 ASSESSMENT OF FINANCIAL IMPACT ON THE BUDGET

The purpose of this section of the Handbook is to provide technical guidelines and practical examples for assessing the financial impact of the implementation of a planning document or regulation on the budget, as well as to better understand the relationship between costing and assessing the financial impact of a document implementation on the budget.

The obligation to assess the financial impact of the implementation of a proposed act — as a mechanism of control and supervision over budget expenditures and expenses, revenues and income — was introduced in the Republic of Serbia in 2015. That means that for **all drafts or proposals of laws, other regulations or acts adopted by the Government of the Republic of Serbia, i.e. the National Assembly or the competent local government body, the proposer has to assess the financial impact of the implementation of the proposed act on the budget.** In fact, the Government, or the National Assembly or the competent local government body, before making a decision on the adoption of the proposed act, must be informed about the impact of its implementation on the budget and the medium-term budget framework.

Assessment of the financial impact of the implementation of a proposed act is an instrument in the budget planning process and it is used as a basis for planning revenues and income, or expenditures and expenses in the budget year and for the next two fiscal years. The financial impact assessment allows the Ministry of Finance to anticipate future revenue and expenditure changes and keep expenditures and expenses within a framework that ensures fiscal stability.

4.1 Importance of assessment of financial impact

Adequate assessment of financial impact enables, first of all, the Ministry of Finance, and then the proposer of the planning document or regulation to see whether the proposed measures and activities can be implemented in the context of the medium-term expenditure framework. Before a planning document or regulation is adopted, the Ministry of Finance and the Government must take a stance on the possibilities to provide funds for the implementation of measures and activities envisaged by the proposed act. This is possible only with a realistic assessment of the financial impact that the implementation of each measure or activity has on the budget. If measures and activities are not financially feasible in the medium term (i.e. if the Ministry of Finance does not give a positive opinion on the proposed document), it is necessary for the proposer to reconsider priorities among initiatives that require additional costs and harmonise the proposed document with available funds.

On the other hand, the assessment of financial impact on the budget is important in order for the Ministry of Finance to adequately determine the limits (expenditure limits) for budget users in the medium term. The assessment of financial impact enables the Ministry of Finance to anticipate changes in revenues and expenditures, control future spending, which keeps the level of public expenditures and expenses within the envisaged macro-fiscal framework, i.e. the stability of public revenues and expenditures at all levels of government.

4.2 Legal framework

The obligation to assess the financial impact is set out in Article 48 of the Law on Budget System, which stipulates the obligation that the **rationale of a law, other regulation or act submitted** to the National Assembly, Government or competent local government executive body to be established and adopted **must contain an assessment of the financial impact** that such an act will have on the budget. The assessment of financial impact must include:

- 1) projected changes in revenues and expenditures and income and expenses for the budget year and the next two fiscal years;
- 2) proposals to cover increased budget expenditures and expenses;
- 3) proposals to cover reduced revenues and budget income;
- 4) consent of the Ministry of Finance, i.e. the local administrative body responsible for
- 5) finance.

Financial impact assessment is regulated by the *Rulebook on the Manner of Expressing and Reporting on the Estimated Financial Impact of Laws, Other Regulations or Acts on the Budget, i.e. the Financial Plans of Organisations for Compulsory Social Security*. A financial impact assessment is made on the Form of standard methodology for assessment of financial impact of an act (hereinafter: FIA Form). An integral part of the Rulebook is the Instructions for filling in the **FIA Form**.

The assessment of financial impact is expressed according to organisational, programme and economic classification, as well as sources of funding. The proposer of the act in the FIA Form shows the estimated funds needed for the implementation of the proposed public policy document, i.e. regulations by economic classifications in order to be clear about what they plan to spend funds on (expenditures for employees, goods and services, subsidies, etc.), within which budget programme, or programme activities or projects. Also, given the budget constraints, it is especially important that when deciding whether or not to accept the proposed document, the Ministry of Finance has information on whether the implementation of the document, i.e. the implementation of measures and activities set out in it will cause additional burden on the medium-term budget framework or their implementation will be financed from sources that do not exceed the budget limits, such as the EU financial assistance or other donations. Therefore, the financial assessment of the impact is expressed according to the sources of funding.

When other bodies participate in the implementation of the proposed act, along with the proposer, each of them should assess the financial impact of the implementation of measures or activities for which it is responsible, i.e. fill in the FIA Form and submit it to the proposer. The proposer consolidates the forms and submits them to the Ministry of Finance.

4.3 Key elements of the FIA Form

The assessment of the financial impact of a law, other regulation or an act on the budget is presented on the FIA Form,²¹ which contains seven parts:

1. General data;
2. Assessment of financial impact on the budget;
3. Assessment of financial impact on other budgets/financial plans;
4. Contingent liabilities for the budget of the Republic of Serbia;
5. Measures and review of acts balancing the resulting changes in revenues and incomes and expenditures and expenses;
6. Statement on neutral financial impact of the implementation of the act;
7. Elements used to calculate financial impact on expenditures and expenses.

²¹ Rulebook on the Manner of Expressing and Reporting on the Estimated Financial Impact of Laws, Other Regulations or Acts on the Budget, i.e. the Financial Plans of Organisations for Compulsory Social Security, including the FIA Form published on the website of the Ministry of Finance: <https://www.mfin.gov.rs/dokumenti/pravilnik-o-nacinu-iskazivanja-i-izvestavanja-o-procenjenim-finansijskim-efektima-zakona-drugog-propisa-ili-drugog-akta-na-budzet-odnosno-finansijske-planove-organizacija-za-obavezno-socijalno-osigu/>.

4.3.1 General data

This part of the FIA Form shows information about the proposer of the act, as well as the act proposed (type and name of the act).

If other bodies participate in the implementation of the act along with the proposer, the data entered in this part of the FIA Form pertain to the body responsible for the implementation of measures or activities, the impact of which is assessed.

4.3.2 Assessment of financial impact of act implementation on the budget

The assessment of the financial impact of the implementation of the act on the budget is part of the FIA Form which contains the most important information on the financial impact of the implementation of measures and activities on the budget, i.e. on revenues and income and expenditures and expenses. This part of the Form contains several elements that express:

- Changes in revenue and income;
- Link between the act and the budget;
- Change in expenditures and expenses.

The financial impact of the implementation of an act on the budget is expressed for year n (current budget year), as well as years $n + 1$ and $n + 2$.

The impact on the budget in year n represents a change in revenues and income, i.e. in expenditures and expenses planned in the budget for the current year (n).

The impact on the budget in year $n + 1$ represents a change in revenues and income, i.e. in expenditures and expenses compared to the PREVIOUS year (year n).

The impact on the budget in year $n + 2$ represents a change in revenues and income, i.e. in expenditures and expenses compared to the PREVIOUS year (year $n + 1$).²²

This way of expressing financial impact enables the Ministry of Finance to consider the need for the budget user which implements the measure, or activity, to possibly increase the limit compared to the previous year, in the amount of the estimated financial impact.

4.3.3 Impact on revenues and income

The part of the FIA Form entitled *Changes in Revenues and Income* is used to state the amounts of the estimated financial impact of the implementation of measures and activities on revenues and income (classes 7, 8 and 9²³) in the budget year (n) as well as in fiscal years ($n + 1$), ($n + 2$). The costing of the implementation of planning documents and regulations **cannot** be used in the development of this part of the FIA Form, given that the costing of the implementation of measures and activities provides information on their impact on expenditures and expenses.

²² Unlike the way in which financial impact of the implementation of measures and activities is expressed in the FIA Form, additional costs in each year of implementation of measures or activities are to be calculated compared to the cost in the baseline year, as explained in subsections 2.4.1 and 3.1.5.

²³ The economic classification of revenues and income includes Class 7 – current revenues, Class 8 – income from the sale of non-financial assets and Class 9 – income from borrowing and sale of non-financial assets.

4.3.3.1 Link between the act and the budget (Reference)

The financial impact assessment is an instrument in the budget planning process, used as a basis for planning expenditures and expenses in the budget year and for the next two fiscal years. Therefore, a financial impact assessment is expressed according to the budget classifications explained in Subsection 2.6.1 — namely organisational, functional, programme and economic classification (at the second level of aggregation) —, as well as sources of funding.

All expenditures and expenses are shown in the budget through programmes, i.e. programme activities or projects that are their integral parts. Table 11 gives an example of the organisational, functional and programme structure of the Ministry of Culture and Information.

Table 11. Example of organisational, functional and programme classification of the Ministry of Culture and Information, budget for 2019

Section	Principal	Programme	Function	Programme activity/project	DESCRIPTION
29	29.0				MINISTRY OF CULTURE AND INFORMATION
		1201			Organisation and development of systems in the field of culture and information
			820		Cultural services
				0001	Organisation and supervision of systems in the field of culture
				0002	Development of a system in the field of public information and supervision of law enforcement
				0003	Administration and management
				0004	Tasks related to representative associations in culture
				0005	Support to increase the capacity of the cultural sector at the local level
		1202			Improving the system of cultural heritage protection
			820		Cultural services
				0001	Support for research, protection and preservation of immovable cultural heritage
				0008	Support for the work of <i>Matica Srpska</i>
				0009	Digitisation of cultural heritage
				0011	Support for research, protection and preservation of intangible and movable cultural heritage
				0012	Support for the development of library and information activities and library and information activities of the Association of the Blind of Serbia
				0013	Support to the work of the Institute for the Protection of Cultural Monuments and Historical Archives
		1203			Strengthening cultural production and artistic creative work
			820		Cultural services
				0001	Support for the development of visual arts and multimedia
				0002	Support for film art and other audio-visual creative work

				0003	Support for the development of literary creative work and publishing
				0004	Support for the development of music creative work
				0005	Support for the development of stage creative work — theatre/artistic dance
				0006	Support for cultural activities of socially vulnerable groups
				0008	Digitisation of contemporary creative work
				0010	Support for strengthening the contemporary creative work of Serbs abroad
		1204			Public information system
			820		Cultural services
				0001	Support for the achievement of public interest in the field of information
				0003	Support to informing citizens on the territory of the Autonomous Province of Kosovo and Metohija in the Serbian language
				0005	Support for informing members of the Serbian people in the countries of the region in the Serbian language
				0006	Support for informing national minorities in their own language
				0007	Support for informing people with disabilities
				0009	Financing the basic business operation of public media services
				0010	Project financing of public media services
				0011	International cooperation in the field of information
		1205			International cultural cooperation
			820		Cultural services
				0005	European integration and cooperation with international organisations
				0006	Bilateral cooperation and international cultural exchange
				4001	Novi Sad 2021 — European Capital of Culture
				4002	Novi Sad — Youth Capital of Europe 2019 — OPENS 2019
				7010	IPA support for participation in EU programmes

If the implementation of a measure or activity is financed from several programme activities and/or projects, for each programme activity and/or project it is necessary to assess the impact by economic classification and sources of funding — which is recorded in the FIA Form section 2.3 *Changes in expenditures and expenses*.

All changes in expenditures and expenses are recorded within classes 4 and 5, and for account group 62.

4.3.3.2 Impact on expenditures and expenses

It was previously mentioned that the costs of implementing planning documents and regulations fall into certain categories and subcategories. For example, in the category of costs of *goods and services* the following subcategories of costs are found: *consulting services, office supplies and utilities, training / conferences / seminars, publications*, while in the category of investment costs there are following subcategories: *buildings and construction facilities, machinery, equipment, etc.*

Each category and subcategory of expenditures used in the costing corresponds to the economic classification of expenditures in the budget and the PFE Form, as shown in the following table.

Table 12. Relationship between cost categories and economic classification of expenditures

Cost category from the FIA Form	Cost categories from costing	Subcategory of costs from costing
Expenses for employees (salaries, allowances and compensations for employees + social contributions at the expense of the employer)	Employee costs	/
Use of services and goods	Goods and services	Consulting services
		Utility services
		Training/ conferences / seminars
		Office supplies
		Publications
Subsidies	Subsidies	/
Donations, grants and transfers	Donations, grants and transfers	/
Fixed assets	Investments	Buildings and construction facilities
		Machinery and equipment
		Other

Establishing this link is important because it allows the calculated costs of implementing measures and activities (by cost categories) to be used when assessing financial impact, i.e. when filling out the FIA Form. When filling out the FIA Form, it is necessary to take into account when the implementation of the planning document or regulation begins, on the one hand, and when the FIA Form is filled in, on the other hand. Two scenarios are possible:

1. When the implementation of the planning document or regulation begins in the year $x + 1$, and the AFE Form is filled in the year x ;
2. When the implementation of the planning document or regulation begins in the year $x + 1$, and the AFE Form is filled in the year $x + 1$.

The manner of using the calculated costs of implementing measures and activities for filling in the FIA Form differs in scenario 1 and scenario 2.

When the implementation (application) of the act begins in year $x + 1$, and the FIA Form is filled in in year x (x is the current budget year), the FIA Form is filled in as follows:

- The impact on the budget (change in expenditures and expenses) in **the current budget year (x) equals zero <0>** since the implementation of activities²⁵ begins only in year $x + 1$ and the costs of their implementation do not impact the budget in year x .
- The impact on the budget (change in expenditures and expenses) in fiscal year $x + 1$ is equal to the calculated additional cost of activities for year $x + 1$. The impact on the budget (change in expenditures and expenses) in fiscal year $x + 2$ is equal to the difference of calculated additional the cost of carrying out activities for the year $x + 2$ and the calculated additional cost of carrying out activities in the year $x + 1$.

²⁴ Due to the specifics of expressing financial impact in the FIA Form in each of these two cases, the following symbols are used as follows: x — baseline year, i.e. the year before the implementation of the planning document or regulation, $x + 1$ — the first year of implementation of the planning document or regulation, $x + 2$ — second year of implementation of the planning document or regulation, etc. These year marks are used in the costing table. On the other hand, the codes n (current budget year), $n + 1$ (first year after the current budget year), $n + 2$ (second year after the current budget year), used in the FIA Form do not always have the same meaning as the codes x , $x + 1$, $x + 2$. Year x in the costing table corresponds to year n in the FIA Form if it is filled in the year before the validity (implementation) of the planning document or regulation (i.e. in year x). However, if the FIA Form is completed (and the planning document or regulation is adopted) in year $x + 1$ (which often happens in practice), year n in the FIA Form corresponds to year $x + 1$ in the costing table (the first year of implementation of the planning document or regulations), year $n + 1$ in the FIA Form corresponds to year $x + 2$, year $n + 2$ in the FIA Form corresponds to year $x + 3$ in the costing table. This connection is illustrated by the examples in Figures 5 and 6 below.

