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20 MARCH 2006

Honourable Minister of Agriculture and Rural Development
Honourable Minister of Aviation
Honourable Minister of Defence
Honourable Minister of Education
Honourable Minister of Environment
Honourable Minister of the Federal Capital Territory
Honourable Minister of Foreign Affairs
Honourable Minister of Health
Honourable Minister Housing and Urban Development
Honourable Minister Information and National Orientation
Honourable Minister of Internal Affairs
Honourable Minister of Police Affairs
Honourable Minister of Power and Steel
Honourable Minister of Science and Technology
Honourable Minister Solid Minerals Development
Honourable Minister of Transport
Honourable Minister of Water Resources
Honourable Minister of Works
Honourable Minister of Intergovernmental Affairs and Youth Development

GUIDELINES FOR THE PREPARATION OF THE 2007 – 2009 MEDIUM-TERM SECTOR STRATEGIES

INTRODUCTION

Starting in 2005, some select Ministries, Departments and Agencies (MDAs¹) were assisted to develop and document their Medium-Term Sector Strategies (MTSS). This entailed –

- a) Clearly articulating medium-term (three years) goals and objectives against the background of the overall goals of NEEDS and the attainment of the Millennium Development Goals;
- b) Identifying and documenting the key initiatives (that is, projects and programmes) that will be embarked upon to achieve their goals and objectives;
- c) Costing the identified key initiatives in a clear and transparent manner;
- d) Phasing implementation of the identified initiatives over the medium-term;
- e) Defining the expected outcomes of the identified initiatives in clear measurable terms; and

1. (1) Agriculture, (2) Education, (3) FCT, (4) Health (5) Police, (6) Power & Steel, (7) Water Resources, & (8) Works.

- f) Linking expected outcomes to their objectives and goals.

The MTSS, of these select Ministries/Agencies were used as a policy documents against which their budget proposals were evaluated and where necessary budget proposals where aligned with the MTSS.

The MTSS lies at the centre of ongoing reforms to the budget process. Its main objective is to improve the linkage between the spending of the Federal Government and the goals of NEEDS and the MDGs.

NEEDS and the MDGs document the high level policies of the Federal Government. The MTSS is the framework by which these high level policies are operationalized and broken down into tangible **initiatives, that is, projects and programmes.**

The ex-post review of the 2006 budget preparation cycle shows that the MTSS initiative was of critical importance in helping to focus government spending on the goals of NEEDS and the attainment of the MDGs and proved invaluable as a source of information to the National Assembly in considering the 2006 budget proposal. Accordingly, Government is desirous of –

- Revising/updating the MTSS of the 8 select Ministries/Agencies for the period 2007-2009;
- Extending the MTSS to other key Ministries, Departments and Agencies² of Government, to bring total coverage to not less than 78% of MDA spending; and
- Extending the MTSS to –
 - Include a review and re-evaluation of existing portfolio of projects and programmes and aligning them with their goals and objectives against the background of NEEDS and the MDGs; and
 - Leverage on any existing functional review.

This Guideline sets out instructions and seeks to provide guidance on the preparation of the 2007 – 2009 Medium-Term Sector Strategies. More particularly, the Guideline sets out -

- The MTSS Process Map
- Detailed instructions on the preparation of the MTSS;
- Linkages between the MTSS, NEEDS, MDG's and how the MTSS is to be fed into the budget process;
- Indicative resource envelopes and key macroeconomic data;
- Data/documentation requirement for projects/programmes; and
- MTSS documentation/reporting format.

Accordingly, you are enjoined to read this Guideline carefully and to comply with the instructions and stipulations herein contained.

2. (1) Aviation, (2) Defence, (3) Environment, (4) Foreign Affairs, (5) Housing and Urban Development, (6) Information and National Orientation, (7) Internal Affairs, (8) Solid Minerals Development, (9) Science and Technology, (10) Transport and (11) Youth Development.

