

COST COVERAGE

HANDBOOK OF CALCULATION OF FEES
FOR ADMINISTRATIVE PROCEDURES BASED
ON THE COST COVERAGE MODEL



Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government



Schweizerische Eidgenossenschaft
Confédération suisse
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Federal Department of Economic Affairs,
Education and Research EAER
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In case of any questions regarding the Manual on Cost Recovery and for requests for support on using this Manual, please contact the following Department of Office of the Prime Minister:

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CONTENTS

6 | LIST OF ABBREVIATIONS

1. INTRODUCTION

2. WHAT IS THE COST COVERAGE PRINCIPLE?

- 9 | Who should perform the measurement?

3. PERFORMING STEP BY STEP CALCULATIONS

- 11 | STEP 1: Reviewing the legal basis and deciding on the application of the cost recovery principle.
- 12 | STEP 2: Separation of AP provision into different activities
- 13 | STEP 3: Costing the AP provision and completing the cost recovery model.
 - Identification and categorization of costs into direct and indirect costs
 - Measurement of direct and indirect costs and the attribution of indirect costs to the total cost for issuing AP
 - Completing the Cost Coverage Model
- 18 | STEP 4: Finalizing the relevant legal act.
- 18 | STEP 5: Regular cost reviews

ANNEXES

- 19 | Annex 1: Template file

List of Abbreviations

KSA	Kosovo Statistical Agency
AB	Administrative Burden
EU	European Union
CD	Concept Document
EC	European Commission
P&L	Permits & Licenses
SCM	Standard Costing Model
NGO	Non-Government Organizations
AP	Administrative Procedures
OPM	Office of the Prime Minister
SPO	Strategic Planning Office

1. Introduction

Public institutions (ministries and independent central level agencies as well as municipalities) offer a diverse range of administrative services so-called Administrative Procedures (AP) which include the provision of permits, licenses (P&L), authorizations, certificates, etc. The preferred practice for determining fees/taxes for administrative procedures is cost recovery, which requires that fees for issuing APs reflect and not exceed the costs incurred by the public institution related to issuing APs. This practice is also reflected in the legal framework of Kosovo. The Law on the System of Permits and Licenses (Law No. 04/L-202), namely its article 18, states that the fees that a competent authority may charge for a permit shall not exceed the amount necessary to cover the expenses incurred by the competent authority to administer the permit¹. On the other hand, the Law on General Administrative Procedure (Law No. 05/L 031), article 12, first paragraph states that, the administrative procedure is free of charge for the applicant, except in cases where otherwise provided by law². When payment is provided by law, it cannot be higher than the average cost necessary for the development of the relevant type of administrative procedure³. The third paragraph of Article 12 allows a public body to decide to provide total or partial exemption from the payment defined by law.

Based on this legal framework, public institutions are allowed to not apply any fees for the administrative procedure or may apply principles of full or partial cost coverage when setting the fee levels for issuing AP. Therefore, this Handbook will focus on the principles of full or partial cost recovery and how these principles can be used in setting fees or charges for APs.

In practice, there are concerns that many of such fees are set without detailed cost calculations and therefore do not follow the principle of cost recovery. Therefore, it is important to know if the fees or charges that were determined by public institutions at the central level (ministries, independent agencies) as well as those determined by local government (municipalities) for PA provided at the municipal level, reflect the principle of cost coverage. Even if the fees determined are calculated on basis of detailed cost, such fees must be reviewed in certain intervals (usually five years) to conclude whether they are defined at the appropriate level that would enable full or partial cost coverage. This Handbook will outline the comprehensive framework and detailed methodology that can be applied to calculate the costs of determining fees (or revising fees that have already been imposed) for AP and provides detailed steps and an example of how such a calculation can be carried out. The handbook also includes a complementary tool, which is the cost recovery calculation model, which will help public institutions to collect and enter all the information related to costs into the model and it will in turn calculate the cost of issuing an AP automatically.

1 Law can be found on this link: <https://gjk.rks-gov.net/ActDetail.aspx?ActID=8967>

2 Law can be found on this link: <https://gjk.rks-gov.net/ActDetail.aspx?ActID=12559>

3 Second paragraph of Article 12

2. What is the cost coverage principle?

The principle of cost recovery is used in the process when public institutions (central and local) wish to charge the non-governmental sector (businesses, citizens, and NGOs) with a part (partial cost recovery) or all costs (full cost recovery) of a certain institutional activity, in this case, the costs incurred during the performance or issuance of PA. The principle of cost recovery also promotes sustainable, transparent, and responsible tax policy for public sector activities and supports the appropriate use of public and national resources.