²⁵ The assumption is that the cost is calculated at the activity level.

Theoretical example: PAR Strategy AP 2021–2023, FIA Form is being completed and the AP adopted in 2020

- New activity within the purview of the Public Policy Secretariat, entitled *Conducting training in the planning system for LSGUs*, is to commence in 2021 and it is to be implemented in 2022.

Costing table		Additional costs (by year)		
		2021 (A)	2022 (B)	2023 (C)
		2,000	2,000	0

FIA Form	Funds secured in the budget (FOR THE CURENT YEAR 2020) (D)	Expected increase/reduction in the budget year (2020) (E)	Budget proposal for fiscal year n + 1 (2021) (F)=(A)	Budget proposal for fiscal year n + 2 (2022) (G)=(B)-(A)
	0	0 (always)	2,000	0

Figure 4. Correlation between calculating additional costs for the implementation of a public policy document and completing the FIA Form in the same year, when the implementation of the public policy document is not to begin until the following year

When the implementation (application) of the act begins in the year $x + 1$, and the FIA Form is filled in in the year $x + 1$, the FIA Form is filled in as follows:

- The impact on the budget (change in expenditures and expenses) **in the current budget year ($x + 1$)** is equal to the difference between the amount of calculated additional cost of activities for the year $x + 1$ and funds provided in the budget for the current year (and/or through redirection of appropriations);
- The impact on the budget (change in expenditures and expenses) in the next fiscal year ($x + 2$) is equal to the difference between the calculated additional cost of implementation of activities for year $x + 2$ and the calculated additional cost of implementation of activities in year $x + 1$;
- The impact on the budget (change in expenditures and expenses) in the next fiscal year ($x + 3$) is equal to the difference between the calculated additional cost of implementation of activities for year $x + 3$ and the calculated additional cost of implementation of activities in year $x + 2$.

Theoretical example: PAR Strategy AP 2021–2023, FIA Form is being completed and the AP adopted in 2021

- New activity within the purview of the Public Policy Secretariat, entitled *Conducting training in the planning system for LSGUs*, is commencing in 2021, but being implemented in 2022.

Costing table		Additional costs (by year)		
		2021 (A)	2022 (B)	2023 (C)
		3,000	2,000	0

FIA Form	Funds secured in the budget (FOR THE CURRENT YEAR 2021) (D)	Expected increase/reduction in the budget year (2021) (E)=(A)-(D)	Budget proposal for fiscal year n + 1 (2022) (F)=(B)-(A)	Budget proposal for fiscal year n + 2 (2023) (G)=(C)-(B)
	3,000	0	-1,000	-2,000

Figure 5. Correlation between calculating additional costs for the implementation of a public policy document and completing the FIA Form in the same year that document is being both adopted and implemented

Budget impact can be positive or negative. If the implementation of a measure or activity causes a reduction in expenditures and expenses, the impact is negative; if the implementation of the measure or activity causes an increase in expenditures and expenses compared to the *previous year*, the impact is positive.

In the FIA Form, for each economic category (by years), the **estimated impact is presented according to the sources of funding**:²⁵

- 1) aggregate for funds from sources: 1 – General revenues and budget income, 10 – Income from national borrowings and 11 – Income from foreign borrowings that are covered by budget limits;
- 2) collectively for funds from other sources (including source 05 – Donations from foreign countries; 06 – Donations from international organisations, 56 – Financial assistance of the European Union, etc.) which are not covered by budget limits;
- 3) total from all sources.

There are also situations when the financial impact cannot be calculated at the time of drafting and passing the act and such situations should be avoided. A typical example of such a situation are activities aimed at determining public policy. In such cases, the costs of research, analysis and other analytical activities that precede the development and adoption of a policy document can be calculated, but the consequences of what happens after the assessment are not clear.

Examples of the completed FIA Form referring to changes in expenditures and expenses are given in [Appendix 4 of this Handbook](#).

²⁵ A list of funding sources is provided in Subsection 2.6.1.

4.3.4 Assessment of financial impact of act implementation on other budgets or financial plans

Units of local self-government, autonomous provinces, organisations for compulsory social security or extra-budgetary funds may be responsible for the implementation, i.e. financing of the implementation of measures and/or activities from public policy documents. In that case, the calculated costs of implementing measures and activities from public policy documents may have financial impact on:

- Financial plans of organisations for compulsory social security, namely: The National Pension and Disability Insurance Fund, the National Health Insurance Fund, the National Employment Service and the Social Security Fund of Military Insured Persons for insurance contributions;
- Financial plans of extra-budgetary funds;
- Provincial budgets;
- Budgets of local self-government units.

The FIA Form segment entitled *Assessment of financial impact on other budgets, i.e. financial plans* changes in revenues and expenditures and expenditures and income for the budget year (n) are shown, as well as the next two fiscal years, collectively for all classes of revenues and income and collectively for all classes of expenditures and expenses. That part of the FIA Form is filled in the same way as when it comes to the national budget.



Example

Example: In order to increase the visibility of cultural goods and cultural institutions, local self-government units, founders of cultural institutions, are obliged to adequately mark cultural goods in their communities by placing signs marking a certain cultural property and providing basic information about it. The public policy document which envisages the implementation of the planned activity was adopted in year x, and the implementation of this activity is planned in years $x + 1$ and $x + 2$. In year $x + 1$ it is necessary to provide 7,500,000 dinars (calculated additional cost in year $x + 1$), and in $x + 2$ year 2,000,000 dinars (calculated additional cost in year $x + 2$) from the budget of local self-government units.

Table 13. Example of a completed FIA Form — impact on increasing the budget expenditures of local self-government units

3. ASSESSMENT OF FINANCIAL IMPACT OF THE IMPLEMENTATION OF THE ACT ON OTHER BUDGETS/FINANCIAL PLANS											
Description	Funds provided in the budget and/or through redirection of appropriations	Type of change (single or multiple change)	Expected increase / decrease in the budget year (n)			Fiscal Year Proposal (n + 1)			Fiscal Year Proposal (n + 2)		
			Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total
1	2	3	4	5	6	7	8	9	10	11	12
3.4. ASSESSMENT OF FINANCIAL IMPACT OF THE IMPLEMENTATION OF THE ACT ON THE BUDGETS OF LOCAL SELF-GOVERNMENT UNITS											
											in thousands of dinars
Change in revenues and income (Class 7, 8 and 9):											
Change in expenditures and expenses (Class 4, 5 and 6):		Multiple change	0		0	7 7,500		7 7,500	- 5,500		- 5,500
NET IMPACT OF ACT IMPLEMENTATION ON LOCAL SELF-GOVERNMENT UNIT BUDGET					0	7 7,500		7 7,500	- 5,500		- 5,500

In the previous example, the situation is stated in which the beginning of the implementation of activities in the year $x + 1$, i.e. the year after filling in the FIA Form and the adoption of the public policy document.

The following example shows the situation when the FIA Form and the public policy document are adopted in the year $x + 1$, and the implementation of the public policy document begins in the year $x+1$.



Example: The activity of reconstructing cultural monuments in City A, the financing of which should be provided by the City, is determined by the action plan that starts to be implemented during year $x + 1$. In year $x + 1$, the financial impact of implementation of the proposed action plan are assessed. The total value of the reconstruction works is estimated at 476,265,104 dinars, and it is expected that this activity will be carried out in a five-year period. In the current year ($x + 1$), funds in the amount of 31,751,006 dinars were estimated and secured in the City budget. Based on costing in year $x + 2$, it is necessary to provide 95,253,020 dinars for the implementation of the project, and in year $x + 3$, 125,052,007 dinars are needed.

Table 14. Example of a completed FIA Form for an activity that will have an impact on increasing the budget expenditures of local self-government units.

3. ASSESSMENT OF FINANCIAL IMPACT OF THE IMPLEMENTATION OF THE ACT ON OTHER BUDGETS/FINANCIAL PLANS											
Description	Funds provided in the budget and/or through redirection of appropriations	Type of change (single or multiple change)	Expected increase / decrease in the budget year (n)			Fiscal Year Proposal (n + 1)			Fiscal Year Proposal (n + 2)		
			Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total
1	2	3	4	5	6	7	8	9	10	11	12
3.4. ASSESSMENT OF FINANCIAL IMPACT OF THE IMPLEMENTATION OF THE ACT ON THE BUDGETS OF LOCAL SELF-GOVERNMENT UNITS											
Change in revenues and income (Class 7, 8 and 9):											
Change in expenditures and expenses (Class 4, 5 and 6):	31,751,006	Multiple change		0	0	63,502,014		63,502,014	29,798,987		29,798,987
NET IMPACT OF ACT IMPLEMENTATION ON LOCAL SELF-GOVERNMENT UNIT BUDGET	31,751,006	Multiple change		0	0	63,502,014		63,502,014	29,798,987		29,798,987

Although the project from the example has financial impact in the next five-year budget period, the FIA Form shows the impact only for the first three years.

4.3.5 Contingent liabilities for the budget of the Republic of Serbia

There are rare situations in which the implementation of public policy documents, i.e. measures and activities from those documents will result in the creation of contingent liabilities to the budget of the Republic of Serbia. The costing of the implementation of public policy documents enables the assessment of whether the implementation of measures and activities from the public policy documents causes potential liabilities for the budget of the Republic of Serbia and the possible quantity of those liabilities.

The fourth part of the FIA Form — *Contingent Liabilities for the Budget of the Republic of Serbia* is filled in if the implementation of public policy documents, i.e. measures and activities from these documents creates potential liabilities in the budget. Contingent liabilities are divided into:

- Guarantees** — the most common form of such liabilities, are given on the basis of Government decisions, and the public policy document can only be a framework, through the establishment of incentive measures. This means that although the policy document states the possibility of providing a guarantee for the implementation of some of the activities, the FIA Form will be completed at the time when the Government decides to provide a guarantee with the exact amounts and conditions. Then in the column "Beneficiary" the name of the user to whom the guarantee refers is stated, and in the column "Description and requirements" — the conditions under which the funds are given. Exceptionally, when the state or other budget user issues guarantees to users under a state

aid scheme that is part of an incentive measure (but not individual or ad hoc state aid), financial resources for such a state aid scheme need to be entered in the FIA Form.

- b) Other** — other contingent liabilities include letters of credit, credit lines, debts based on claims and unresolved disputes under concluded contracts. In the case of unresolved disputes, the amount stated in the FIA Form refers to the value of the dispute, without interest and additional costs of the dispute since they are not yet known until the end of the dispute.

Here is an example of when contingent liabilities for the budget of the Republic of Serbia arise:

Cultural institution XY from Belgrade is organising a big exhibition. In case of damage, destruction or illegal alienation of temporarily imported valuable works of art, and in favour of the Museum of Russian Impressionism from Moscow, the Government of the Republic of Serbia is required to issue a state guarantee for the security and insurance of the exhibition. The guarantee is given for the period from the day when the works of art to be exhibited arrive on the territory of the Republic of Serbia until the day when they leave it, i.e. from 12 September to 17 October 2020. Based on the Government Decision, the Minister of Finance is authorised to sign the document state guarantees up to the amount of 2,000,000,000 dinars.

Table 15. Example of contingent liabilities for the budget — organisation of an exhibition of works of art (in thousands of dinars)

4. Contingent liabilities for the budget of the Republic of Serbia			
Name	Amount in thousands of dinars	Beneficiary	Description and requirements
Guarantees	2,000,000	Museum of Russian Impressionism Leningradskiy Ave, 15/11 Moscow 125171 Russia	The guarantee is issued in case of damage, destruction, or illegal alienation of temporarily imported valuable works of art, in favour of the Museum of Russian Impressionism from Moscow. The guarantee is given for the period from the day when the works of art come to the territory of the Republic of Serbia until the day when they leave the Serbian territory, i.e. from 12 September to 17 October 2020.

4.3.6 Elements used to calculate financial impact on expenditures and expenses

In order to better understand the correlation between costing by categories and the impact reported in the FIA Form, in the section entitled *Elements used to calculate financial impact on expenditures and expenses*, the following data for each category (or subcategory) of costs are shown: name of standard cost or name of other cost (non-standardised), standard price or other unit price, quantity and number of payments per year — on the basis of which the cost in the category is calculated. The table also includes a comment, i.e. explanation if it deviates from the use of standard prices in the calculation of costs and states the purpose of the funds if it is not clear from the name of the measure or activity and (sub) category of costs. Below is the layout of the table to be filled in that section.

Table 16. Elements used to calculate financial impact on expenditures and expenses

Measure/activity for implementation of the act	Year	Cost category	Cost subcategory	Name of standard cost/unit of measure	Standard price (in dinars)	Name of non-standardised cost	Price (in dinars)	Quantity	Number of payments per year	Total cost (in thousands of dinars)	Comment (if deviating from standardised prices)	Purpose of funds

4.3.7 Measures and review of acts balancing the resulting changes in revenues and incomes, and expenditures and expenses

If it is estimated that the implementation of the public policy document will lead to an increase in expenditures and expenses and/or a decrease in revenues and income, it is necessary to propose measures and ways to cover increased budget expenditures and expenses, i.e. to cover reduced revenues and budget income.

This part of the FIA Form is filled in similarly to other parts of the Form, with the remark that it is obligatory to state the proposal of measures and acts which represents the legal basis for the implementation of the measure balancing the changes in revenues and incomes and expenditures and expenses.

Table 17. Measures and draft act balancing the resulting changes in revenues and incomes and in expenditures and expenses from the FIA Form

6. MEASURES AND PROPOSAL OF THE ACT THAT BALANCES CHANGES IN REVENUES AND INCOME AND IN EXPENDITURES AND EXPENSES					
Measures	Expected increase/decrease				Act proposal
	Type of change	In budget year (n)	In fiscal year (n + 1)	In fiscal year (n + 2)	
1	2	3	4	5	6

The following text provides an example of completing this part of the FIA Form based on the **activities of establishing the Budget Fund for Energy Efficiency in order to improve energy efficiency**. The Law on Efficient Use of Energy envisages the establishment of the Budget Fund for Improving Energy Efficiency of the Republic of Serbia, which is an efficient way to raise and place funds for the purpose of financing or co-financing projects, programmes and activities aimed at more efficient use of energy. Establishment of the Budget Fund has an impact on budget expenditures and expenses in the amount of 600 million dinars, 510 million in the budget year. The Law on Fees for the Use of Public Goods introduces the obligation to pay a fee for energy efficiency, which will balance the changes caused by the introduction of the Budget Fund. In that way, the resulting changes in budget expenditures and expenses will be balanced.