MTSS PROCESS MAP

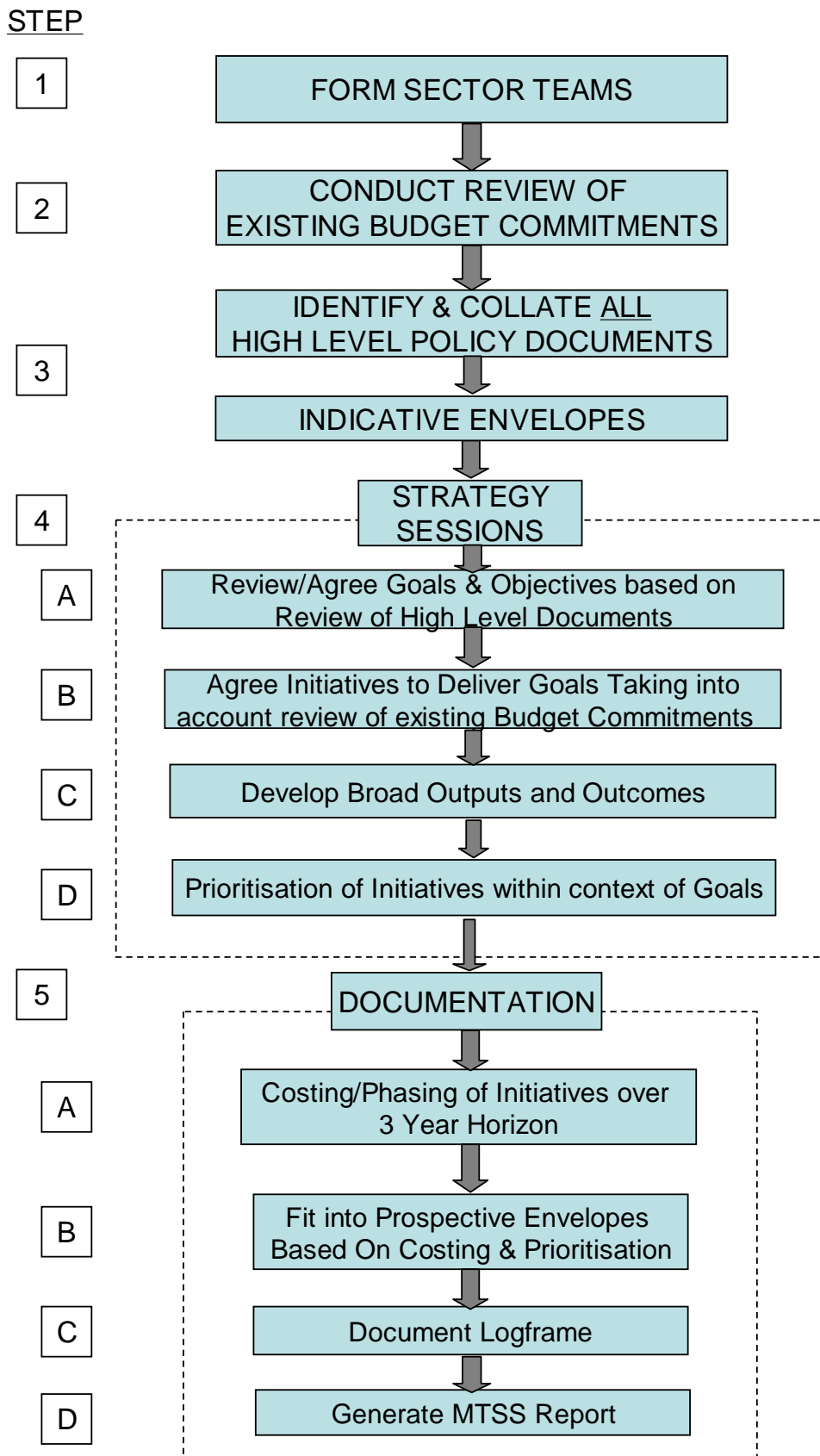


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1. Formation of Sector Teams

Each Ministry is required to constitute a high-level team for the preparation of its MTSS. The team, which is to be designated as “**Sector Planning Team**” (SPT) is the working team that would be charged with responsibility for delivering the MTSS of the Ministry and shall comprise not more than 21 persons including the following:

- (a) The Minister and/or Permanent Secretary.
- (b) The 2 most senior officers responsible for planning.
- (c) The 2 most senior officers responsible for budgeting.
- (d) Heads of the core parastatals and agencies under the supervision of the Ministry.
- (e) 2 members of the relevant Committee of the Senate with oversight over the Ministry.
- (f) 2 members of the Committee of the House of Representatives with oversight over the Ministry.
- (g) 2 members of reputable Civil Societies working in areas related to the work of the Ministry.
- (h) 1 member of the Organised Private Sector (NESG, MAN, NACIMMA).

The names and contact details of the members in (e), (f), (g) and (h) will be communicated to each Ministry by the Budget Office of the Federation, not later than Tuesday 28 March 2006.

Each Ministry is required to constitute its SPT and notify the Budget Office of the Federation of the names and contact details of members of the SPT not later than Tuesday 28 March. The notification shall be in writing and shall be directed to the Office of the Director-General, Budget Office of the Federation.

Please, note that the Budget Office reserves the right to demand changes to the composition of the SPT where in the opinion of the Director-General Budget, the composition of the SPT is not representative of the core sub-sectors within the Ministry’s area of work.

1.1. Training of SPT

To better prepare the SPT for the MTSS process, members of the SPT will be required to undergo focused 2 day training on the MTSS process and their roles within the process. The training will commence on Wednesday 3 April and run through to 13 April. The detailed timetable for and details of the training sessions is attached as Annex 1. Each Ministry should consult the timetable for dates and details of the schedule of training for its SPT.

1.2. Technical Support for SPT

Consultants and Sector Experts will be appointed to work with and provide technical and hands-on support to the SPT of each Ministry for the entire duration of the MTSS Process. Each Ministry shall be notified in writing of the name and contact details of the Consultants and Sector Experts that will work with them to deliver their MTSS and their Terms of Reference. Each MDA is hereby enjoined to cooperate fully with and provide all requisite information to the Consultants and the Sector Experts. The Consultants and Sector Experts will be situated within the Main Sector Ministry for the duration of the process to ensure a close working relationship.

In addition, NPC, OSSAP and Budget Office will provide personnel familiar with each sector to support the process. In the case of Budget Office, members of the relevant relationship teams will provide this support.

2. Conducting a Review of Existing Budget Commitments

In order for the 2007-9 MTSS process to provide maximum value to the Budget process, it must accurately reflect the existing Budget realities of the Sector. Accordingly, the MTSS should not be just a list of new initiatives – nor should it be an exercise in ring-fencing ongoing projects and programmes. Instead, it should be a statement of the optimal strategy for the Sector, capturing existing activities that are deserving of continued funding alongside new projects and programmes that will enable the sector to meet its goals.

In order to achieve this aim, it is necessary to conduct a review of the current Budget Commitments of the sector. It may be necessary for SPTs to limit themselves to reviewing a subset of the total Sector commitments, depending on the number of existing Budget Commitments. The rationale for selecting this subset must be clearly stated and justified – the subset selected must capture a significant portion of the sector's activities.

In conducting the review, the following steps should be followed:

1. Overview of 2005 Budget Implementation – Major upsets and lessons learned that can be considered during 2007-9 planning exercise must be documented.
 - a. Identify Existing Budget Commitments – The principal source of information will be the 2006 Budget and supporting documents.

An example of possible existing budget commitments that might be captured includes:

- a. Personnel costs for the core activities of the MDA – those functions that are directly in support of the basic administrative functions of the MDA (this will include information on staffing strengths of MDAs)
- b. Overhead costs for the basic administrative functions of the MDA – broken down into the major components
- c. Personnel costs that relate to the delivery of particular programmes or other functions of the MDA that fall outside its basic administrative function
- d. Overhead costs that relate to the delivery of particular programmes or other functions of the MDA that fall outside its basic administrative function – broken down into the major components
- e. Administrative purchases associated with core activities of the MDA treated as capital in FGN budget e.g. office equipment

- f. Administrative purchases required to support specific programme and non-basic functions treated as capital in FGN Budget e.g. project vehicles
 - g. Administrative Capital – the creation of permanent assets that contribute to the administrative functions of the MDA e.g. the building of an HQ
 - h. Programme Capital – purchases treated as capital under FGN classification that are necessary for the running of programmes that do not create assets e.g. vaccines for immunization.
 - i. Developmental Capital – capital projects that create assets that directly benefit Nigeria e.g. Hospitals, roads, dams etc.
2. Capture Key Data – this will require detailed work by the MDA. Data should be captured using the template attached as Annex 2.
- a. Historical Data
 - i. Recurrent Spending – Budget Allocation for 2 previous years. This should include separate data for each MDA within a sector, including:
 - 1. Personnel Costs and staffing levels;
 - 2. Overhead for the running of the MDA itself costs, broken down into major components; and
 - 3. Programme costs required to deliver individual ongoing initiatives, separate from the core running costs of the MDA
 - ii. Capital Projects – Amount released from project commencement up to 31 December 2005 or 31st March 2006 where extended, on any ongoing capital project
 - b. Current Data – Already captured in step 1 from 2006 Budget
 - c. Future Data
 - i. Recurrent Spending – Estimated Budget required for MDA to continue to deliver core functions at estimated staffing levels (3 year horizon) broken down into
 - 1. Personnel costs for core MDA
 - 2. Major components of overhead costs for core MDA
 - 3. Personnel costs required to deliver major programmes
 - 4. Major components of overhead costs for programmes
 - ii. Capital Spending – Estimated funding required for project completion (3 year horizon)

3. Scoring of Existing Budget Commitments – SPTs are required to adopt a simple analytical approach to assessing existing Budget Commitments in the Sector. Outlined below is a suggested framework for carrying out such scoring – this should act as a minimum benchmark for this activity. The framework should be developed by the SPTs to reflect the particular issues pertinent to that sector. When scoring a particular Budget Commitment, arguments supporting the score awarded should be documented in full.