The principle of cost coverage aims to provide an approximation between the expenses during performance of the institutional activity (in this case the costs incurred in the provision of AP) and the income (generated from the fees for provision of AP). This principle assumes that there are some costs that can be specifically allocated to a single activity (e.g providing the AP), while there are other costs that can be termed or classified as overhead or indirect costs that are created during the performance of some services and other activities. This method determines the total costs, direct and indirect, of providing an AP. The total cost (direct and indirect) of providing the AP becomes the fee to be charged for issuing the AP. The cost recovery fee should be charged to the AP applicant (in this case businesses, citizens and/or NGOs).

This Handbook can be used by all public institutions providing AP (e.g ministries, municipalities⁴ and independent agencies) which have a legal basis and are supported by secondary legislation to charge fees for the provision of AP.

Who should perform the measurement?

The staff of public institutions should be responsible for performing cost recovery analyses for setting fees for PA issued by such public institutions. This means that staff of public institutions must follow every step defined by this handbook to identify and document the costs associated with the provision of PA and use the results of this analysis in the legal act that determines the fees or charges for the PA. They are also obliged to review such cost calculations within the timeframe set forth in this Handbook.

However, any measurement should be done in close cooperation with the Office for Strategic Planning (OSP) of the Office of the Prime Minister (OPM). The OSP supports line ministries, municipalities and independent agencies with training, practical support, and advice during the measurement process to ensure that the cost recovery analysis for setting fees for provision of AP is applied consistently and within the framework defined in this handbook.

4 For detailed implementation of this handbook for municipalities, please see page 11 of the handbook.

3. Performing step by step calculations

This part of the Handbook provides practical guidance on each stage/step of the cost recovery calculation process for AP issuance.

STEP 1: Reviewing the legal basis and deciding on the application of the cost recovery principle.

The first step is to review the legal act that regulates the provision of AP, comparing it with other framework laws that regulate the provision of AP (such as the Law on the System of Permits and Licenses⁵ and the Law on General Administrative Procedure)⁶. These reviews will help the public institution determine:

- if there is justification or legal basis to charge a fee for AP application; and if so,
- to decide whether any fee will be charged for AP application; and if so,
- if the fee will be applied according to the full or partial cost recovery principle?

Full cost recovery means when the entire cost of issuing AP is charged to applicants, while partial cost recovery means when part (not all) of the cost of issuing AP is charged to applicants in the form of a fee. The non-application of any fee occurs when a public institution decides to cover the entire cost of issuing an AP and does not apply any burden to its applicants (e.g when a fee for applying for an AP is 0 euro).

STEP 2: Separation of AP provision into different activities

If a public institution identifies that there is a legal basis to apply fees for AP provision and decides to charge fees on basis of full or partial cost recovery, then as a next step, such public institution must separate the AP process into different activities. Dividing the AP process into separate activities means dividing the AP process into different processes which the institution must be involved in when issuing an AP.

As an example, the following activities may be included in the assessment of application for a particular permit:

- Accepting the application (with attached documents)
- Checking accuracy of the information provided in the application as well as the attached documents,
- Evaluating the application
- Decision making
- Notification of decision to the applicants

As can be expected, each individual activity will have a cost attributed to it. Dividing the AP process into separate activities enables linking the costs for each activity so that it is possible to identify and calculate the total cost of issuing an AP. This process will be explained in more detail in step 3.

5 Law No. 04/L-202

6 Law No. 05/L-031

Example:

As part of the AP simplification process, licenses for import and wholesale of cigarettes have been selected as a priority procedure for measuring the fees in accordance with the coverage cost principle. Let's assume that the legal acts that regulate granting of the license (which are Law No. 04/L-041 on Production, Collection, Processing and Trading of Tobacco as well as Administrative Instruction (MTI) No. 04/2016 on Determining the Conditions and Criteria for Entities Dealing with the Trading of Tobacco and its Products) have been evaluated and compared with the framework laws that define the AP and it has been proven that there is legal justification for the imposition of this license fee. In addition, let's assume that the Ministry has decided to apply the full cost recovery principle in determining the application fee for this license. The following activities are defined for this AP process:

- Accepting the application (with attached documents)
- Checking accuracy of information provided in the application and the attached documents.
- Application assessment by a special committee
- Decision making
- Notification of decision to the applicants

STEP 3: Costing the AP provision and completing the cost recovery model.