Table 18. Example of a measure and a draft act balancing the resulting changes in revenues and incomes and in expenditures and expenses

6. MEASURES AND PROPOSAL OF THE ACT THAT BALANCES CHANGES IN REVENUES AND INCOME AND IN EXPENDITURES AND EXPENSES					
Measures	Expected increase/decrease				Act proposal
	Type of change	In budget year (n)	In fiscal year (n + 1)	In fiscal year (n + 2)	
1	2	3	4	5	6
Introduction of energy efficiency fee	Multiple change	510,000	40,000	50,000	Law on Fees for the Use of Public Goods

4.3.8 Statement on neutral financial impact of the implementation of the act

In the part of the FIA Form entitled *Statement on neutral financial impact of the act*, the proposer of the public policy document gives one of the possible statements:

- that the proposed document has no financial impact on the budget;
- that the necessary funds for its implementation are provided in the budget;
- that the necessary funds are provided through redistribution between appropriations or from the budget reserve.

It is important to note that the budget reserve cannot be used in the long run, nor for financing projects and high-value activities.

5 PUBLIC POLICIES, MEDIUM-TERM PLANNING AND BUDGET

Public policy documents, and especially action plans, elaborate in detail the implementation of public policy, and it is necessary to connect and harmonise these documents with the budget and the medium-term budget framework.

A public policy document cannot be implemented, i.e. the objectives set out in it cannot be achieved if the costs of implementing the planned measures and activities and certain sources of funding and allocated the necessary funds have not been determined. Therefore, real economic and fiscal circumstances must be taken into account in drafting and adopting public policy documents, while in drafting budgets it is necessary to take into account state priorities and public policy documents that have already been adopted — so that the budget is an instrument for their implementation.

The implementation of the measures and activities of the adopted public policy document has, in principle, already been approved by the Government through the procedure of its preparation, which includes the assessment of financial impact on the budget (as described in section 4 above). However, **final decisions on financing the implementation of measures and activities set out in public policy documents during the next year**, as well as related decisions on medium-term spending limits by budget users are **rendered during the annual medium-term planning and budgeting**.

The **medium-term plan** of the institution is a comprehensive planning document **adopted for a period of three years** and which **allows public policy documents to be linked to the medium-term expenditure framework**. It is made on the basis of public policy documents, taking into account the priority objectives of the Government, available capacities and resources, as well as changes in the factual situation in relation to the time when these public policy documents were adopted.

Mandatory content and forms for the development of medium-term plans are set out in the Decree on the Methodology for the Drafting of the Medium-Term Plans and its Appendices, and detailed instructions for the development of medium-term plans can be found in the [Handbook for Drafting the Medium-Term Plans](#).²⁶ This section emphasises the correlation between determining the costs of implementing public policy documents with medium-term planning and budgeting.

At the end of this section 5, it is explained why the moment in the annual budget calendar in which a public policy document is proposed and adopted is extremely important for securing the necessary funds for the implementation of measures and activities.

5.1 Costs of implementing public policy documents, medium-term plans and programme budget

For policy documents to be implemented, they must be in line with the budget. With the adoption of the Law on the Planning System of the Republic of Serbia and the Decree on the Methodology of Drafting Medium-Term Plans, the entire process of planning and implementation of public policies in the Republic of Serbia has been completed into a single system and harmonised with the budgeting process.

²⁶ See: <https://rsjp.gov.rs/wp-content/uploads/Priroc%CC%8Cnik-za-izradu-srednjoroc%CC%8Cnih-planova-09032020.pdf>.

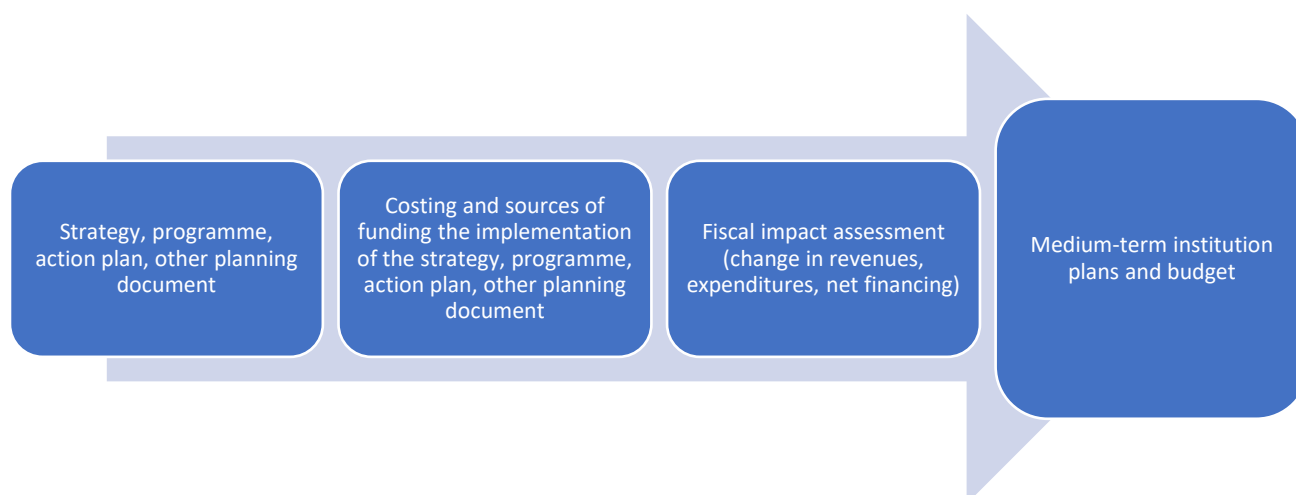


Figure 6. Correlation between the costs of implementing planning documents, medium-term plans and the budget

Implementation of measures and activities from public policy documents will not be possible if the medium-term expenditure framework (defined by the fiscal strategy) is neglected, and it is important to ensure that the medium-term policy implementation process (implemented by institutions) is an integral part of the budgeting process and that objectives, measures and activities set out in the public policy document are taken into account in drafting the budget.

Fiscal Strategy — a document that states the objectives of the Government's fiscal policy and provides an assessment of the sustainability of fiscal policy, which the Government submits to the National Assembly.

Medium-term expenditure framework — an integral part of the fiscal strategy, by which the Government determines the total volume (limit) of expenditures of the budget of the Republic, as well as the limits by budget users, in accordance with the identified priority areas of financing. It is the basis for determining medium-term plans and drafting financial plans of budget users.

The medium-term plan of the institution shows all the objectives and liabilities of the institution that it plans to implement in the next three years in accordance with fiscal possibilities, based on public policy documents and other planning documents. The programme budget and other sources of funding allocate funds for the implementation of these liabilities in the first year of validity of the medium-term plan, as well as funds for regular activities of the institution. In this sense, the medium-term plans of institutions and their "mapping" into the elements of the programme budget are key mechanisms that directly link policy documents and the budget.

The set of measures and activities elaborated in the medium-term plans of all institutions corresponds to the total funds allocated for the implementation of public policy documents in the budget of the Republic of Serbia and other sources of funding.

The following figure shows 1) how measures and activities are taken from the action plans of public policy documents and included in the medium-term plan of the institution responsible for their implementation, and 2) how the assessment of costs of implementing measures and activities from the medium-term plan of institutions affects the allocation of funds in the budget and cost projection in the medium-term expenditure framework.

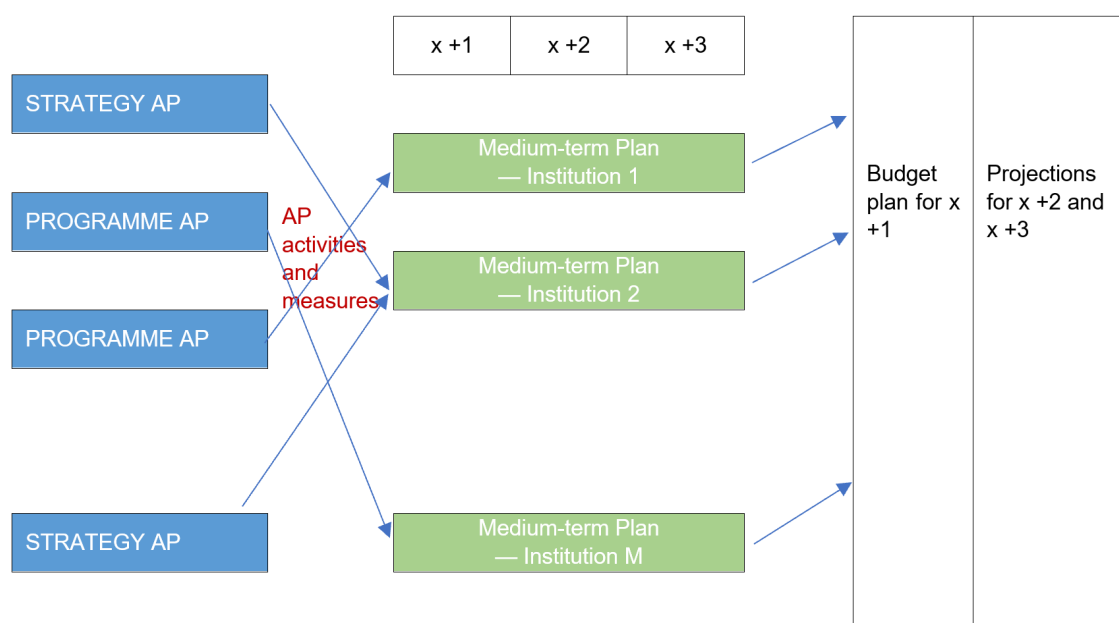


Figure 7. Planning the implementation of policy documents, medium-term planning and financial planning

The calculated costs of implementing policy documents are used by budget users responsible for their preparation and implementation when drafting their medium-term plan and programme budget.

The costs of implementing measures and activities set out in public policy documents are **revised** when drafting a medium-term plan if 1) in the meantime, the price of input resources has changed, 2) if the dynamic and the manner of implementing activities in the previous period has changed so that it has implications for costs in the following period or 3) if the costs can be determined more precisely on the basis of new information.

According to the programme classification, the budget shows for which specific purposes the total funds of the institution, i.e. the state are spent and how the spending is related to the objectives set in the programmes, or public policy documents. Budget programmes and programme activities (as components of the programme) are determined by the competences of the institution and the instruments through which the institutions implement a certain public policy document in the long run. Projects within budget programmes are short- or medium-term instruments for the implementation of policy documents.

The correlations between the key building elements of a medium-term plan (measures and activities) and the elements of a programme budget (programmes, programme activities and projects), i.e. possible "mapping" of measures and activities into programme budget elements are shown in the figure below.

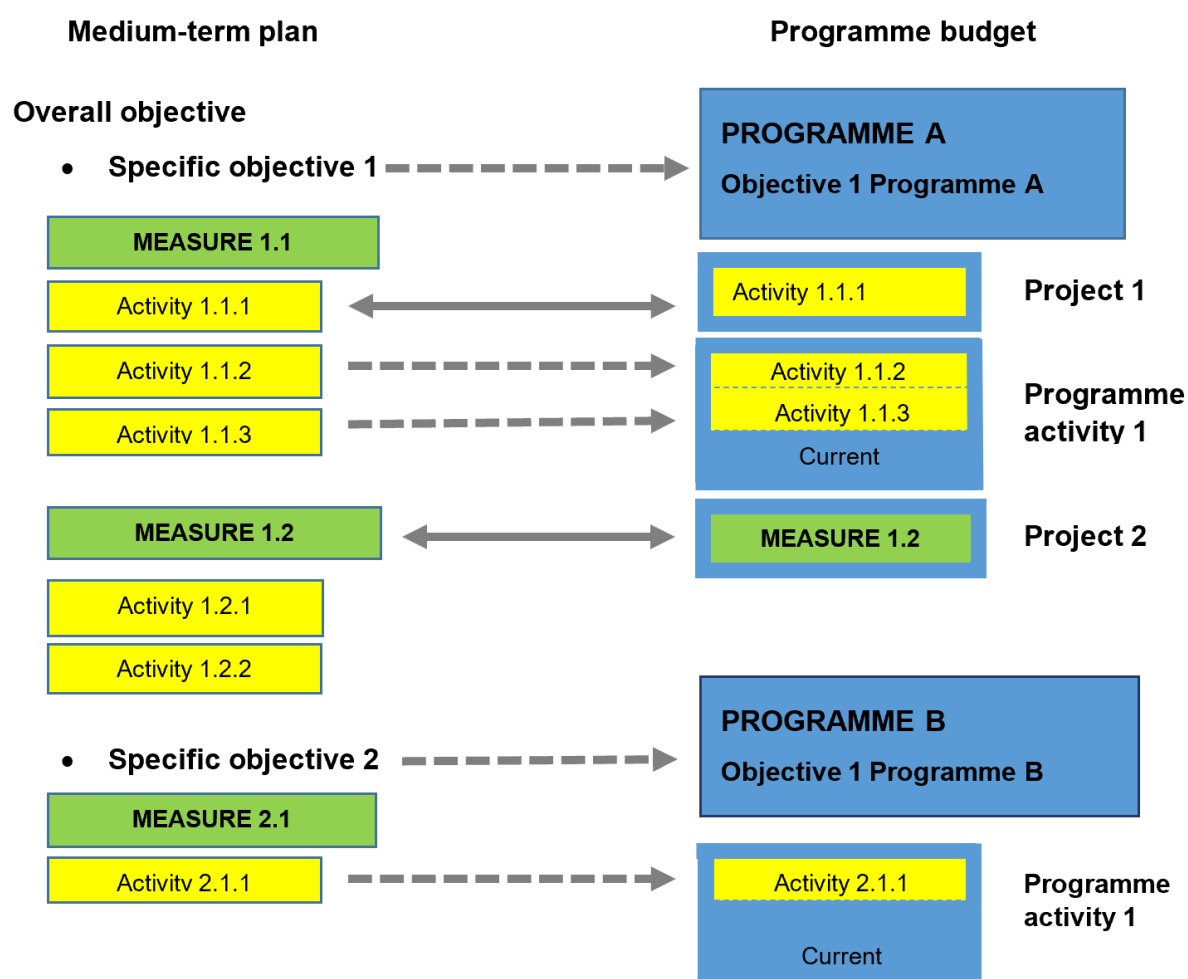


Figure 8. Correlation between the elements of a medium-term plan and a programme budget

The terminological difference between a "programme" in the Law on the Planning System and a "programme" in the Law on the Budget System should be considered. **It does not necessarily mean that a programme in the financial plan of the budget user is the same as the programme which is a public policy document.**

According to the Law on Planning System²⁷, a programme is a public policy document that is more specific than the strategy. A programme, as a rule, elaborates the specific objective of a strategy or some other planning document in accordance with which that document is adopted. A programme is actually a group of **independent but closely related measures and/or related (compatible) projects** that are managed and coordinated in order to achieve objectives that cannot be achieved by managing each of the elements of the programme individually or independently. **Such a public policy programme is adopted, as a rule, for a period of up to three years**, and the achievement of the programme objectives is planned and monitored through an action plan for the implementation of the programme and through **a medium-term plan**.