There are five criteria identified in the MTSS scoring framework for existing Budget Commitments. Within each, there are two dimensions to be scored. The two dimensions are complementary – a strong mark in one dimension but not the other results in a less positive overall mark. Criteria 2.1 and 2.2 should be used to evaluate all initiatives. Criterion 2.3 is for recurrent or programme expenditure that should be currently delivering tangible impact – programmes, or the core costs of running MDAs. Criteria 2.4 and 2.5 are for capital expenditure that will deliver impact in the future.

The five criteria and the scoring system are explained below:

2.1. Clarity of Current Justification for Budget Commitment

Mark	How well can the Sector articulate the purpose of the existing Budget Commitment?	How well can the Sector account for the level of funds currently allocated to that Budget Commitment?
4	Very Well – There is a clearly defined purpose for the existing expenditure that matches a higher level goal of the Sector	Very Well – All cost components can be identified and a strong argument presented for all costs
3	Well – There are rationale for the existing budget commitment, although these may not be completely clear	Well – The cost components can be identified, although not all can be fully justified as necessary
2	Moderately – There is some justification for the commitment, but of limited clarity	Moderately – Some but not all of the cost can be identified, but with limited justification
1	Not at all	Not at all

2.2. Risk of Current Budget Commitment Failing to Perform due to Negative Events

Mark	What would be the impact on the performance of the Budget Commitment if a negative event were to occur?	What is the probability of that event occurring?
4	Small Impact, Risk can be managed	Low
3	Moderate Impact, Risk can be managed	Moderate
2	Moderate Impact, Risk difficult to manage	Substantial
1	Substantial Impact, Risk difficult to manage	High

2.3. Current Impact of Budget Commitment

Mark	What are the Tangible Positive Impacts of the Budget Commitment?	How well can the MDA justify the current costs of delivering those impacts? This score should consider the historical costs of delivery versus the current Budget Commitment.
4	Evidence (convincing) of substantial positive impact from existing commitment	Very well – MDA can show that current cost represents best value
3	Evidence (convincing) of moderate positive impact	Well – MDA can show that current cost is reasonable for this existing Budget commitment
2	Some evidence of moderate positive impact	Moderately – MDA can offer limited evidence that the cost is reasonable
1	No substantial evidence of positive impact	Not at all

2.4. Likelihood of Completion in 2007-2009 Timeframe

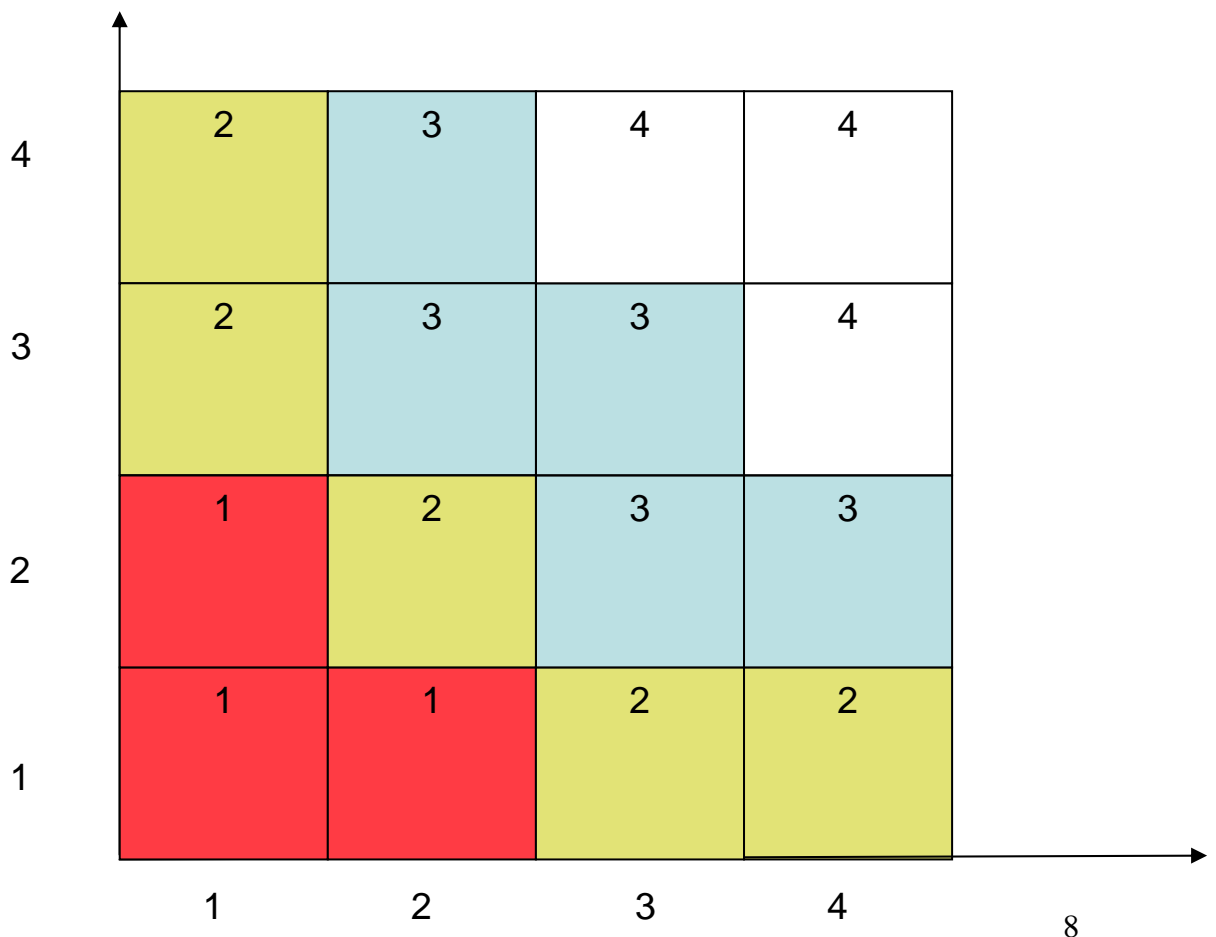
Mark	How well has the project progressed up to this point? This score should be based on the data gathered on releases, and any evidence of implementation offered by the MDA.	How well can the MDA justify that the Current Budget Commitment and planned future spending will complete the project, and run the project post completion? This should be based on the contract and the data collected.
4	Project is on course with reference to original contract	All evidence suggested project will be completed with budgeted funds, future running costs have been fully taken into account
3	Project has progressed reasonably well, with substantial funds released	MDA can show that project is likely to be completed with budgeted funds, future running costs have been considered
2	Project has started but has suffered from poor release of funds or poor implementation	MDA can show that budgeted funds will allow for substantial progress but not completion, future running costs can be identified
1	Not at all	Not at all