Once public institutions have broken down the AP issuance process into separate activities, the relevant costs must be identified and attributed to AP issuance. This step involves three different tasks:

- Identification and categorization of costs into direct and indirect costs
- Measurement of direct and indirect costs and the attribution of indirect costs to the total cost of AP provision
- Completing the cost recovery model

Identification and categorization of costs into direct and indirect costs

The cost associated with issuing the AP can be divided into direct and indirect costs.

Direct costs: are the costs derived from the activities or processes that public institutions must undertake during AP provision.

These are expenses that can be directly attributed to an AP, being:

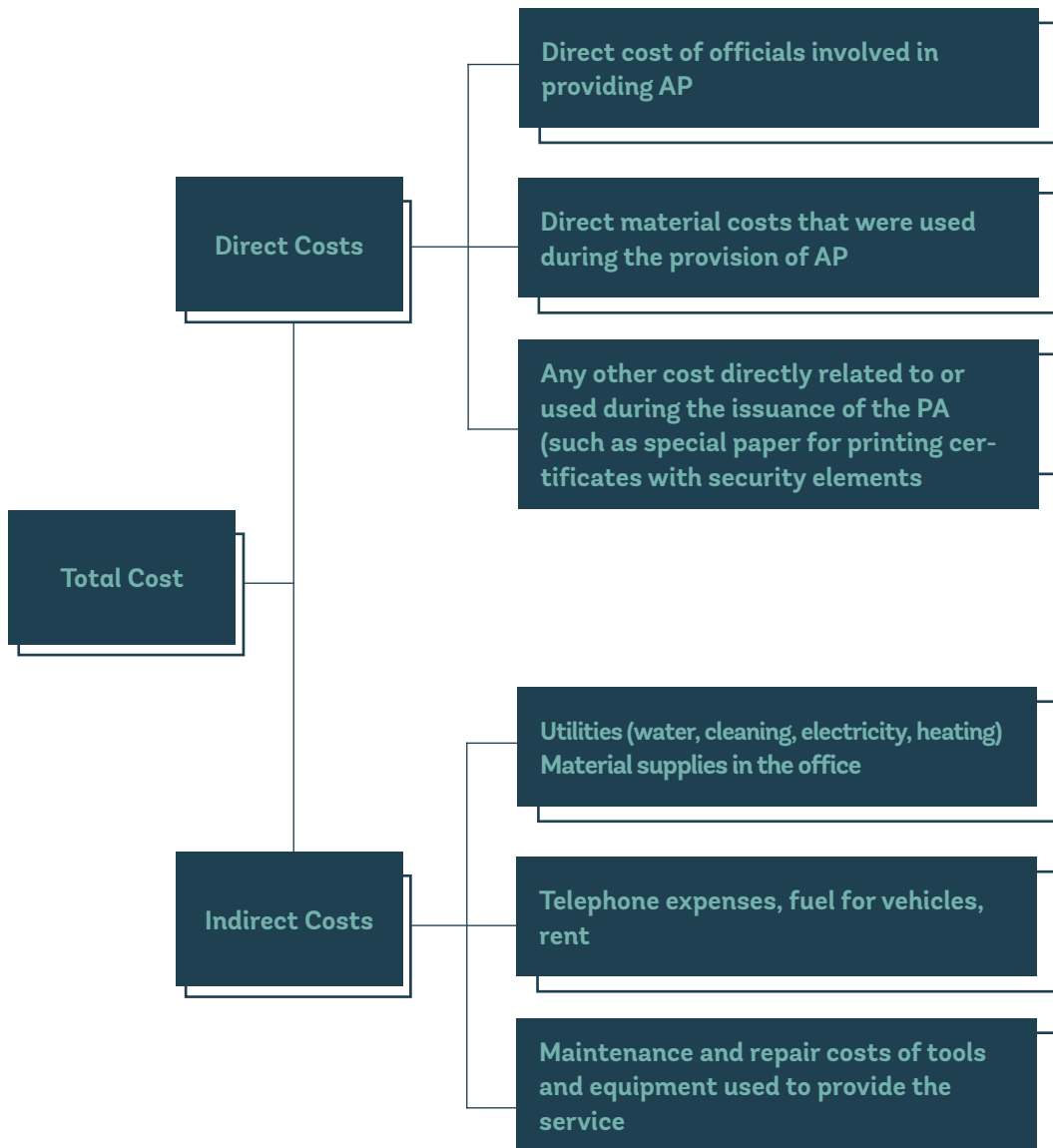
- Direct cost of officials involved in providing AP (salary cost of officials providing AP, time spent to complete the service). The most common direct costs are the salaries (gross) of staff who are engaged in the activities defined in step 2.
- Direct material costs that were used during the provision of AP (if there are available disaggregated data for this); and any other expenses that are directly related to or used for provision of the AP (such as special paper for printing certificates with security elements).