In the context of the Law on Budget System, a programme is a set of activities with a common intended socio-economic outcome that budget users carry out in accordance with their key

²⁷ The Official Gazette of the Republic of Serbia, No. 30/18.

competences and established medium-term objectives. Funds allocated to a programme are **appropriations** related to **programme activities and/or projects** within the programme. **A programme is shown in the budget and implemented by one or more budget users and is not limited in time.**



Programme as a public policy document as opposed to a programme within the financial plan of the budget user

Example: The Ministry of Finance has developed a Public Financial Management Reform Programme 2016–2020. In the programme structure of the budget of the Ministry of Finance, this Programme does not appear as a separate programme. Instead, expenditures and expenses are allocated to programmes in accordance with the programme structure of the budget of the Ministry of Finance:

- Programme 2301 – Regulation, management and supervision of the financial and fiscal system;
- Programme 2302 – Tax system management and tax administration;
- Programme 2303 – Management of the customs system and customs administration;
- Programme 2201 – Public Debt Management.

A programme is determined in accordance with the key competences and, to the extent possible, a link is established with the organisational structure to ensure the application of the principle of organisational accountability over the implementation of the budget programme. The definition of a programme is also influenced by the amount of funds that are allocated in the budget for the implementation of certain activities within the purview of the budget user, i.e. their strategic importance.²⁸ The programme and objectives of the programme in the context of the Law on Budget System are determined on the basis of a) legally prescribed competences and organisational structure of the budget user and b) medium-term plans and policy documents.

Correlation between medium-term plan objectives and indicators and programme budget

Specific objectives and performance indicators from the medium-term plan are "mapped" into the programme budget, where they are taken over as objectives, i.e. indicators of the programme within which funds are allocated to achieve that specific objective.

Budget programmes may have both targets and performance indicators that are not taken from the medium-term plan. As a rule, such objectives and indicators provide monitoring of trends and results of the implementation of the public policy document and provide a basis for improvements in the manner of its implementation in the future.

The expected result of the implementation of a measure from a medium-term plan is taken as the objective (expected result) of the programme activity or project within which the funds for the implementation of that measure have been allocated. *Note: the implementation of a measure set out in a planning document can be financed from one or more programme activities and/or projects within budget programmes.*

²⁸ Ibid.

5.2 Procedure for drafting a medium-term plan in line with the financial plan

The budget procedure established by the Law on Budget System consists of two phases:

1. identifying priority areas for funding and a medium-term budgetary framework; and
2. preparation of the annual budget.

The first phase:

- The Ministry of Finance develops macro-fiscal parameters;
- Users of budget funds submit a **proposal for priority areas of funding by 15 March**;
- The government considers these proposals and sets priorities and possibly includes them in the draft fiscal strategy and limits for budget users (in line with balance sheet capabilities).

Proposals for **priority areas of funding** prepared by budget users include existing budget commitments (implementation of public policy documents) and new budget commitments related to the implementation of new public policy documents in the next three years.

The second phase:

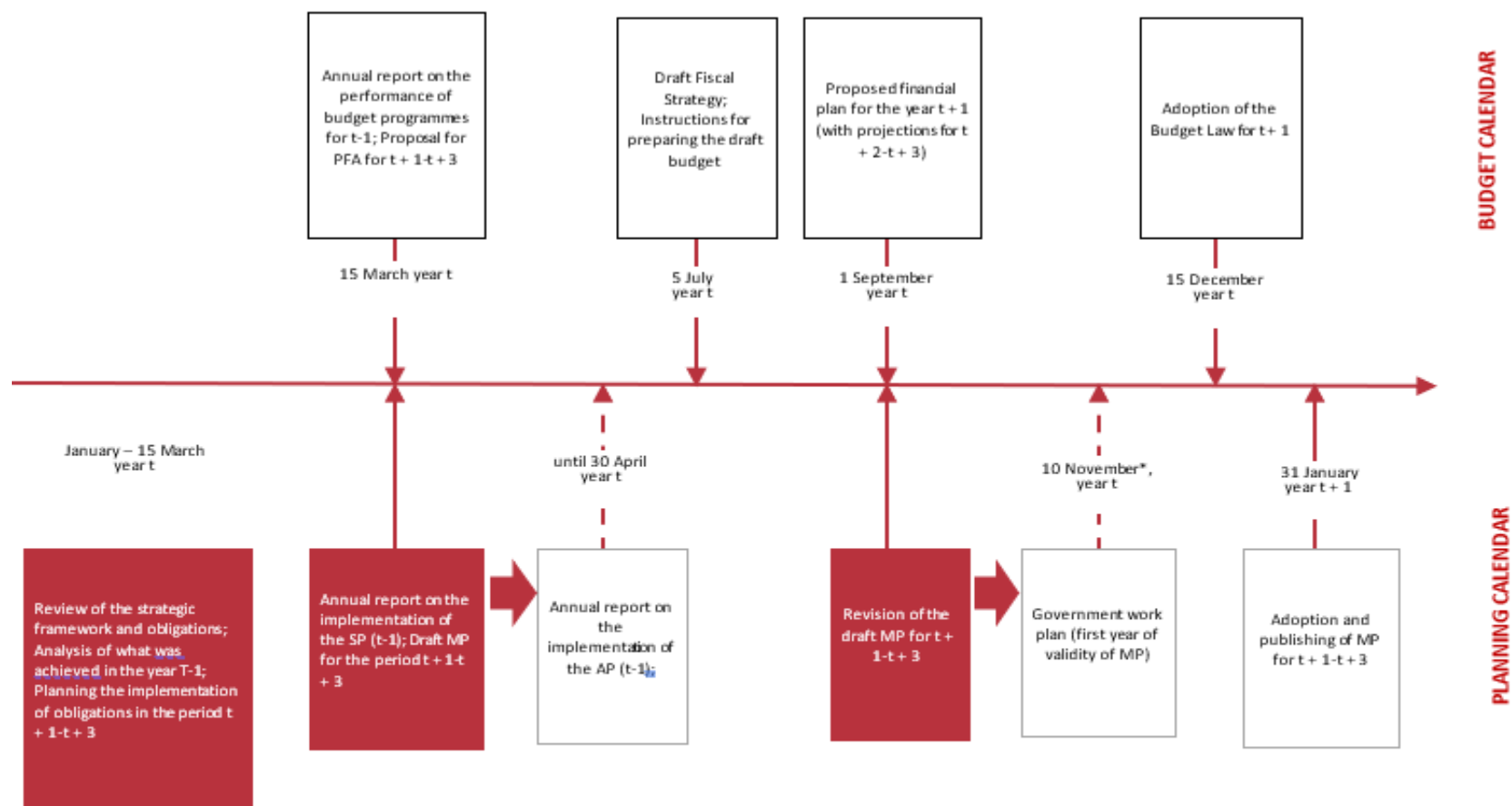
- By 5 July, the Ministry of Finance is preparing instructions for drafting the budget, which includes limits per budget users for the next three years;
- Budget users prepare proposals for their financial plans in accordance with the established limits by 1 September;
- The Assembly adopts the Law on Budget by 15 December.

The development of a medium-term plan of an institution and the medium-term financial planning form a unified procedure that takes place throughout the year. The calendar and the procedures for key steps in the unified procedure are determined by the Law on Budget System, the Law on Planning System of the Republic of Serbia, the Decree on the Methodology of Drafting Medium-Term Plans and the Instructions for Proposing Priority Areas of Financing.

The calendar of integrated procedures for medium-term planning and budgeting provides the following:

- 1) use of the measures and activities from the draft medium-term plan as a basis for drafting proposals for **priority financing areas (PFA)**;
- 2) that the proposal of the financial plan of the user of budget funds be made on the basis of the proposal of the medium-term plan;
- 3) that the final versions of the medium-term plan and the financial plan be harmonised.

The key steps and deadlines in the unified procedure are shown in Figure 10 and explained below.



* date set by the Rules of Procedure of the Government

Figure 9. Calendar of medium-term planning and budgeting procedures

The medium-term planning of the institution begins with the assessment of public policy documents for the implementation of which the institution is responsible and by determining the measures and activities that the institution should implement in the next three years.

Then, the results achieved in the previous year are reviewed, and by 15 March of the current year, an annual report on the implementation of the medium-term plan and an annual report on the performance of the programme budget for the previous fiscal year are prepared.

If during the previous fiscal year the policy documents or priorities of the Government have been changed, the implementation of which is, in whole or in part, within the scope of the institution, the medium-term plan shall be harmonised with those changes.

If during the previous fiscal year there were significant changes in the environment or if there was a deviation in the implementation of the medium-term plan, the obligor of medium-term planning estimates:

- whether the expected results of the implementation of measures and activities set out in the previous medium-term plan are achievable in the new circumstances or need to be revised;
- whether it is necessary to revise the dynamic of the implementation of activities, i.e. the amounts of funds needed for their implementation;
- whether it is necessary to identify new activities that would improve the results of the implementation of measures in the coming period.

At the same time, the institutions plan funds for the performance of their permanent/regular functions in the next three years, so that the achievement of objectives and implementation of measures set out in public policy documents is considered in the context of all liabilities and available resources of the institution.

If the implementation of measures and activities in the draft medium-term plan requires additional funds and the estimated costs exceed the limit (set in the fiscal strategy adopted last year), it is necessary to determine priorities among measures and activities that require new costs and indicate which measures or activities funds over the limit. Prioritisation includes:

- reallocation of funds from lower priority areas to higher priority ones;
- rejection of lower priority measures and activities;
- moving the deadlines in which measures or activities will be implemented;
- seeking other sources of funding, such as donations, loans or public-private partnerships.

In the document, the proposal for priority areas of financing are measures and activities of public policies (and their financing within and outside the limits) placed in the context of the overall activity and resources of the institution, in the structure of the programme budget. In order for medium-term financial planning to be effective, when submitting proposals for priority areas of financing, it is necessary for institutions to separate existing policy documents (measures) from new ones proposed to the Government (instruction of the authority relevant for financial affairs is given in the next section entitled *New and existing public policy documents in medium-term financial planning*).

Based on the proposals for priority areas of financing all bodies, projections of fiscal parameters in the next three years, priorities of public policy documents and fiscal policy, the ministry in charge of finance prepares, and the Government adopts the draft fiscal strategy. Following the expenditure limits set by the fiscal strategy and the Budget Preparation Instructions, the institution amends its draft medium-term plan as necessary.

The institution also changes its draft medium-term plan if the sources of funding or the amount of funds provided for the implementation of certain measures and activities have changed.

The revision of the medium-term plan may include new activities (in accordance with revisions of public policy documents) or the dynamic of activity implementation, in accordance with the changed situation, i.e. new circumstances affecting the implementation of activities (compared to the period when the medium-term plan was drafted). For the same reasons, previously projected implementation costs may be revised.

In accordance with the proposal of the medium-term plan, the institution also prepares a proposal of its financial plan.

The institution harmonises the final version of its medium-term plan with the Law on Budget of the Republic of Serbia.

Linking the elements of the medium-term plan and budget through the information system

The institution enters the objectives, performance indicators, measures and activities that it plans to implement in the next three-year period into the Unified Information System for Planning, Monitoring of Implementation, Coordination of Implementation of Public Policy Documents and Reporting (hereinafter: UIS) and connects them with programme budget elements (programme activities and projects) within which funds are allocated for the implementation of measures and activities.

Specific objectives, measures, activities and performance indicators are taken from the draft medium-term plan submitted to the UIS into the Budgeting Information System (hereinafter: BIS) and used in the preparation of proposals for priority financing areas (hereinafter: PFA), in accordance with the Programme Budgeting Methodology, established by the architecture of the BIS system and the data model implemented in it. *Note: Data download will be possible once the technical prerequisites in the BIS have been met.*

5.2.1 New and existing public policy documents (measures and activities) in medium-term financial planning

In order for medium-term financial planning to be effective, in the proposals for priority areas of financing, the authorities need to separate the existing public policy documents, which have already been verified through the medium-term planning process and the adopted budget, from the new public policy documents (measures) proposed by the authorities to the Government.

In the process of medium-term financial planning, the focus in the future should be on those programmes and projects in the budget, i.e. measures and activities from public policy documents that should be used for the implementation of new policy documents, on the objectives that would be achieved by their implementation as well as manners of financing their implementation.

Funding for new public policy documents can come from two sustainable sources:

- from real growth of budget revenues;
- from the release of "fiscal space" for the implementation of new public policy documents after the financing of existing programmes and projects that are non-recurrent, i.e. those projects that did not give the planned results.

In order to maintain the achieved fiscal stability, financing the implementation of new public policy documents will be possible, primarily from the aforementioned release of fiscal space, which means that in the process of proposing priority areas of financing, budget users should express proposed existing and new policies within given limits and only exceptionally outside the limit.

Existing and new policies need to be defined clearly, by marking each of the proposed programmes and projects as either *existing* or *new policy*. Budget users divide programmes and projects into existing and new policies based on the criteria given in the following table.

Number	Description	Existing/new policy
1.	The programme with all related programme activities and projects — already exists in the budget for the current year	Existing policy
2.	Within the existing programme (which exists in the adopted budget for the current year) — one or more new projects/programme activities are added.	New policy
3.	New programmes with related programme activities and projects are proposed (which do not exist in the adopted budget for the current year)	New policy
4.	It is proposed to reorganise the adopted programme structure — merging or separating existing projects, i.e. programme activities. Instead of the existing ones, new projects, or programme activities are presented — but this is still about the implementation of existing policies.	Existing policy
5.	Within the existing project, i.e. programme activity, the estimated impact of the new policy is reported on one or more accounts	New policy
Example		
5.1.	Change in the number of beneficiaries of benefits, social benefits, etc. — created exclusively through the change of criteria determined by the appropriate act	New policy
5.2.	Change in the amount of benefits, social benefits, subsidies, etc. — determined by the appropriate act	New policy

Source: Ministry of Finance of the Republic of Serbia, Instructions for proposing priority areas of financing for the period 2020–2022, enabled through the upgrade of the Budgeting Information System (BIS) and the integration of UIS data

5.3 Budget calendar and proposal of public policy documents

Regardless of the quality of the costing of implementing policy documents and the quality of the estimated financial impact, if the necessary funds are not provided in the budget in a timely manner, the achievement of the objectives set in the policy documents within the planned deadlines may be jeopardised.