It is important to note that in assessing the performance of existing budget commitments, consideration should be given to initiatives that are not currently performing well but which have the potential to be revised or reformed to improved delivery. Potential steps to improve initiatives should be clearly documented, and such initiatives can be given a higher score contingent on a revision of the current delivery of spending.

2.5. Expected Future Impact of Budget Commitment

Mark	What will be the tangible Positive Impact of the Budget Commitment?	How well can the MDA justify the expected costs of bringing this project to completion? Can future recurrent running costs be justified?
4	Evidence (convincing) of substantial expected positive impact	Very Well – the completion costs represent the lowest reasonable cost of completion, future running costs have been fully taken into account
3	Evidence (convincing) of moderate expected positive impact	Well – the completion costs are reasonable, future running costs have been considered
2	Some evidence of moderate expected positive impact	Moderately – Some justification can be given for the completion costs, future running costs can be identified
1	No substantial evidence of expected positive impact	Not at all

Once each budget commitment has been scored along the two dimensions set out for a given criteria, these scores will be combined to give an overall score for the existing commitment under that criteria. The single score for each criteria is found using the grid below. An example – If under criteria 2.1 a budget commitment has scored 2 for the 1st question and 3 for the second question, the overall score for criteria 2.1 would be 3. At the end of this process there will be one score for each criteria, for each budget commitment assessed.



3. Identify and document all high level policy documents

Following the review of existing budget commitments, each Ministry is then required to identify all high level policy documents relevant for setting the tone and direction of the goals and objectives of the Ministry.

As such each SPT should collate and study

- relevant sections of NEEDS and extract the strategic issues as identified therein, including performance measures and targets;
- the MDGs documents and extract relevant strategic issues, performance measures, and targets; and
- the functional review and review of staffing levels being carried out by the Office of the Head of Service and the Bureau of Public Service Reforms and extract the key functional and staffing levels issues identified therein; and
- other high level policy documents specific or otherwise relevant to the Ministry, which are consistent with NEEDS and the MDGs,

At this stage of the process, each sector will be provided with Indicative envelopes for both 2007, and the outer years 2008 and 2009 of the medium term framework. A separate document will be delivered explaining the basis for these indicative envelope allocations.

4. Conduct Strategy Sessions

Following the completion of the review of existing budget commitments and the collation and review of all relevant high level policy documents as required under Chapter 3, each Ministry shall conduct a high level strategy session. Participants at the high level strategy sessions shall be the SPT of each Ministry and one representative each of BOF, OSSAP and the NPC. The Strategy Session for each Ministry shall be for three days and shall be fully residential.

Participation at the strategy session is mandatory and the SPT must be led by no less than the Permanent Secretary. Ministers are enjoined to endeavour to participate at these Strategy Sessions given the importance and far reaching impact of the decisions that will be taken thereat on the future direction of the Ministry.

The strategy sessions will be managed and moderated by the Consultant and the Sector Expert engaged for each Ministry. Representatives of the BOF, OSSAP and the NPC will provide clarification and guidance on the interpretation of this Guideline or other technical issues which may arise during the course of the strategy sessions. The interpretation furnished by the joint BOF, OSSAP and NPC Team shall be final and binding and may only be reviewed by the Director-General, Budget.

The strategy sessions will take place between 5 May and 21 May. Three (3) consecutive days will be allotted to each Ministry. Detailed schedule for the Strategy Sessions is set out in Annex 1. Each Ministry should consult Annex 1 to ascertain, the date and other details relating to their Strategy Session.

The Strategy Sessions are to be structured in the following sequence –

4.1. Establish goals and objectives

The goals and objectives of each Ministry are to be agreed, or revised, as the case may be. The review of the high policy documents such as NEEDS and the MDGs which are required in Chapter 3 would be the basis for doing this. In addition, a high level review of the external and internal environments of each Ministry will provide further basis for agreeing/revising the goals and objectives. The goals must be consistent with and be structured to actualize the high level policy documents.

The goals should be further disaggregated into objectives³ or sub-goals. In this connection, both the goals and the associated objectives should:

- not be too many; around half a dozen strategic goals and an average of 3 strategic objectives per goal will be appropriate;
- be considered over the medium-term period of three years; and

³ Objectives are specific accomplishments that must be made in total, or in some combination, to achieve the goals in a plan. Objectives are usually "milestones" along the way when implementing the strategies.

- be properly aligned with the MDAs mission, vision, core values, MDAs strategic issues, and MDAs stakeholders' needs/expectations.

At this stage, a brief description of the respective goals and objectives should be presented so as to make them as comprehensible as possible to external and/or independent readers. To achieve this, the description should explain the rationale behind the choice of the respective goals and objectives by discussing the:

- the purpose of or motivation for each goal/objective, including the problems which the respective goals and objectives are directed at solving;
- benefits to be derived from the achievement of the goals/objectives;
- any other issues that will make the goals/objectives self explanatory to external or independent readers.

4.2. Establish Initiatives to reach goals and objectives

Following the formulation and agreement of goals as required under paragraph 4.1, SPTs are required to develop action plans or specific initiatives (projects and programmes) to reach the goals and objectives over the period 2007-2009; that is, what must be done to achieve the set strategic goals and objectives.

Strategies or initiatives comprise activities, methods, processes, projects or programmes to be undertaken either alone, or in some combination, so as to achieve the specified goals and objectives.

It is crucial to the MTSS that this process captures both existing initiatives that are helping the sector to achieve its goals and any new initiatives that the Sector Team feels will also be important to achieving those goals. The MTSS should provide a complete picture of the Sector spending plans, and hence should reflect all existing initiatives that are considered worthwhile, alongside new initiatives.