These direct costs must be added together to derive the total direct cost for an AP.

Indirect costs on the other hand are costs that cannot be directly attributed to an AP but nevertheless support the AP provision. Indirect costs are classified as shared costs:

- Utilities (water, cleaning, electricity, heating).
- Material supplies in the office
- Telephone expenses, fuel for vehicles
- Maintenance and repair costs of tools and equipment used to provide the service.
- Lease
- Depreciation of buildings where services are provided, equipment, etc.

Figure 1: Direct and Indirect Costs



Measurement of direct and indirect costs and the attribution of indirect costs to the total cost for issuing AP

In principle, the calculation of cost coverage for AP requires that the measurement is made for a service or for an AP. Thus, the costing process analyzes the AP provision. This Handbook also covers this path. However, if this is not possible in practice, then the costing process can be carried out by looking at the cost of providing the service for a specific period⁷.

Direct costs: Direct costs, as mentioned above, consist of the cost of salaries of officials providing AP, the time spent to complete the service, and any direct expenses (e.g materials) incurred while providing AP. Determining the direct cost resulting from gross personnel salaries depends on the salary level (hourly rate) of the staff involved and the time spent performing each activity related to the provision of AP. For this reason, a public institution must determine how much time their personnel spent on each activity for issuing an AP. If the time required to complete the activities for issuing AP varies from one application to another, the public institution must take the average time needed to complete each activity during the issuance of an AP. On the other hand, the gross hourly wage is calculated by dividing the gross monthly salary of the staff by 168 hours which is considered standard working hours per month. Once the total time required to complete each activity and the gross wages of the personnel involved in performing the activities are entered into the model, the template will automatically calculate the gross hourly wages and direct cost for each activity involved. Information on the gross salary of personnel can be obtained from the Human Resources Department or from the Finance Department.

Indirect costs: All indirect costs, on the other hand, can be obtained from the Finance Department of the relevant public institution. All indirect costs mentioned in step 2 are available from the Finance Department and must be requested from them. Indirect costs or sums of expenses related to indirect costs mentioned in step 2 must be provided for one year.

The indirect cost must first be divided and distributed proportionally to the AP and then it must be added to the direct cost since the indirect cost is associated not only with the AP provision but also with all activities of public institutions. Determining the allocation of indirect cost to the provision of an AP is done automatically by the cost recovery model by using a certain proportion of the indirect cost based on the time spent by staff during the AP process in relation to the total staff time. This indirect cost is then automatically attributed to the total cost of AP provision. To break down the indirect cost into the total cost of AP provision, we must also add the number of total staff working for a public institution.

The cost AP provision is simply the costs, both direct and indirect, incurred by providing the service (i.e providing an AP).

Completing the Cost Coverage Model

All identified cost recovery costs must be entered into a cost recovery template or model to perform the cost calculations. The model is divided into two pages: the first page deals with direct cost and the second page deals with indirect costs. The first page of the template, in addition to the financial calculations, also includes information on the name of the procedure, the legal act that regulates the issuance of the AP, the annual number of applications (optional).

⁷ After all costs for provision of service are identified and completed, the total cost can be divided by the number of applications submitted for the period to define a fee for cost recovery per unit of service. A standard period would be one year or one month.

The first page of the model is related to direct cost and total cost. In the first column of the first page, the user must add all the activities provided for in step 2. In the second column of this page, the public institution must add the number of officials who are involved in performing the permit/license service (for an application). In the third column of this page, the public institution must add the time spent to perform the permit/license service (total per hour for all officials). The fourth column is calculated automatically, and no data is required to be added. In the fifth column, the user must add the gross salary of the staff member engaged for each activity. The sixth column automatically calculates the cost of each activity, and no input needs to be provided. The public institution can provide details in the last column on comments. For example, personnel with different salaries are engaged in the same activity, this can be explained in the comments' column. In this case, the average gross salary of different employees should be entered in the fifth column. All this information must be completed for each activity in the model. In the last line of the part dedicated to activities, the user can add any other costs directly related to issuance of the AP (such as the cost of special paper for printing certificates with security elements. The rest of the first page is calculated automatically. This includes the total direct cost and the total indirect cost (which comes from the second page) and the total cost.