The moment in the budget cycle in which a public policy document is proposed is extremely important. The proposer of a public policy should take into account the key dates in the budget calendar when planning the dynamic of drafting and proposing the public policy document, its entry into force and the beginning of the implementation period.

- A draft fiscal strategy is prepared and limits for budget users are set — in accordance with balance sheet possibilities.

2. Preparation of the annual budget

- Instructions for drafting the budget with established limits **by 5 July**.
- Preparation of proposals for financial plans in accordance with the established limits **by 1 September**.
- Adoption of the Budget Law **by 15 December**.

The first phase is extremely important for budget users, as it is the right time to propose new measures and activities and draw the Ministry of Finance's attention to additional funds that need to be provided in the budget for next year (and projections for the second and third year).

If a public policy document (with estimated financial impact) is adopted **by 15 March at the latest**, the draft medium-term plan and **proposal for priority areas of funding include funds for the implementation of measures and activities of the newly adopted public policy document** and there is a great chance of securing the necessary additional funds in the first phase of budget procedure, i.e. increase the limits of the institutions that implement the public policy document (in the amount of the estimated financial impact).

By July 5, the Ministry of Finance shall submit to budget users instructions for drafting the budget, which contain established limits on expenditures and expenses of budget users for the next budget year, with projections for the next two years. The instructions state that the set limits comprise funds for implementation of adopted laws, amendments to laws, as well as other acts (including public policy documents) in the current and previous years, which require the engagement of financial resources for the next budget year.

- Limits refer to current activities and existing liabilities of budget users, as well as to new initiatives for drafting and adopting public policy documents and regulations. However, the established limit of the budget user does not show separately the limit for existing and the limit for new liabilities related to the application of new public policy documents and legislative framework, but more detailed instructions are given for elaboration of limits according to economic classification. It is explained what is contained in the limits in the part of expenditures for employees, use of services and goods, repayment of interest and accompanying costs of borrowing, subsidies, donations, grants and transfers, social security and social protection, other expenses, reserve funds and expenses for non-financial assets. Also, for some specific activities and projects, the planned amounts are singled out in the instructions. For example, the Instruction for the preparation of the budget of the Republic of Serbia for 2020 and the

projection for 2021 and 2022 in the group of accounts 48 — *Other expenditures* states: "In order to support the EXIT festival, funds in the amount of 65 million dinars are planned, of which the amount of 30 million dinars in the division of the Ministry of Youth and Sports, while the amount of 35 million dinars is planned in the division of the Ministry of Trade, Tourism and Telecommunications."

If a public policy document is adopted after the proposal for priority financing areas is submitted (**after 15 March**), and before the Ministry of Finance submits instructions to budget users for budget preparation with limits (by **5 July**), **there is also the possibility of increasing the limits of institutions that implement the public policy document (in the amount of the estimated financial impact) in order to secure in time the necessary funds for the implementation of measures.**

This does not mean that public policy documents are adopted later in the year, until the moment the budget is proposed to the Government, or the National Assembly, or that the funds for their implementation will not be provided in the budget. **Rather, it means that securing additional funds for their implementation will be a much more demanding task, especially if the requested amounts are significant.**

When a **public policy document is adopted after the budget for the following year ($x + 1$)** has been adopted, the established costs of its implementation can be taken into account only in the budget process for the year $x + 2$, **and, as a rule, in the first year ($x + 1$) of implementation of the public policy document, they do not envisage activities with additional (especially significant) impact on the budget.** Requests for financing the adopted planning document will be submitted in the process of preparation of the new budget in accordance with the budget calendar in accordance with Article 48 of the Law on Budget System "if during the year laws and other regulations are enacted based on which new liabilities for the budget are incurred, resources for the next budget year will be provided in accordance with the projections and possibilities".

6 GLOSSARY

A **Action Plan** — the most detailed public policy document that develops a strategy or programme to manage the dynamic of the implementation of measures set out in these policy documents, which contributes to the achievement of specific objectives set out in these documents. The Action plan is adopted with the strategy and programme and, as a rule, is adopted simultaneously with these public policy documents. The Action plan is revised as necessary, in accordance with the results of monitoring the implementation and the results of *ex-post* assessment of the impact of the implementation of public policy documents, and, if necessary, the preparation of its amendments commences (**Article 18 of the Law on Planning System of the Republic Serbia**)

Assessment of impact of the implementation of public policy documents (in short, impact assessment) — an analytical process carried out during the planning, development and adoption of public policy documents and regulations to see the changes to be achieved, their elements and cause-and-effect relationships between them and selection of best measures to achieve objectives defined in them (*ex-ante* impact assessment), as well as during and after the implementation of already adopted public policy documents and regulations in order to evaluate the impact of their implementation and to review and improve these public policy documents, or regulations (*ex-post* impact assessment) (**Article 2 of the Regulation on the Methodology of Public Policy Management, Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents**).

Appropriation — authorisation given to the Government, i.e. the competent executive body of local government to spend public funds up to a certain amount and for certain purposes for the budget year, or the amount of funds determined in the financial plan of the organisation for compulsory social security for certain purposes (**Article 2, item 31 of the Law on Budget System of the Republic of Serbia**).

Annual Work Plan of the Government — a document prepared on the basis of medium-term plans of direct users of budget funds, priority objectives of the Government (contained in the Action Plan for the Implementation of the Government Programme and the National Programme for Adoption of the Acquis). In particular, the Government's annual work plan contains an overview of the normative activities required for the implementation of the measures set out in the public policy documents the implementation of which is planned for the next budget year. The annual work plan of the Government is prepared in such manner as to ensure efficient, effective and timely planning and coordination of committee sessions and Government sessions (**Article 22 of the Law on the Planning System of the Republic of Serbia**).

C **Capital projects** — projects of construction and capital maintenance of buildings and infrastructure facilities of interest to the Republic of Serbia, i.e. local government, including project planning services that are an integral part of the project, providing land for construction, as well as projects involving investments in equipment, machinery and other non-financial assets, which are in the function of public interest (**Article 2, item 21a of the Law on Budget System of the Republic of Serbia**).

Coordination of identification and implementation of public policy documents — the process by which participants in the planning system (referred to in Paragraph 1, items 3 and 4) direct the activities pertaining to identification and implementation of public policy documents, taking into account the mutual harmonisation of public policy documents that they adopt and implement and their prioritisation.

D

Direct users of budget funds — bodies and organisations of the Republic of Serbia, i.e. bodies and services of local authorities (**Article 2, item 7 of the Law on Budget System of the Republic of Serbia**).

Donation — earmarked non-refundable income that is realised on the basis of a written contract between the donor and the recipient of the donation (**Article 2, item 45 of the Law on Budget System of the Republic of Serbia**).

E

Effect (or Impact) of the implementation of a public policy document — long-term impact on society in the area in which the public policy document operates (**Article 2, item 13 of the Law on the Planning System of the Republic of Serbia**).

Effectiveness — the extent to which certain activities achieve the planned outcome. For example, educational programmes are effective if participants acquire knowledge and are ready for the demands placed on them by the modern economy. A police patrol is effective if it reduces the crime rate. Effective support for agriculture results in greater competitiveness and higher crop yields (**Instructions for the Preparation of the Programme Budget, p. 6**).

Elements of the policy concept are: 1) review and analysis of the current situation; 2) a description of the planned changes to be achieved, their elements and their cause-and-effect relationships; 3) overall and specific objectives of the public policy document that are intended to be achieved; 4) concepts/elaboration of possible groups of measures of the public policy document which represent mutually exclusive options for achieving the specific objectives of the public policy document; 5) results of the conducted assessment of impact for each of the considered options; 6) results of conducted consultations and additional analyses of the impact of the considered options on the basis of conducted consultations; 7) proposal and explanation of the chosen option and the manner of its realisation, including an overview of possible measures proposed as the most expedient way to solve the identified problems and achieve the intended change; 8) other elements prescribed by a by-law of the Government (**Article 17 of the Law on the Planning System of the Republic of Serbia**).

European Union financial assistance — European Union funds used for purposes and spent according to the rules established by agreements between the Republic of Serbia and the European Union (**Article 2, item 46 of the Law on Budget System of the Republic of Serbia**).

F

Financial plan — an act of a direct or indirect user of budget funds, as well as an act of the organisation for compulsory social security, which includes financial plans of indirect users of funds of organisations for compulsory social security, prepared on the basis of *instructions for budget preparation* and in compliance with the *guidelines for the development of medium-term plans* and projections of the medium-term expenditure framework envisaged by the fiscal strategy, which contains an estimate of the volume of revenues and income and the volume of expenditures and expenses for a period of one or three years (capital expenditures are expressed for the three-year period) (**Article 2, item 3 of the Law on Budget System of the Republic of Serbia**).

Fiscal risks — short-term and medium-term deviations of fiscal variables compared to the values provided in the budget, financial or other reports or public finance projections (**Article 2, item 25e of the Law on Budget System of the Republic of Serbia**).

The Fiscal Strategy is a document which states the objectives of the Government's fiscal policy and provides an assessment of the sustainability of fiscal policy, which the Government submits to the National Assembly (**Article 2, item 25 of the Law on Budget System of the Republic of Serbia**).

Indirect users of budgetary funds (or indirect budget users) — judicial authorities, local communities; institutions established by the Republic of Serbia, i.e. local authorities, over which the founder, through direct users of budget funds, exercises the rights established by law in terms of management and financing (**Article 2, item 8 of the Law on Budget System of the Republic of Serbia**).

Indicators of the impact of the implementation of public policy documents (or public policy documents impact indicators) — measures of long-term changes in the economy and society resulting from the achievement of overall objectives.

Instruction for budget preparation — given guidelines to budget users at the national level of government for planning expenditures and expenses for the current and next two years with accompanying instructions and tables (**Article 35, paragraph 1 of the Law on Budget System of the Republic of Serbia**).

Measure of a public policy document — a set of key and related activities undertaken in order to achieve an overall or specific objective, i.e. the planned impact of the implementation of a public policy document. Measures determined by public policy documents may be: 1) regulatory, which establish standards and rules governing relations in society; 2) incentives, which include: fiscal measures (subsidies, taxes, etc.) and other financial and non-financial measures; 3) informative and educational (information and educational campaigns, etc.); 4) institutional management organisation (establishment of new and abolition of existing institutions, change of organisational structure of certain entities, change of number and competences of employees, etc.) and 5) provision of goods and services by participants in the planning system, including public investments infrastructure projects, investments, etc.) (**Article 24 of the Law on the Planning System of the Republic of Serbia**).

Medium-term expenditure framework is an integral part of the fiscal strategy, by which the Government determines the total volume of expenditures of the budget of the Republic of Serbia in accordance with the identified priority areas of financing; provides overall fiscal discipline and transparency of the budget planning process and is the basis for determining the medium-term scope for planning and drafting financial plans of budget users (**Article 2, item 60 of the Law on Budget System of the Republic of Serbia**).

Medium-term plan — a comprehensive planning document adopted for a period of three years and which allows linking of public policy documents with the medium-term expenditure framework. The medium-term plan is prepared on the basis of valid public policy documents, taking into account the priority objectives of the Government, available capacities and resources, as well as changes in the actual situation compared to the time when these public policy documents were adopted (**Article 25 of the Law on the Planning System of the Republic of Serbia**).

Medium-term plan — a comprehensive plan of the budget user which contains a detailed elaboration of all programmes, projects and programme activities for the budget year with projections for the next two years, according to established medium-term objectives and priorities, and serves as a basis for in accordance with the instructions for budget preparation (**Article 2, item 59 of the Law on Budget System of the Republic of Serbia**).

Monitoring the implementation of public policy documents — collection and analysis of data during the implementation of public policy documents, i.e. measures set out in them to determine whether the set objectives are achieved, as well as whether the planned measures and activities are implemented according to plan and efficiently (**Article 2, item 9 of the Law on the Planning System of the Republic of Serbia**).

N

Non-tax revenues — a type of public revenues charged to legal or natural entities for the use of public goods (fees), provision of certain public services (fees), due to breach of contract or legal provisions (penalties and penalties), as well as revenues generated by the use of public funds (**Article 2, item 18 of the Law on Budget System of the Republic of Serbia**).

O

Objectives of the budget programme activity or project — possible outcomes and outputs that are intended to be achieved by implementing the programme activity or project in the short term (1–2 years) or in the medium term (3–5 years). Outputs are products or services provided by budget users that are relevant to achieving the outcome of a programme activity or project, or achieving programme objectives (**Instructions for Programme Budgeting, p. 5**).

Obligors of drafting a medium-term plan — public administration bodies; compulsory social security organisations; other users of budget funds of the Republic of Serbia obliged by the Government, at the proposal of the Public Policy Secretariat, i.e. the Ministry of Finance, to prepare a medium-term plan; other users of public funds whose work is supervised by the Government, which obliges them to do so. The medium-term plan of the administrative body within the ministry is included in the medium-term plan of the ministry within which it is (**Article 26 of the Law on the Planning System of the Republic of Serbia**).

Outcome indicator (of implementation of the public policy document) provides information on the extent of achievement of the specific objective. At the level of the programme, programme activity and/or project, the outcome indicator provides information on the actual social or economic change, as well as the consequences of the implementation of the programme, programme activity or project. They are particularly important for strategic planning, budgeting and managing the implementation of public policy documents, and at the same time the results measured by these indicators are those for which the general public has the greatest interest (**Instructions for Programme Budgeting, p. 5**).

Output results indicator (of implementation of a public policy document), i.e. performance indicators of the implementation of activities, provide information on the immediate products and services provided by the implementation of the programme activity or project. Output results indicators most often measure the quantity, quality or efficiency of public service delivery (**Instructions for Programme Budgeting, p. 5**).

Other participants in the planning system — public administration bodies and government services, as well as local government bodies and services that participate, in accordance with their competences, in the system of managing the implementation of public policy documents, not defining them (**Article 2, item 1, indent 4 of the Law on the Planning System of the Republic of Serbia**).

Overall objective of public policy — a long-term objective which defines the desired state of society, in the area in which the policy operates (**Article 2, item 11 of the Law on the Planning System of the Republic of Serbia**).

P

Participants in the planning system (which determine the directions of action by adopting public policy documents) are the National Assembly, the Government and local authorities in accordance with their competence (**Article 2, item 1, indent 3 of the Law on the Planning System of the Republic of Serbia**).