The following must be taken into consideration in determining and agreeing initiatives to be implemented:

- MDAs mission, vision and core values;
- Resource availability (human, financial and material resources);
- Other challenges that might affect the Sector over the next 3 years – environmental, political, demographic, economic. Change factors that might impact on the Sector's choice of initiatives should be clearly documented.

4.2.1. Cross-cutting Issues

Cross-cutting issues are to be identified, tagged and discussed with the BOF, OSSAP and NPC Team for coordination and clarification on how they are to be treated and presented in the linkages column in the Log Frame attached as Annex 3

Meetings between Sectors will be arranged where cross-cutting issues are present. Budgeting between sectors must be coordinated to ensure that cross-cutting issues are taken into account.

4.3. Develop Broad based outputs and outcomes

The following should be specified against each initiative developed:

- **Outputs and Outcomes** – A detailed description of these is given in the notes that accompany the Log Frame attached as Annex 3.
- **Key Performance Indicators (KPIs)** – being measures or indices for monitoring the performance or implementation of a specified strategy; i.e. indicators of whether or not the strategy is implemented and of how well it has been implemented. Please note that the KPIs must be “SMART”. That is, they must be:

- S – Specific;
- M – Measurable;
- A – Achievable
- R – Relevant; and
- T – time-bound,

The goals setting and strategy development exercises should be made as participatory as possible.

The goals, objectives and associated strategies should then be captured in the Log Frame format attached as Annex 3 At the stage of the Strategy Session columns a, b, c, d, I, k, I should be completed. The remaining details will be completed during the documentation phase.

4.4. Prioritise the Strategies (Initiatives)

Having identified a series of initiatives that are suggested in order to deliver each goal, it is vital the Sector Team places those initiatives in order of priority. Medium Term Budgeting is focused on the need to reconcile the demands and desires of Ministries with the realities of limited resources. Prioritisation is a key stage in this reconciliation.

In order to objectively approach the job of prioritising Initiatives, a scoring system will again be employed.

1. Repeat the scoring process already used for existing Budget Commitments, this time for New Initiatives suggested during the strategy session. See Chapter 2 of the guidelines, which sets out this process⁴.
2. Score all initiatives (existing and newly proposed) using a second set of criteria that refer directly to the Sector Goals agreed during the strategy session.

Criteria	4	3	2	1
4.1 How critical is this initiative to the achievement of the Sector Goal?	Vital – Goal cannot be achieved otherwise	Important – This initiative will make a substantial contribution to achieving the goal	Moderately – This initiative will make some contribution to achieving the goal	Limited – the initiative will make no significant contribution to achieving the goal
4.2 How vital to the Sector is it that Initiative is funded in 2007 and not in later years	Vital – If not funded in 2007, the Initiative will not be possible/the Sector will not achieve its goal	Important – Funding this initiative in 2007 will increase its impact/substantially and accelerate the sector to achieving this goal	Moderately – Funding in 2007 may increase the impact of the initiative	Limited – Funding the initiative in later years will not impact on the initiative or the achievement of the goal
4.3 How much will this initiative support other Sector Goals?	Substantially – Direct impact on other goals	Materially – Will provide limited direct support for other goals	Somewhat – May indirectly support other goals	None – Will not impact on any other goals
4.4 To what extent does this Initiative cross-cut with other sectors	Substantially – Direct impact on other sectors	Materially – Will have limited direct impact on the accomplishments of other sectors	Somewhat – May indirectly support other sectors	None – Will not impact on any other sectors
4.5 To what extent would the private sector be able to deliver the equivalent outcome?	Not at all	Somewhat – The private sector could provide, but would require substantial subsidy to avoid loss of coverage	Largely – The private sector could provide this service, possible through a PPP	Completely – a market based alternative is readily available

⁴ Clearly, since these are newly proposed Initiatives, categories 1, 2, 4 and 5 from the Review of Existing Commitments are relevant to this exercise.

- Bring both these sets of scores together in the prioritisation matrix. Bringing together the different marks assigned to the initiatives – existing and proposed - should help to guide the decision over which initiatives, new and existing, are of the highest or lowest priority.

After all initiatives have been costed, there will inevitably be less money available in the current year than will be required to fund all initiatives. The prioritisation scoring will provide the justification for delaying some initiatives until the 2nd or 3rd year of the Medium Term Framework, and for not undertaking others.

Template 1 – Prioritisation Matrix

Criteria	2.1	2.2	2.3	2.4	2.5	4.1	4.2	4.3	4.4	4.5	Average
Initiative 1	4	3	4	3	2	4	4	3	4	3	3.4
Initiative 2	3	2	3	4	2	2	3	2	2	3	2.5
Initiative 3	1	2	1	1	3	1	1	2	3	2	1.7

Based on the scores captured here, it is clear that Initiative 1 would be given priority over 2, and Initiative 2 priority over 3.

5. Documentation

5.1. Costing/Phasing

Following the Strategy Sessions, each Ministry is then required to document its MTSS. The first step in the documentation process is to cost the initiatives agreed at the Strategy Session in a clear and transparent manner. The costing must be based on credible information. All initiatives identified as key for the Sector should be carefully costed – without a clear idea of the cost of Sector activities it will not be possible to tie activities to available resources. Both proposed initiatives and existing budget commitments should be fully costed.

The information that forms the basis of the costing exercise should be sourced as widely as possible:

1. Past experience of expenditure– this will be particularly important in costing existing initiatives as evidence can easily be provided of current costs
2. Recent estimates
3. Recent quotation
4. Survey based research

All costings should adhere to two rules:

1. The estimated cost should be the minimum reasonable cost
 - a. Minimum reasonable unit cost
 - b. Minimum reasonable number of units. This includes the minimum reasonable staffing levels when considering human resource requirements.
2. Should be extended over three year time frame

Costing of each initiative should take into account the following components. These can be captured using a template of the format given below.

1. Fixed Costs – all one off costs required for an initiative. One example might be a building for an agency. For a project such as a dam, almost all the costs will be fixed.
2. Quasi-Variable Costs – lump sum costs that increase from time to time when an initiative reaches a certain scale. One example might be for a service such as the Police, where for every 100 additional officers a new Police Station is required.

3. Step Ratios – the increase in scale required to generate an extra unit of Quasi-variable costs. In this case, it is 100 Police Officers to 1 Police Station.
4. Variable Costs – costs that increase continuously as the scale of the initiative increases. In the case of the Police, every new officer requires payment of an additional wage.
5. Scaling Ratios – The increase in variable costs generated by one additional unit of scale e.g. the wage of the additional Police Officer.
6. Drivers of scale – in estimating the costs over 3 years of an initiative, it may be necessary to think about what might increase the scale of the initiative.