The second page of the template deals with indirect cost. All indirect cost parameters received from the Finance Department should be entered in the second page of the template. In the first column, the public institution must enter all parameters of the indirect cost, while in the second column the amount of expenses for each parameter of the indirect cost is entered. The third column is to enter the total number of personnel working for the respective institution. The last column related to the calculation of indirect cost for an employee is calculated automatically. Therefore, there is no need to add any input.

Once all these inputs are filled in, the total direct cost, total indirect cost, and total cost to provide the AP will be calculated by the model and displayed on the first page of the model. In general, if the data collection is good, working with the costing model will be quite simple.

Example:

Calculation of cost of the license for import and wholesale of tobacco products in accordance with the cost coverage principle

Direct Cost: The first table provides the list of activities and inputs (time spent, gross salary of personnel involved in performing the activities and other expenses related to provision of AP.

Table 1: Direct cost of license for import and wholesale of tobacco products

Cost parameters	Activities				
	Receiving the Application	Checking accuracy of information	Assessment of application	Decision making	Notice of decision
Total time (in hours)	1	1	6	2	2
Gross salary (EUR)	534	534	580	1,033	516
Other expenses			0		

Indirect cost: Similarly, table 2 collects the information below on indirect costs.

Table 2: Indirect cost of license for import and wholesale of tobacco products

Utilities (water, cleaning, electricity, heating)	76 467 €
Telephone	31 025 €
Rent	45 197 €
Supply with various office material	22 538 €
Maintenance and repair of equipment and tools used to perform the service	56 837 €
Fuel for vehicles	26 008 €
Vehicle maintenance expenses	34 642 €
Other indirect expenses	1 971 €
TOTAL INDIRECT COST	294 686 €
Total number of officials in the Ministry	205

Once all this information has been entered, the model will automatically calculate the total direct cost, the total indirect cost (as well as the indirect cost per employee) and reflect a proportional share of the indirect cost and calculate the total cost per PA.

STEP 4: Finalizing the relevant legal act.

The total cost identified by the cost recovery model should be used and reflected in the legal act that regulates imposition of the fees. If total cost is not an absolute number, then institutions may round to the nearest absolute figure and use that figure in the legal text.

STEP 5: Regular cost reviews

In principle, public institutions should revise their cost estimates from time to time to reflect any significant changes in cost parameters in the AP application fee. The cost parameters can in

principle decrease or increase due to inflation or for other reasons. In this case, the fees for the AP may be changed if the review of the cost estimate shows that the total cost for issuing the AP has increased or decreased. However, any change in AP fees also requires revision of the legal act that regulates the AP and the application of fees. Per international best practice, cost recovery reviews are usually done every five years.

Application of Cost Recovery in Municipalities

Municipalities can also use the Handbook in the same way as central level institutions. However, the policy of municipalities or the central government is to have the same fee or charge for all municipalities for specific APs issued by the municipalities, so some additional calculations must be done. In principle, since there are municipalities of different sizes, geographic population and economic development, large variations in cost can be expected, especially if the principles of full cost recovery are followed for different municipalities since each municipality can have different direct and indirect costs. If the municipalities or the central government prefer to have a single fee for one service/AP in all municipalities, then the calculation of cost recovery can be done by looking at the cost of certain municipalities as a sample. There are various sampling techniques used in research. In this case, stratified sampling can be used. The stratified sample involves dividing the population (i.e., 38 municipalities) into different strata or groups, (such as one group from small rural municipalities and another from more urban and larger municipalities) and a sample of municipalities is taken from each layer or group. Setting the cost parameters for each municipality selected from the sample in the cost recovery model will result in quite different results. Then, these cost recovery results for those municipalities that have been selected must be combined and averaged out to have a fee or charge that can be applied to all municipalities. While with the fee set for an AP some municipalities can collect more revenue than the cost created and others cannot cover their costs (variety of fees can reflect the costs for each municipality more adequately), such a situation may not be acceptable to the municipalities and/or the central level government when determining AP fees.

4. Annexes

Annex 1: Template file

Please visit following web-site: <https://kryeministri.rks-gov.net/>