Performance assessment (assessment of the performance of the implementation of public policy documents) — assessment of the relevance, efficiency, effectiveness and sustainability of the implemented policy document, which has been implemented, the impact of its implementation based on relevant data and analyses, as well as the results of monitoring and

implementation, i.e. in order to determine whether it is necessary to introduce certain amendments (**Article 2, item 9 of the Law on the Planning System of the Republic of Serbia**).

Performance indicators – quantitative and/or qualitative parameters that are determined in order to monitor the extent of achievement of overall or specific objectives set out in the public policy document compared to the initial values of these parameters. Performance indicators can be **impact or performance indicators** (at the level of the overall objective), **outcome indicators** (at the level of specific objectives) and **result indicators** (at the level of public policy measures). At the programme activity and/or project level, performance indicators can also provide information on the effectiveness and efficiency of their implementation. For all objectives and measures determined by the medium-term plan, performance indicators are stated, which enable monitoring and measuring the extent of their achievement, i.e. implementation, as well as their baseline and target values during the period for which the medium-term plan is adopted (**Article 19 of the Regulation on the Methodology of Public Policy Management, Policy and Regulatory Impact Assessment, and Content of Individual Public Policy Documents**).

Person responsible for the programme, programme activity or project — the person responsible for the relevance and the accuracy of programme information (including objectives and performance indicators), as well as for monitoring the efficiency, effectiveness and efficiency of implementation of activities and spending within the programme, programme activity or project, drafting the programme budget (**Instructions for Programme Budgeting, p. 5**).

Plan of normative (or legislative) activities contains the following data: 1) type of regulations, i.e. acts the adoption of which is planned, 2) legal basis for adoption, i.e. proposal of acts, 3) subject of regulation, 4) link with the measure due to which the normative activity is implemented and link with a public policy reference document or a development planning document determining the measure, 5) link with the National Programme for the Adoption of the Acquis and 6) the month and the year of planned adoption of regulations or acts, i.e. submitting the text of the act to the Government for review and adoption or its proposal to the competent body of the local self-government unit (**Article 13, Appendix 2 of the Decree on the Methodology for Drafting Medium-Term Plans**).

Policy concept — the initial document of public policy by means of which the principles and/or guidelines are adopted according to which the systemic reform in a certain area will be implemented. The policy concept can also provide guidelines for the development of a strategy or programme and establish the principles of reform in a particular area. The policy concept is adopted if there are several mutually exclusive options (directions) for the implementation of the necessary change, which can significantly affect different stakeholders and target groups, as well as if it is necessary to identify policy documents with high implementation costs (**Article 16 of the Law on Planning System of the Republic of Serbia**).

Programme, a public policy document, is more specific than a strategy which, as a rule, elaborates a specific objective of the strategy or some other planning document in accordance with which it is adopted (development plan, government programme, local government development plan, policy concept). It is a group of independent but closely related measures and/or related (compatible) projects, which are managed and coordinated in order to achieve objectives that cannot be achieved by managing each of the elements of the programme individually or independently. It contains the same elements as the strategy, and in particular the elaborated measures for achieving the specific objective, i.e. the objectives that it determines or takes over from the strategy or some other planning document in accordance with which it is adopted. A programme has, as a rule, up to three specific objectives that directly contribute to the achievement of the overall objective. It is adopted for a period of up to three years, and the achievement of programme objectives is planned and monitored through an *action plan* for programme implementation (**Articles 14 and 15 of the Law on the Planning System of the Republic of Serbia**).

Programme (budget) — a set of measures implemented by users of budget funds in accordance with their key competences and established medium-term objectives. It consists of independent but closely related components — programme activities and/or projects. It is determined and implemented by one or more users of budget funds and is not limited in time (**Article 2, item 58 of the Law on Budget System of the Republic of Serbia**).

Programme (budget) activity — current and continuous activity of users of budget funds, which is not limited in time. The implementation of programme activities achieves objectives that contribute to achieving the objectives of the programme. It is determined on the basis of the already determined competences of the users of budget funds and must be part of the programme (**Article 2, item 58a of the Law on Budget System of the Republic of Serbia**).

Programme (budget) objectives are specific social or economic outcomes that are to be achieved in the medium term (3–5 years) by implementing activities within the programme. In addition to the activities of budget users, the achievement of programme objectives may be influenced by external factors. The objectives of the programme are set out in a medium-term plan or strategic document relating to the scope of the budget user. The objective is usually expressed quantitatively (**Instructions for Programme Budgeting, p. 5**).

Programme information — contains descriptions of programmes, programme activities and projects of budget users, objectives that are planned to be achieved in the medium term by implementing programmes, programme activities and projects, as well as information obtained on the basis of performance indicators established to monitor the achievement of these objectives. Some of the established objectives, i.e. performance indicators of programme implementation, programme activities or projects represent gender-responsive objectives, i.e. gender indicators which show and monitor the planned contribution of the programme (**Article 28, paragraph 6 of the Law on Budget System of the Republic of Serbia**).

Project (budget) — a time-limited business venture of users of budget funds the implementation of which achieves the objectives of the project or programme (**Article 2, item 58b of the Law on Budget System of the Republic of Serbia**).

Public expenditures — expenditures for goods, services and other benefits provided by the state without direct and immediate compensation (**Article 2, item 20 of the Law on Budget System of the Republic of Serbia**). Public expenditures include: expenditures for goods, services and other benefits provided by the state without direct and immediate compensation. These are 1) expenditures for employees, 2) expenditures for goods and services, 3) depreciation and use of equipment, 4) repayments of interest and related borrowing costs, 5) subsidies, 6) grants and transfers, 7) compulsory social security and social protection, 8) other expenses (taxes, mandatory fees, fines, penalties, etc.). Government expenses are 1) expenses for the acquisition of non-financial assets, 2) expenses for the repayment of principal, 3) expenses for the acquisition of financial assets.

Public funds — funds available and under the control of the Republic of Serbia, local authorities and organisations for compulsory social security (**Article 2, item 4 of the Law on Budget System of the Republic of Serbia**).

Public policies — directions of action of the Republic of Serbia and directions of action of the autonomous provinces and local self-government units in certain areas in order to achieve objectives in society (**Article 2, item 1 of the Law on the Planning System of the Republic of Serbia**).

Public policy documents — planning documents by which participants in the planning system, in accordance with their competences, determine or elaborate already determined public policy documents. The types of public policy documents are: 1) strategy; 2) programme; 3) policy concept

and 4) action plan (**Article 10, paragraph 2 of the Law on the Planning System of the Republic of Serbia**).

Public resources — natural resources the use of which is regulated by a special law, as well as resources that are determined by a special law as resources of general interest and in general use (**Article 2, item 18 of the Law on Budget System of the Republic of Serbia**).

Public revenues — revenues generated by mandatory payments of taxpayers, legal entities and individuals who use certain public goods or public services, as well as all other revenues generated by users of budget funds and funds of organisations for compulsory social security (**Article 2, item 14 of the Law on Budget System of the Republic of Serbia**).

Public services — all services that users of public funds are obliged to provide to legal and natural entities in accordance with the law (**Article 2, item 18b of the Law on Budget System of the Republic of Serbia**).

Q

Quota — restriction of appropriation spending for a certain period (**Article 2, item 31a of the Law on Budget System of the Republic of Serbia**).

S

Specific objective of a public policy document — an objective determined in relation to certain entities and/or relations in the area covered by the public policy document, the achievement of which creates preconditions for achieving the overall objective (**Article 2, item 12 of the Law on the Planning System of the Republic of Serbia**).

State expenses — state expenses for the acquisition of non-financial and financial assets and loan repayment (**Article 2, item 21 of the Law on Budget System of the Republic of Serbia**).

State guarantee — an insurance instrument by which the Republic of Serbia guarantees the fulfilment of liabilities for which a guarantee is given (**Article 2, item 35 of the Law on Budget System of the Republic of Serbia**).

State income — funds that the state realises through the sale of non-financial and financial assets and borrowing (**Article 2, item 19 of the Law on Budget System of the Republic of Serbia**).

Strategy — a basic public policy document which comprehensively determines the strategic directions of action and public policy in a specific area of planning and implementation of public policies determined by government regulations. If it is necessary to undertake a wide range of related activities in the long run in order to achieve long-term objectives, the strategy can determine the overall strategic direction of action in several related areas of planning and implementation of public policies determined by government regulations. As a rule, the strategy is adopted for a period of five to seven years, and the achievement of its objectives is planned and monitored through an action plan for its implementation (**Article 11 of the Law on the Planning System of the Republic of Serbia**).

T

Tax revenues — the type of public revenues that the state collects from taxpayers without the obligation to perform special services in return (**Article 2, item 17 of the Law on the Budget System of the Republic of Serbia**).

Transfer funds — funds transferred from the budget of the Republic of Serbia, i.e. the local government budget to the budget at another level of government, the budget at the same level of government and organisations for compulsory social security, as well as between

organisations for compulsory social security for insurance contributions (**Article 2, Item 44 of the Law on Budget System of the Republic of Serbia**).

U **Unified information system** for planning, monitoring implementation, coordination of the implementation of policy documents and reporting — a unified electronic system in which participants in the planning system enter the content of their policy documents and medium-term plans. The information system provides a link between the content of policy documents, medium-term plans and the beneficiaries responsible for implementing the measures set out in the policy documents and their financial plans. It provides reporting on achieved objectives and monitoring of achieved performance indicators. The information system is managed by the Government through the Public Policy Secretariat of the Republic of Serbia (**Article 47 of the Law on the Planning System of the Republic of Serbia**).

Users of public funds — direct and indirect users of budget funds, users of funds of organisations for compulsory social security and public companies established by the Republic of Serbia, i.e. local authorities, legal entities established by these public companies, legal entities over which the Republic of Serbia, i.e. local government has direct or indirect control over more than 50% of their capital or more than 50% of the votes in their board of directors, other legal entities in which public funds account for more than 50% of total revenues generated in the previous business year, as well as public agencies and organisations regulations on public agencies apply to (**Article 2, item 5 of the Law on Budget System of the Republic of Serbia**).

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8 APPENDICES

Appendix 1 — Action Plan table

Public policy document:							
Action plan:							
Overall objective 1:							
Institution responsible for implementation monitoring and control:							
Indicator(s)	Unit of measurement	Source of verification	Baseline value	Baseline year	Target value in the last year	Last year of validity of the Action plan	
Specific objective:							
Indicator(s)	Unit of measurement	Source of verification	Baseline value	Baseline year	Target value in year x + 1	Target value in year x + 2	Target value in the last year of validity of the Action plan
Measure:							
Indicator(s)	Unit of measurement	Source of verification	Baseline value	Baseline year	Target value in year x + 1	Target value in year x + 2	Target value in the last year of validity of the Action plan

Source of measure funding ²⁹		Programme budget reference ³⁰		Total estimated funds in thousands of dinars				
				In year x + 1		In year x + 2		In year x + 3
Activity:	Institution responsible for implementation	Implementation partner(s)	Activity implementation deadline	Source of funding ³¹	Programme budget reference ³²	Total estimated funds in thousands of dinars ³³		
						x + 1	x + 2	x + 3

²⁹ List one of the sources of funding: budget funds, loans, donor funds, IPA, etc. In case of donor funds, the specific donor must be indicated.

³⁰ Programme code and programme activity or project within which the funds are provided.

³¹ List one of the sources of funding: budget funds, loans, donor funds, IPA, etc. In case of donor funds, the specific donor must be indicated.

³² Programme code and programme activity or project within which the funds are provided.

³³ An asterisk indicates funds that are not fully secured.

Appendix 2 — Examples of costing of implementing public policy documents

Below are several examples of costing of implementing public policy documents adopted for different areas, as well as by different categories of costs. The examples assume that the measures and activities set out in the policy documents are implemented over a period of three years (or less), so that the costs of their implementation are calculated for a three-year period.

Example 1: Enhancement of the quality of pre-school education

Description of the measure: In order to provide at least one year of pre-school education for children from the age of five and to increase the enrolment rate from 75% to 100%, the state has introduced compulsory pre-school education for that population. The measure is to be implemented in three years.

The planned activities for the implementation of the measure are as follows:

- construction of an additional 150 pre-school institutions;
- employment of additional 1,500 pre-school teachers (10 per preschool institution on average);
- equipping kindergartens (additional equipment).

In order to calculate the costs of carrying out the activity, it is necessary to take into account the following facts:

- the cost of building one pre-school institution is 350,000 euros;
- construction of facilities begins in year $x + 1$ and ends in year $x + 3$, 50 pre-school institutions are built annually;
- procurement of additional equipment (computers, furniture, etc.) accounts for 20% of the cost of building a pre-school institution;
- costs of newly employed pre-school teachers (salaries, allowances and compensations for employees, social contributions at the expense of the employer) amount to EUR 1,000 gross per month;
- In January of the year $x + 2$, 500 pre-school teachers employed (after the construction of the first 50 preschool institutions), and in the year $x + 3$ 500 pre-school teachers employed in January (after the construction of the other 50 preschool institutions), and in July another 500 (after the construction of all pre-school institutions is completed).
- 20% of the costs of kindergarten construction will be financed from the budget of local self-government units (hereinafter: LSGUs), and the rest of the costs of implementing the measure will be financed from the budget of the Republic of Serbia.

Table 19. Additional costing in the categories: investments and costs for employees

Year	Investments Construction costs		Investments Equipment		Employee costs Costs for employed pre-school teachers		
	Number of pre-school institutions	Construction cost (in euros)	Number of pre-school institutions	Cost of equipment (in euros) ³⁴	Monthly salary (gross, in euros)	Number of months	Number of pre-school teachers
x + 1	50	350,000	50	70,000			
x + 2	50	350,000	50	70,000	1,000	12	500
x + 3	50	350,000	50	70,000	1,000	12	1,000 ³⁵
x + 3					1,000	6	500 ³⁶

Table 20. Aggregate cost overview (in millions of euros)

Year	Investments (construction)	Investments (equipment)	Employee costs	Total
x + 1	17.5	3.5		21
x + 2	17.5	3.5	6	27
x + 3	17.5	3.5	15	36
Total	52.5	10.5	21	84

Note: The costs of hiring pre-school teachers are *recurrent* — the salaries of pre-school teachers employed in year x + 2, must be taken into account when calculating the costs for employees in year x + 3. By contrast, the costs of building and equipping pre-schools are *non-recurrent* — taken into consideration only when costs are calculated in the year in which they are incurred.

The manner of financing the implementation of the measure by year (in millions of euros) is given below.