The following are components of Initiatives that must be captured during costing exercise -

Variable and Quasi-Variable Costs

1. Personnel costs for the core activities of the MDA – those functions that are directly in support of the basic administrative functions of the MDA (this will include information on staffing strengths of MDAs)
2. Overhead costs for the basic administrative functions of the MDA – broken down into the major components
3. Personnel costs that relate to the delivery of particular programmes or other functions of the MDA that fall outside its basic administrative function
4. Overhead costs that relate to the delivery of particular programmes or other functions of the MDA that fall outside its basic administrative function – broken down into the major components
5. Administrative purchases associated with core activities of the MDA treated as capital in FGN budget e.g. office equipment
6. Administrative purchases required to support specific programme and non-basic functions treated as capital in FGN Budget e.g. project vehicles

Fixed Costs

7. Administrative Capital – the creation of permanent assets that contribute to the administrative functions of the MDA e.g. the building of an HQ
8. Programme Capital – purchases treated as capital under FGN classification that are necessary for the running of programmes that do not create assets e.g. vaccines for immunization.

Developmental Capital – capital projects that create assets that directly benefit Nigeria e.g. Hospitals, roads, dams etc.

Costing over 3 year horizon

1. Recurrent costs that will result from Capital expenditure – A capital project that is completed in year X may have recurrent running costs associated with it in year X+1. These must be captured.

2. Inflation – Estimates of costs in outer years (2 and 3) must capture the impact of inflation, wage adjustment etc.
3. Maintenance/depreciation – Capital projects will also have depreciation/maintenance costs associated in future years, which must also be captured.

Sequencing or Timing of Expenditure

- It may not be possible to spend more than a certain amount on a project at any given time e.g. before building a road, preparation work must take place. Costing must take into account this limit on the sequence of spending.
- Some spending may be seasonal, and so must all take place at a given time of year.

Costing of Reforms

The cost associated with initiatives targeted at actualising the functional review and/or review of existing staffing levels should be captured separately and submitted to the Budget Office of the Federation. Subject to requisite approvals, such costs shall be provided separately from the indicative envelope of each Ministry.

Template 2 – Initiative Costing

e.g. Initiative 1 – National Immunization Programme

Cost Type	Cost	Scale	Year 1	Year 2	Year 3
Variable	Vials of Vaccine	1 per child @ N100	$A * 100$	$(A + B) * 100$	$(A + B + C) * 110$
Quasi-Variable	Health Worker	1 per 1000 children @ N500,000	$1 * 500,000$	$1 * 550,000$	$2 * 550,000$
Fixed	Headquarters		X – Completion Cost	Y – Maintenance	Y – Maintenance

The Following Features of the costing process are captured in this example:

1. As the number of children vaccinated increases from A to (A+B) to (A+B+C) then the variable cost increases proportionally
2. Inflation is taken into account - the cost per vial of vaccine is 110 in Year 3
3. The number of Health Workers increases from 1 to 2 in year 3 – moving from (A+B) children to (A+B+C) crosses the threshold for an extra worker
4. Wage increase is taken into account for the health worker in Year 3

5. For the fixed cost of an HQ, the recurrent (maintenance) costs are captured in Years 2 and 3.

5.2. Indicative Envelopes

An indicative envelope has been allotted to each Ministry for each year in the period 2007 to 2009. Each Ministry is required to document its MTSS within the limits of its indicative envelope. As such all projects and programmes (including associated recurrent expenditure and payroll), **whether existing or new** must be within the confines of the indicative envelope specified for each year in the period 2007 -2009.

The principal principle underlying the allotment of indicative envelopes is to balance the need to spend money to attain the nation's developmental goals and the need to live within our means. This is one of the cardinal rules of fiscal prudence which we have adopted and which demands that total spending should not exceed total revenues by more than 3% of GDP (Gross Domestic Product). Indicative envelopes are those employed to ensure that we live within our means. This is the only way in which predictability of spending can be assured.

However, as already indicated, the cost associated with initiatives targeted at actualising the functional review and/or review of existing staffing levels should be captured separately and need not come out of the indicative envelope.

The envelope is to be used up based on the prioritisation done pursuant to Chapter 4 and the costing and phasing above.

Ministries are therefore required to carefully prioritise their projects and programmes and their associated recurrent and payroll costs in the manner indicated in 5.1 above and phase the cost of their projects and programmes and ensure that cost of the projects and programmes (including associated recurrent cost) does not in the aggregate exceed the indicative envelope specified for each year for each Ministry. For the avoidance of doubt, the Budget Office will not accept or otherwise cognisance any MTSS that exceeds the specified indicative envelope.

The tables below are simple examples of how the indicative envelopes for each year are to be used up. The example given below is an extremely simplistic account of the process required for sectors to fit within their spending envelopes. The exercise should not be regarded as mechanistic – considerable debate and iterations of the process will be required before a final allocation of funds is achieved.

There are several options that might be available as different initiatives are considered with reference to the envelope:

1. Include the initiative as costed within the envelope
2. Revise the costing of the initiative e.g. reduce the scale of a programme, revise overhead requirements for an agency, extend the completion period of a developmental project
3. Postpone spending on the initiative to the outer years of the framework
4. Do not include the initiative if it is not considered valuable

Step 1- The MDA captures its Payroll and Overhead costs, projected over the three years (2007-2009). Project 1 is the initiative that has been given the highest priority by the Sector Team. This is captured first – both the capital cost of completion in 2007 and the associated recurrent running costs in 2008-2009. Money still remains in the envelopes for each of the three years.

	2007	2008	2009
Envelope	A	B	C
Envelope Remaining	A-X1-Y1-C1	B-X2-Y2-R1	C-X3-Y3-R1
MDA Payroll	X1	X2	X3
MDA Overheads	Y1	Y2	Y3
Project 1	Capital Completion Cost of Project 1 – C1	Recurrent Running Cost of Project 1 – R1	Recurrent Running Cost of Project 1 – R1

Step 2 – The MDA now captures the initiative with the next highest level of priority – Project 2. Again the costs are captured across all three years. The envelope for 2007 has now been completely allocated, but money remains in the envelopes for 2008 and 2009.

	2007	2008	2009
Envelope	A	B	C
Envelope Remaining	A-X1-Y1-C1-C2=0	B-X2-Y2-R1-C2	C-X3-Y3-R1-R2
MDA Payroll	X1	X2	X3
MDA Overheads	Y1	Y2	Y3
Project 1	Capital Completion Cost of Project 1 – C1	Recurrent Running Cost of Project 1 – R1	Recurrent Running Cost of Project 1 – R1
Programme 2	Ongoing Capital Cost of Programme 2 – C2	Capital Completion Cost of Programme 2 – C2	Recurrent Running Cost of Programme 2 – R2

Step 3 – The initiative with the next highest level of priority is Programme 3. However, the envelope for 2007 has been fully allocated. Money remains in the envelope for 2008 and 2009, so the project can be allocated money from these envelopes. If money remains in these years after adding Project 3, further expenditure can be planned.