Year	Budget of the Republic of Serbia (in millions of euros)	LSGU Budget (in millions of euros)	Total (in millions of euros)
x + 1	17.5	3.5	21
x + 2	23.5	3.5	27
x + 3	192	3.5	36
Total	576	144	720

Example 2: Employment incentives

³⁴ Additional equipment makes up 20% of the cost of building pre-schools.

³⁵ Salaries of pre-school teachers employed in year x + 2 are paid, as well as salaries of 500 pre-school teachers employed in January of year x + 3 (for 12 months).

³⁶ The salaries of 500 pre-school teachers who were employed in July of year x + 3 (for six months) are paid.

Description of the measure: The government has adopted a new employment support measure — through subsidies for new jobs — to be implemented by the National Employment Service (hereinafter: the NES). The implementation of the new measure is planned as of the year $x + 2$, and in the year $x + 1$ it is necessary to establish capacities that will manage the implementation of the new measure, i.e. hire and train new officers. The non-recurrent subsidy is 1,000 euros per newly employed worker. Based on the NES projections, in year $x + 2$ it is necessary to provide funds for 2,000 new jobs, and in year $x + 3$, for 2,500 new jobs.

The planned activities for the implementation of the measure are as follows:

- Provision of the capacity to manage the implementation of the new measure by hiring four new counsellors to the NES in year $x + 1$;
- training of newly employed NES officers in year $h + 1$;
- allocation of employment subsidies starting from year $x + 2$.

In order to calculate the costs of carrying out the activity, it is necessary to take into account the following facts:

- Year $x + 1$: costs of newly employed counsellors in the NES (salaries, allowances and benefits for employees, social contributions at the expense of the employer) amount to 1,000 euros gross per month;
- Training of counsellors in the year $h + 1$: the plan is to hold five one-day training sessions, the standard price of training per participant is 500 euros (standard price includes preparation of material, service, hall rental);
- Year $x + 2$: payment of a subsidy of 1,000 euros per new job; 2,000 new jobs are planned;
- Year $x + 3$: payment of a subsidy of 1,000 euros per new job; 2,500 new jobs are planned;
- Financing of the implementation of the measure is planned from the budget of the Republic of Serbia, from source 01 – *Revenues from the budget*, except for training of newly employed NES officers, financed from source 56 – *Financial assistance of the European Union*.

Table 21. Additional costing in the category of costs for employees, use of goods and services, subsidies and transfers

Year	Employee costs (salaries, allowances, compensations, contributions)			Use of goods and services Training course			Subsidies (In euros)	
	Monthly salary (in euros)	Number of months	Number of NES counsellors	Number of trainees	Number of training sessions	Standard training price (in euros)	Number of planned new jobs	Amount of subsidy per new job
$x + 1$	1,000	12	4	4	5	500	0	1,000
$x + 2$	1,000	12	4				2,000	1,000
$x + 3$	1,200	12	4				2,500	1,000

Table 22. Aggregate cost overview (in thousands of euros).

Year	Employee costs	Use of goods and services	Subsidies	Total
$x + 1$	48	10	0	58

x + 2	48	0	2,000	2,048
x + 3	48	0	2,500	2,548
Total	144	10	4,500	4,654

The method of funding and sources of funding the implementation of the measure by year (in thousands of euros) are shown below.

Year	Budget of the Republic of Serbia – source 01	Budget of the Republic of Serbia – source 56	Total
x + 1	48	10	58
x + 2	2,048	0	2,048
x + 3	2,548	0	2,548
Total	4,644	10	4,654

Example 3: Enhancement of financial control and audit

Description of the measure: in order to ensure effective financial control and internal audit, efficient and effective financial inspection, as well as implementation of measures to protect the financial interests of the European Union, the Government adopted a measure improving the legislative framework in financial management and increasing the capacity of the Central Harmonisation Unit

The planned activities for the implementation of the measure are as follows:

- Development of the Rulebook on Common Criteria and Standards for Organising, Acting and Reporting on Financial Management and Control (Rulebook), as well as drafting the Instructions for Financial Management and Control (Instructions) in the year h + 1;
- Development of software for the needs of the Central Harmonisation Unit;
- Procurement of computers for the needs of the Central Harmonisation Unit.

In order to calculate the costs of carrying out the activity, it is necessary to take into account the following facts:

- Year x + 1: engaging two local experts for 30 working days each to support the Ministry of Finance in drafting the Rulebook and Instructions; the average working day price of a local expert is 150 euros;
- Year x + 1: hiring one international expert for 60 days; the price of a working day of an international expert is 650 euros;
- Year x + 1: establishment of a Working Group for the purpose of drafting the Rulebook of 10 members. The working group will hold 30 working meetings in 2020. The meetings are also attended by two experts;
- Participation in the working group is free of charge for civil servants. The cost of service is two euros per person, per meeting;

- Year $x + 2$: hiring one local expert for 30 working days to support the Ministry of Finance in software development (determining functional and technical specifications). The software is developed by IT experts who are permanently employed in the Ministry of Finance;
- Year $h + 3$: procurement of 20 computers from a bilateral donation (direct donor support);
- In order to determine the average purchase price of one computer with the required specifications, an inquiry was sent to the email addresses of several companies that sell computer equipment. The answer was given by three companies: Company A made an offer at 600 euros per piece, Company B made an offer at 700 euros per piece, Company C made an offer at 800 euros per piece. The average reference price method was used to determine the unit price of a computer.

Table 23. Additional costing in the categories of use of goods and services and investments (prices are expressed in euros)

Year	Use of goods and services									Investments	
	Local expert			International expert			Catering costs			Computers	
	Number of experts	Number of days	Price per day	Number of experts	Number of days	Price per day	Number of participants	Number of meetings	Price per participant	Number of pieces	Average price
$x + 1$	2	0	50	1	0	50	12	30	2	0	0
$x + 2$	1	0	50	0	0	0				0	0
$x + 3$	0	0	0	0	0	0				20	700

Table 24. Aggregate cost overview (in euros)

Year	Use of goods and services	Investments	Total
$x + 1$	48,720	0	48,720
$x + 2$	14,500	0	14,500
$x + 3$	0	14,000	14,000
Total	63,220	14,000	77,220

The manner of funding the implementation of a measure by year (in euros) is provided below.

Year	Budget of the Republic of Serbia (in euros)	Direct donor support (in euros)	Total (in euros)
$x + 1$	48,720	0	48,720
$x + 2$	14,500	0	14,500
$x + 3$	0	14,000	14,000
Total	63,220	14,000	77,220

Example 4: Implementation of energy policy — infrastructural works

Description of the measure: In order to establish the national and regional natural gas market by 2025, the Government plans to implement a measure to build a functional gas interconnection with one country in the region. The Ministry plans to prepare planning and technical documentation during 2020 and to carry out works on the construction of the gas interconnection in 2021 and 2022, after the preparation of planning and technical documentation. The assessment of the value of the construction of the gas interconnection is the result of the expert assessment of experts in the field of energy, as well as the assessment based on international experience in the construction of kilometres of gas connection.

The planned activities for the implementation of the measure are as follows:

- preparation of planning and technical documentation;
- construction of gas interconnection;
- supervision over the execution of gas interconnection construction works.

In order to calculate the costs of carrying out the activity, it is necessary to take into account the following facts:

- Year $x + 1$: external experts (100 days, national senior consultants) will be hired to support the Ministry in the preparation of planning and technical documentation. This support will be financed from IPA funds (direct donor support to the Ministry);
- The value of the project is 80,000,000 euros, 60% of the value of the project will be realised in the year $x + 2$ and 40% in the year $x + 3$.
- The value of supervision (contract service) over the execution of works is 2% of the project value (based on the “historical” price of the service), 50% of the value of supervision costs will be financed in year $x + 2$, and 50% in year $x + 3$.
- Construction and supervision costs are financed from a loan from the European Bank for Reconstruction and Development (hereinafter: the EBRD).

Table 25. Additional costing in the categories of use of goods and services and investments (prices in euros)

Year	Use of goods and services		Investments
	Number of days	National senior expert, price per day	Interconnection construction
x + 1	200	250	0
x + 2		800,000 ³⁷	48,000,000
x + 3		800,000 ³⁸	32,000,000

Table 26. Aggregate cost overview (in euros)

Year	Goods and services	Investments Capital expenditures	Total
x + 1	50,000	0	50,000
x + 2	800,000	48,000,000	48,800,000
x + 3	800,000	32,000,000	32,800,000
Total	1,650,000	80,000,000	81,650,000

The manner and source of funding the implementation of a measure by year (in euros) is provided below.

Year	Budget of the Republic of Serbia — Source 11 – Income from foreign borrowings (EBRD loan)	Direct donor support (IPA)	Total
x + 1	0	50,000	50,000
x + 2	48,800,000	0	48,800,000
x + 3	32,800,000	0	32,800,000
Total	81,600,000	0	81,650,000

³⁷ Based on the "historical" price of the service.

³⁸ *Ibid.*

Example 5: Increasing the availability of care services for children, the elderly and people with disabilities

Description of the measure: The Government plans to create new services in the next three years, in accordance with the Gender Equality Strategy, as well as to increase the availability and accessibility of existing services for the care of children, the elderly and people with disabilities.

The planned activities for the implementation of the measure are as follows:

- Development of an analysis of the situation and packages of new, or improved existing services for the care of children, the elderly and persons with disabilities at the local level;
- Testing the provision of new services in five municipalities;
- Increase in the availability of pre-school education through increasing subsidies for private pre-school institutions.

In order to calculate the costs of carrying out the activity, it is necessary to take into account the following facts:

- In year $x + 1$: to support the Ministry in making an analysis of the situation and a package of new services, it is necessary to hire three local experts for 20 days, with an average cost of engagement of 150 euros per day. Support is financed from IPA funds (direct donor support);
- In years $x + 2$ and $x + 3$: the estimated average cost of a new service being tested in municipalities is € 1,000 per user, and it is projected that the services will be used by 1,250 users per year (in all municipalities). These new services are financed from the local government budget (through the service contract);
- In year x (baseline year), the subsidy for private pre-school institutions amounted to 20,000,000 euros. It is financed from the budget of the Republic of Serbia;
- In year $x + 1$: subsidies for private pre-schools are at the level of baseline (h) year
- In year $x + 2$ and $x + 3$ subsidies increase by 10% compared to baseline year (h). It is financed from the budget of the Republic of Serbia.

Table 27. Additional costing in the categories of goods and services — expert services and subsidies (prices in euros)

Year	Goods and services Local expert			Subsidies to private pre- schools	Goods and services Testing service delivery in LSGUs		
	Number of experts	The number of days	Price per day		Number of service users	Cost per service user	Total service delivery testing
$x + 1$	3	20	150	0 ³⁹	0	0	
$x + 2$	0	0	0	2,000,000	1,250	1,000	1,250,000
$x + 3$	0	0	0	2,000,000	1,250	1,000	1,250,000
Total	9,000			4,000,000	2,500,000		

³⁹ In year x , no additional cost is incurred as the amount of subsidies to private pre-schools is at the level of the baseline year.

Table 28. Aggregate cost overview (in thousands of euros).

Year	Goods and services	Subsidies	Total
$x + 1$	9	0	9
$x + 2$	1,250	2,000	3,250
$x + 3$	1,250	2,000	3,250
Total	2,509	4,000	6,509

The manner of funding the implementation of the measure by year (in thousands of euros) is provided below.

Year	Budget of the Republic of Serbia	Direct donor support (IPA)	LSGU budget	Total
$x + 1$	0	9		9
$x + 2$	2,000	0	1,250	3,250
$x + 3$	2,000	0	1,250	3,250
Total	4,000	9	2,500	6,509

Example 6: Development of a new strategy

Description of activities: The Ministry plans to develop a new strategy. The development of the strategy will begin in the year $x + 1$, the end of the activities is planned in the year $x + 2$. In addition to the employees of the Ministry, external experts will be engaged in the development of the strategy, and public consultations will be organised in five cities. The basic elements of the strategy will be presented in a separate publication in order to present the strategy to the target groups.

In order to calculate the costs of the activity, it is necessary to take into account the following facts:

- In year $x + 1$: hiring two national senior experts, the standard price of an expert per day is 30,000 dinars, each expert will be hired for 30 days;
- In year $x + 1$: organising public consultations in five cities, the standard price of renting a room is 30,000 dinars per day, the standard price of making a promotional [gift] package (folder, pen, notebook) is 110 dinars, the plan is to make 200 marketing sets;
- In year $x + 2$: the plan is to print the publication in 200 copies, the publication has 25 pages, the standard price of prepress and design is 240 dinars, the standard price of printing per page is 12 dinars.
- Development of strategy, public consultation and preparation and printing of the publication is paid from the budget of the Republic of Serbia.

Handbook for determining the costs of public policies and regulations

Table 29. Additional costing in the category of goods and services — consulting services, consultations, publications

Activity	Year	Cost category	Cost subcategory	Standard cost name (unit of measure)	Standard price (in dinars)	Quantity	Total cost (in dinars)
Strategy X development	$x + 1$	42 – Use of services and goods	Consulting services	National senior expert (per day)	30,000	60	1,800,000
	$x + 1$	42 – Use of services and goods	Training sessions/conferences/seminars	Promotional [gift] package (folder, pen, notebook)	110	200	22,000
	$x + 1$	42 – Use of services and goods	Training sessions/conferences/seminars	Premises rental	30,000	5	150,000
	$x + 2$	42 – Use of services and goods	Publications	Prepress, design (per page)	240	25	6,000
	$x + 2$	42 – Use of services and goods	Publications	Print (per page)	12	5,000	60,000

Aggregate cost overview (in thousands of euros)

Year	Goods and services	Total
$x + 1$	1,972,000	1,972,000
$x + 2$	66,000	66,000
$x + 3$	0	0
Total	2,038,000	2,038,000

The planned activity will be financed entirely from the budget of the Republic of Serbia.

Appendix 3 — Expenditures and expenses classes and categories

All changes in expenditures and expenses in the FIA Form are recorded within classes 4, 5 and 6. They represent the economic classification at the second level of aggregation and are determined by the chart of accounts, as categories and groups of expenditures and expenses within these classes.

CLASS 400000 – current expenditures contain categories that are analytically divided into groups.

Category 410000 – Employee expenditure divided into 411000 *salaries* and 412000 *social contributions*.

Category 420000 – use of services and goods containing groups: 421000 – *fixed costs*; 422000 – *travel expenses*; 423000 – *contract services*; 424000 – *specialised services*; 425000 – *regular repairs and maintenance*; **426000 – material.**

Category 440000 – repayment of interest and related borrowing costs and it includes groups: 441000 – *repayment of national interest*; 442000 – *repayment of foreign interest*; 443000 – *repayment of interest on guarantees*; 444000 – *accompanying borrowing costs*.

Category 450000 – subsidies contains groups: 451000 – *subsidies to public non-financial companies and organisations*; 452000 – *subsidies to private financial institutions*; 453000 – *subsidies to public financial institutions*; 454000 – *subsidies to private companies*.

Category 460000 – donations, grants and transfers contains the following groups: 461000 – *donations to foreign governments*; 462000 – *grants to international organisations*; 463000 – *transfers to other levels of government*; 464000 – *grants to organisations for compulsory social security*; 465000 – *other grants and transfers*.

Category 470000 – social security and social protection contains groups: 471000 – *rights from social security (organisations for compulsory social security)*; 472000 – *social protection benefits from the budget*. Group 471000 – *rights from social security (organisations for compulsory social security)* contains *synthetic accounts*, as follows: 471100 – *rights from social security that are paid directly to households*; 471200 – *social security rights paid directly to service providers*; 471900 – *transfers to other organisations for compulsory social security for security contributions*.

Category 480000 – other expenditures containing groups: 481000 – *grants to non-governmental organisations*; 482000 – *taxes, mandatory fees, penalties and interest*; 483000 – *finances and penalties by court decision*; 484000 – *compensation for damages or injuries caused by natural disasters or other natural causes*; 485000 – *compensation for injuries or damage caused by state authorities*; 489000 – *expenditures financed from the funds for the implementation of the national investment plan*.

Category 490000 – administrative transfers from the budget, from direct budget users to indirect budget users or between budget users at the same level and reserve funds contains groups: 494000 – *current expenditures*; 495000 – *expenses for non-financial assets*; 496000 – *expenses for repayment of principal and acquisition of financial assets*; 499000 – *reserve funds*.

CLASS 5 (expenditures and expenses that are marked with 500000 by the Decree on Accounting and Classifications) contains expenses for non-financial assets. These expenses are divided into the following categories: 510000 – *fixed assets*; 520000 – *stocks*; 530000 – *valuables*; 540000 – *natural assets*; 550000 – *non-financial assets financed from the funds for the implementation of the National Investment Plan* (for more detailed elaboration see the Rulebook on the Standard Classification Framework and Chart of Accounts for the Budget System).

CLASS 6 (600000) contains expenditures for repayment of principal and acquisition of financial assets and this class contains only one category. This is category 620000 – acquisition of financial assets. Acquisition of financial assets contains groups on which the acquisition of financial assets is recorded by approving the current account and debiting the appropriate sub-analytical accounts in category 110000 – long-term financial assets and group 123000 – short-term placements, while debiting the appropriate sub-analytical accounts of

expenditures from this category and approving sub-analytical account 699999 – counter-entry – expenses for repayment of principal and acquisition of financial assets.

Appendix 4 — Examples of completed FIA Form — the part referring to expenditures and expenses

Example 1: Below is an example of a completed FIA Form for the activity of drafting Law XY, on the proposal of which, in addition to employees of Ministry A, external experts will work in years n and $n + 1$. In the current year (n) hiring experts costs 10,000,000 dinars (starting in October) and funds are provided in the budget of Ministry A. In the year $n + 1$, the labour costs of the consultants amount to 60,000,000 dinars and their funding from the budget is planned.

Table 30. Example of a completed FIA Form when external experts financed from the budget work on drafting Law XY (in addition to employees in Ministry A) (source 01)

Description	Funds provided in the budget and/or through redirection of appropriations	Expected increase / decrease in the budget year (n)			Proposal for the fiscal year ($n + 1$)			Proposal for the fiscal year ($n + 2$)		
		Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total
1	2	3	5	6	7	8	9	10	11	12
2.3. CHANGE IN EXPENDITURES AND EXPENSES (CLASS 4 AND 5 AND GROUP 62)										
Class 4										
41 – Expenditures for employees										
of which:										
411 Salaries, allowances and compensation of employees										
412 Social contributions at the expense of the employer										
42 – Use of services and goods	10,000				50,000		50,000	-50,000		-50,000
44 – Repayment of interest and associated borrowing costs										
45 – Subsidies										
46 – Donations, grants and transfers										
47 – Social security and social protection										
48 – Other expenditures										

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49 – Administrative transfers from the budget, from direct budget users to indirect budget users or between budget users at the same level and reserve funds										
Total class 4:	10,000				50,000		50,000	-50,000		-50,000
Class 5										
51 – Fixed assets										
52 – Stocks										
53 – Valuables										
54 – Natural assets										
55 – Non-financial assets financed from the funds for the implementation of the National Investment Plan										
Total class 5:										
Class 6										
62 – Acquisition of financial assets										
Total class 6 (without 61):										
Total 2.3. (class 4 + class 5 + group 62)	10,000				50,000		50,000	-50,000		-50,000

NOTE: Given that the implementation of activities ends in year $n + 1$ and will not cause any costs in year $n + 2$, the impact on the budget is negative in year $n + 2$ (compared to the previous year, i.e. year $n + 1$).

Below is an example of a completed FIA Form for the same activity of drafting Law XY, with the proviso that in year n the funds for the payment of external experts are not planned in the budget for year n .

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Table 31. Example of a completed FIA Form when external experts financed from the budget work on the drafting of Law XY (with employees in the Ministry A) (source 01), and funds for their engagement in the current year are not provided

Description	Funds provided in the budget and/or through redirection of appropriations	Expected increase / decrease in the budget year (n)			Proposal for the fiscal year (n + 1)			Proposal for the fiscal year (n + 2)		
		Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total
1	2	3	5	6	7	8	9	10	11	12
2.3. CHANGE IN EXPENDITURES AND EXPENSES (CLASS 4 AND 5 AND GROUP 62)										
Class 4										
41 – Expenditures for employees										
of which:										
411 Salaries, allowances and compensation of employees										
412 Social contributions at the expense of the employer										
42 – Use of services and goods		10,000		10,000	50,000		50,000	-50,000		-50,000
44 – Repayment of interest and associated borrowing costs										
45 – Subsidies										
46 – Donations, grants and transfers										
47 – Social security and social protection										
48 – Other expenditures										
49 – Administrative transfers from the budget, from direct budget users to indirect budget users or between budget users at the same level and reserve funds										
Total class 4:		10,000		10,000	50,000		50,000	-50,000		-50,000
Class 5										

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51 – Fixed assets										
52 – Stocks										
53 – Valuables										
54 – Natural assets										
55 – Non-financial assets financed from the funds for the implementation of the National Investment Plan										
Total class 5:										
Class 6										
62 – Acquisition of financial assets										
Total class 6 (without 61):										
Total 2.3. (class 4 + class 5 + group 62)		10,000		10,000	50,000		50,000	-50,000		-50,000

If in the current budget year it is planned to finance activities determined in the public policy document for which funds are not provided in the current budget, it is possible to redistribute appropriations or from the budget reserve to provide the necessary funds in the current year. Otherwise, the implementation of activities is postponed to the next budget year or the necessary funds may be provided in the supplementary budget.

Example 2: An example of a completed FIA Form when the implementation of activities from the public policy document affects the increase in the number of employees.

The action plan starts to be implemented in the year *n*. Implementation of the activities from the Action Plan requires the employment of five new officers in body A. The Rulebook on the Organisation and Job Classification systematises 140 jobs, but only 111 job positions have been filled. Since public competitive recruitment procedures last for a long time, employment is expected only in the next budget year, that is in budget year *n* + 1.

Assuming that the average gross salary of an employee in body A is 82,474 dinars (12 months), the annual cost of gross salary of one employee is 989,688 dinars, and for five employees 4,948,440 dinars. To that sum, contributions for five employees in the amount of 1,448,880 dinars are added at the expense of the employer.

Therefore, the necessary funds for the employment of five new employees amount to 6,397,320 dinars per year, and that amount is expressed in the column *Proposal for the fiscal year n + 1 (budget funds)*. Since competitive recruitment will be conducted in year *n*, it is also expected that all five employees will start working on January 1 of year *n* + 1. In the column *Proposal for fiscal year n + 2 (Budget funds)* there is no increase in funds because for year *n* + 1, there is no increase. The financial impact is always estimated

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compared to the previous year, and in the given example in the year $n + 1$, new employees were hired and then the impact on the budget arose.

Table 32. Example of when the implementation of activities from a public policy document affects the increase in the number of employees

Description	Funds provided in the budget and/or through redirection of appropriations	Expected increase / decrease in the budget year (n)			Proposal for the fiscal year (n + 1)			Proposal for the fiscal year (n + 2)		
		Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total
1	2	3	5	6	7	8	9	10	11	12
2.3. CHANGE IN EXPENDITURES AND EXPENSES (CLASS 4 AND 5 AND GROUP 62)										
Class 4										
41 – Expenditures for employees					6,396		6,396	0		0
of which:					4,948		4,948	0		0
411 Salaries, allowances and compensation of employees					1,448		1,448	0		0
412 Social contributions at the expense of the employer										
42 – Use of services and goods										
44 – Repayment of interest and associated borrowing costs										
45 – Subsidies										
46 – Donations, grants and transfers										
47 – Social security and social protection										
48 – Other expenditures										
49 – Administrative transfers from the budget, from direct budget users to indirect budget users or between budget users at the same level and reserve funds										
Total class 4:					6,396		6,396			

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Class 5										
51 – Fixed assets										
52 – Stocks										
53 – Valuables										
54 – Natural assets										
55 – Non-financial assets financed from the funds for the implementation of the National Investment Plan										
Total class 5:										
Class 6										
62 – Acquisition of financial assets										
Total class 6 (without 61):										
Total 2.3. (class 4 + class 5 + group 62)					6,396		6,396	0		0

Note: in year $n + 2$ the impact on the budget is zero — all new employees are employed in year $n + 1$. After that, the level of expenditures and expenses remains the same in year $n + 2$ as in year $n + 1$ (employment of new employees is recurrent cost, i.e. their salaries will be paid in the year $n + 2$ and in the following years).

However, if three employees were to start working on 1 January of the year $n + 1$, and two employees only from the middle of the year $n + 1$, the table would be completed in a different way. In that case, in the year $n + 1$, the salaries for three employees are expressed for a full twelve months (2,969,064 dinars), and for two employees for half a year (989,688 dinars). The total expenditure for employees is expressed by adding salaries and contributions at the expense of the employer (1,159,104 dinars), which amounts to 5,117,856 dinars. However, in year $n + 2$ it is necessary to show the difference to the total annual cost, i.e. how much more funds need to be provided in $n + 2$ year compared to year $n + 1$. This means that in year $n + 2$, it is necessary to show another semi-annual cost for two employees who in year $n + 1$ received a salary for only half a year, and in year $n + 2$ for the whole year. It is the amount of 989,688 dinars for salaries and 289,776 dinars for contributions, which together makes a total cost of 1,279,464 dinars.

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Table 33. Example of a completed FIA Form when the implementation of activities from a public policy document affects the increase in the number of employees in different years

Description	Funds provided in the budget and/or through redirection of appropriations	Expected increase / decrease in the budget year (n)			Proposal for the fiscal year (n + 1)			Proposal for the fiscal year (n + 2)		
		Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total
1	2	3	5	6	7	8	9	10	11	12
2.3. CHANGE IN EXPENDITURES AND EXPENSES (CLASS 4 AND 5 AND GROUP 62)										
Class 4										
41 – Expenditures for employees					5,118		5,118	1,280		1,280
of which:										
411 Salaries, allowances and compensation of employees					3,959		3,959	990		990
412 Social contributions at the expense of the employer					1,159		1,159	290		290
42 – Use of services and goods										
44 – Repayment of interest and associated borrowing costs										
45 – Subsidies										
46 – Donations, grants and transfers										
47 – Social security and social protection										
48 – Other expenditures										
49 – Administrative transfers from the budget, from direct budget users to indirect budget users or between budget users at the same level and reserve funds										
Total class 4:					5,118		5,118	1,290		1,290
Class 5										

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51 – Fixed assets										
52 – Stocks										
53 – Valuables										
54 – Natural assets										
55 – Non-financial assets financed from the funds for the implementation of the National Investment Plan										
Total class 5:										
Class 6										
62 – Acquisition of financial assets										
Total class 6 (without 61):										
Total 2.3. (class 4 + class 5 + group 62)					5,118		5,118	1,290		1,290

Example 3: Example of a completed FIA Form when funds are required in the current year provided through redirection of appropriations

The action plan envisages the development of a new database in year $n + 1$, and the precondition is the procurement of ICT equipment in year n . The necessary funds for the purchase of equipment of 7,000,000 dinars were provided in the budget for the current year and the funds will be provided in the budget of the Ministry A by redistribution of appropriations. Also, in year n , 1,000,000 dinars are needed for services under the contract (the cost of associates who will collect data and enter them into the database), which will achieve 15% completion of the database. These funds will be provided in the current year by redirecting appropriations from class 48. In the year $n + 1$, the costs of hiring associates amount to 3,000,000 dinars.

Table 34. Example of a completed FIA Form — redirection of appropriations (in thousands of dinars)

Description	Funds provided in the budget and/or through redirection of appropriations	Expected increase / decrease in the budget year (n)			Proposal for the fiscal year ($n + 1$)			Proposal for the fiscal year ($n + 2$)		
		Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total	Sources (1, 10, 11)	Other sources	Total

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1	2	3	5	6	7	8	9	10	11	12
2.3. CHANGE IN EXPENDITURES AND EXPENSES (CLASSES 4 AND 5 AND GROUP 62)										
Class 4										
41 – Expenditures for employees										
of which:										
411 Salaries, allowances and compensation of employees										
412 Social contributions at the expense of the employer										
42 – Use of services and goods	1,000				2,000		2,000	-2,000		-2,000
44 – Repayment of interest and associated borrowing costs										
45 – Subsidies										
46 – Donations, grants and transfers										
47 – Social security and social protection										
48 – Other expenditures	-1,000									
49 – Administrative transfers from the budget, from direct budget users to indirect budget users or between budget users at the same level and reserve funds										
Total class 4:	0				2,000		2,000	-2,000		-2,000
Class 5										
51 – Fixed assets	7,000				-7,000		-7,000			
52 – Stocks										
53 – Valuables										
54 – Natural assets										
55 – Non-financial assets financed from the funds for the implementation of the National Investment Plan										
Total class 5:	7,000				-7,000		-7,000			

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Class 6										
62 – Acquisition of financial assets										
Total class 6 (without 61):										
Total 2.3. (class 4 + class 5 + group 62)	7,000	0		0	0		-5,000	-2,000		-2,000