	2007	2008	2009
Envelope	A	B	C
Envelope Remaining	A-X1-Y1-C1-C2 = 0	B-X2-Y2-R1-C2-C3	C-X3-Y3-R1-R2-C3
MDA Payroll	X1	X2	X3
MDA Overheads	Y1	Y2	Y3
Project 1	Capital Completion Cost of Project 1 –	Recurrent Running Cost of Project 1 –	Recurrent Running Cost of Project 1 –

	C1	R1	R1
Programme 2	Ongoing Capital Cost of Programme 2 – C2	Capital Completion Cost of Programme 2 – C2	Recurrent Running Cost of Programme 2 – R2
Programme 3	0	Start-Up Capital Cost of Programme 3 – C3	Ongoing Capital Cost of Programme 3 – C3

Two features should be noted of this approach to allocating funds:

1. Money has been made available to fully complete Project 1 and to support Programme 2 before money is allocated to the new Programme 3. Wherever possible, unless new initiatives are of vital importance, ongoing priority projects should be completed and ongoing priority programmes should be supported before funds are allocated to new projects and programmes.
2. Many capital projects have recurrent running costs associated with them that continue after capital expenditure has finished. For a road, this may simply be the maintenance cost. For a hospital, this will include all of the running costs from personnel to overheads. These should be estimated in the outer years of the expenditure plan.

5.3. Log Frames

Ministries are required to provide specific details of the work plan, cost of the individual components, timelines, outcomes and outputs of each of the projects and programmes that they would be embarking upon. In addition, each Ministry is required to specify how each project/programme is to be monitored and evaluated.

The broad outputs and outcomes required to be produced at the Strategy Session under Chapter 4 shall be the starting point for the additional details.

The additional details and the monitoring and evaluation criteria shall be captured in a Log Frame attached as Annex 3. At this stage Sector Teams are now required to fill in the remaining columns of the Log Frame that were not addressed during the strategy session (e, f, g, h, n). Detailed completion instructions are set out on the Log Frames.

5.4. Macroeconomic Data & Assumptions

Key macroeconomic data and assumptions that will drive planning for the period 2007-2009 will be provided to each Ministry prior to the Strategy Sessions. Each Ministry must employ the data and assumptions so provided for the development and documentation of its MTSS.

6. Reporting Format

The following section sets out the format that the final MTSS Report will take. It clearly identifies how the different stages of the MTSS Process should be fed into the final document. It also clearly sets out, where necessary, particular reporting formats and tools that should be used.

Introduction

- Generic chapter provided by BOF
- Outlining linkages between High Level Policy (NEEDS/MDGs) and MTSS
- Outlining linkages between MTSS and Annual Budget
- Setting out MTSS stage within Annual Budget Cycle

Chapter 1 – Laying out Goals and Objectives based on NEEDS/MDGs

- Capture and summarise the elements of NEEDS/MDGs that are relevant to the Sector (Step 3 of the MTSS Roadmap)
- Capture and summarise the key policy documents that have been created specifically for that Sector (Step 3 of the MTSS Roadmap)
- State clearly the Goals and Objective for the Sector (As defined during Step 4A of the MTSS Roadmap)

Chapter 2 – Review of Existing Budget Commitments (Step 2 of MTSS Roadmap)

- Executive Summary of main findings of Review
 - MDAs and Projects/Programmes performing well
 - MDAs and Projects/Programmes performing poorly
- Concise description of scoring approach used for Sector
- Dashboard Capturing Key findings for MDA Performance (Recurrent Expenditure)
- Dashboard Capturing Key findings for Capital Projects

Chapter 3 – Initiatives – Prioritisation, Costing and Phasing

- Statement of Indicative Budget Envelope
- Concise description of approaches
 - Prioritise initiatives
 - Cost Initiatives and Phase spending

- On a Goal-by-Goal basis – tabulate the key initiatives and their relative priority. Indicate required spending on a yearly basis over the 3-year horizon – broken down into cost components. In particular, distinguish between the capital and recurrent costs of particular initiatives.
- This chapter captures Steps 4B, 4C, 5A, 5B of the MTSS Roadmap

Chapter 4 – Performance Measures

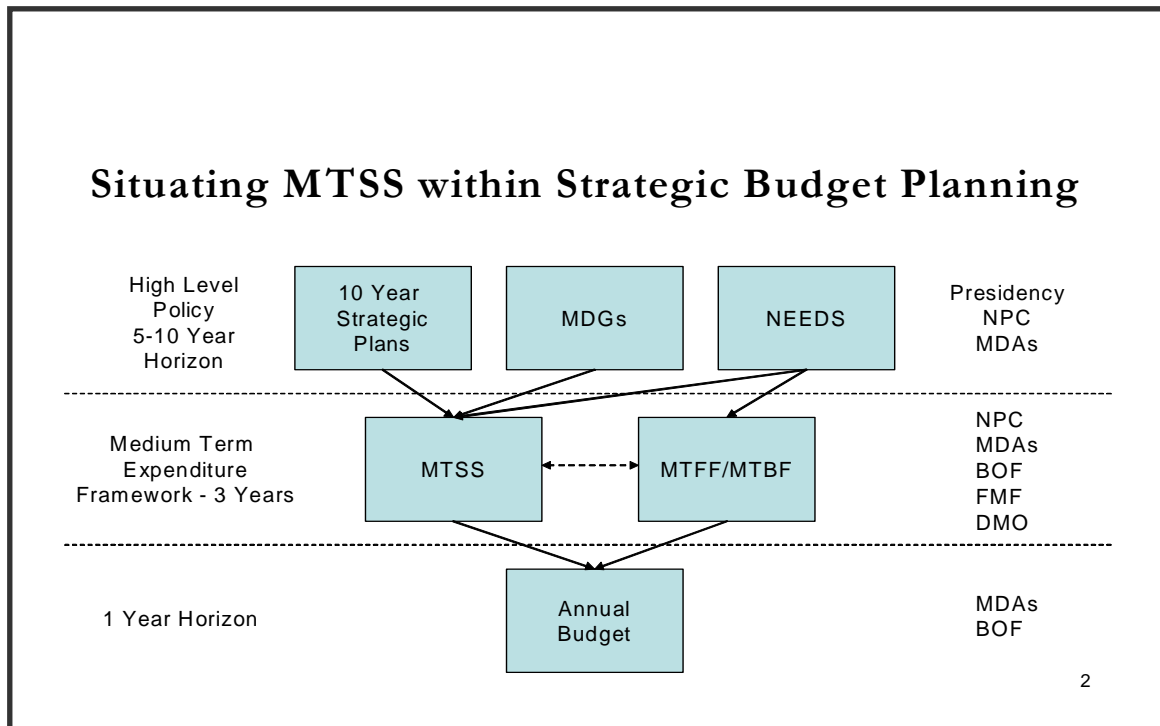
- Concise description of Log Frame (Annex 3) approach to capturing outputs and outcomes of initiatives
- Log Frames (Annex 3) (one for each Sector Goal) capturing:
 - Initiatives – Required for Sector to Achieve Goal
 - Outputs – tangible measures of the immediate impact of the MDA, project or programme
 - Reporting Mechanism – how the MDA will demonstrate the impact of the Initiative
 - Outcomes – broader impact achieved by the Initiative that contributes towards achieving the goal of the MDA
 - Linkages – Clearly capture cross-cutting with other sectors

7. Linkages

7.1. MTSS and NEEDS/MDGs

Each Ministry is invited to note that the MTSS lies at the centre of ongoing reforms to the budget process. Its main objective is to improve the linkage between the spending of the Federal Government and the goals of NEEDS and the MDGs.

NEEDS and the MDGs document the high level policies of the Federal Government. The MTSS is the framework by which these high level policies are operationalized and broken down into tangible initiatives, that is, projects and programmes. The MTSS must therefore be consistent with and be derived exclusively from the goals of NEEDS and the MDGs. The framework for distilling the goals and objectives of NEEDS and the MDGs relevant to each Ministry and aligning same with the goals and objectives of each Ministry is spelt out in Chapter One and should be consulted.

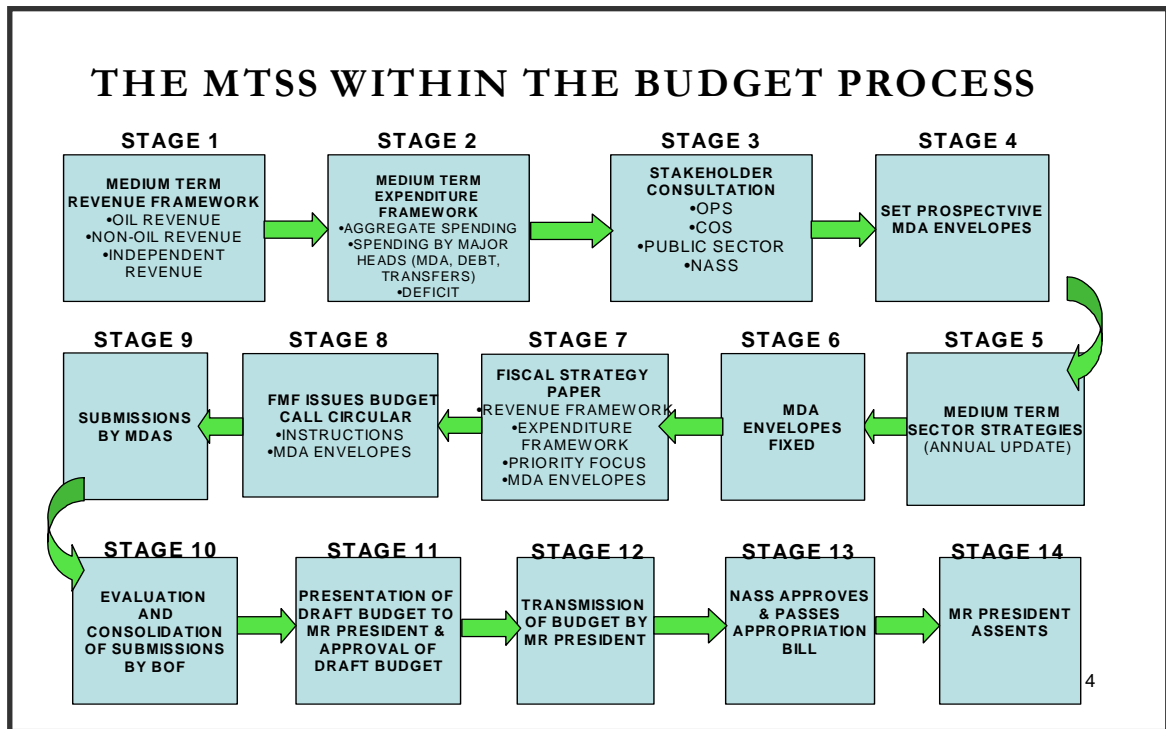


7.2. MTSS and the Annual Budget

Ministries are invited to note that the MTSS once prepared will form the basis for the expenditure plans of each Ministry for the period 2007 – 2009. More importantly, it will form the basis for the preparation of the 2007 budget of each Ministry. In this regard, the MTSS will be used as a policy document against which all budget proposals of the Ministry will be evaluated and tested. As such, care must be taken to ensure that the MTSS captures projects and programmes which are considered

by the Ministry as priority and that such projects and programmes are properly costed and are within the indicative envelopes specified for each Ministry.

Any budget proposal which does not emanate from or is otherwise referable to the MTSS will not be admitted into the Federal Budget. For the avoidance of doubt, you are please invited to note that in preparing the 2007 Federal Budget, the Budget Office of the Federation will not cognisance or otherwise consider any spending proposal that is not derived from or otherwise referable to the MTSS.



Olabode M. Augusto, MFR.
Director-General/Adviser Budget

ANNEX 1

2007 – 2009 MTSS TIMETABLE

S/N	MDA	SECTOR TEAM TRAINING	REVIEW OF EXISTING BUDGET COMMITMENTS	STRATEGY SESSION	DOCUMENTATION
1.	Agriculture	3 Apr – 4 Apr	7 Apr – 3 May	5 May – 7 May	8 May – 5 June
2.	Education				
3.	FCT				
4.	Health				
5.	Police	5 April – 6 Apr			
6.	Power				
7.	Water				
8.	Works				
9.	Aviation	7 Apr – 8 Apr	12 Apr – 5 May	12 May – 14 May	15 May – 5 June
10.	Defence				
11.	Environment				
12.	Foreign Affairs				
13.	Internal Affairs	10 Apr – 11 Apr			
14.	Science & Technology				
15.	Transport				
16.	Solid Minerals Development				
17.	Housing and Urban Development	12 Apr – 13 Apr	18 Apr – 5 May	19 May – 21 May	22 May- 5 Jun
18.	Information and National Orientation				
19.	Youth Development				