PUBLIC SECTOR BUDGETING ‘PROCESS, PREPARATION AND IMPLEMENTATION’

Presentation

By

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Outline of the Presentation

- Introduction and Synopsis
- What is Budget and Budgeting
- Budgeting Features and Procedures
- Why Budgeting without Planning?
- Expenditure framework
- Annual Budgeting process
- Zero Based Budgeting and Development planning
- Next steps for results based budgeting and national development planning
Introduction

- **Budget** is a financial plan which comprises of projected revenue and proposed expenditure of a state in a specific period of time usually a year.

- The **Federal Budget** is a tool which documents the direction of Federal Government policies and spending over a fiscal year, outlining details of expected revenue and proposed expenditure

- An annual statement through which the Government delivers its fiscal policy agenda to the populace
A public budget has the following basic dimensions:

- A budget is simply a document identifying and stating particular objectives with associated expenditures linked to each objective.

- Budgets serve as a basis for government’s financial activities, all other components of financial management in the Public Sector are related to the budget.

- It is a political instrument that allocates scarce public resources among the social and economic needs of a jurisdiction.
Budget and Budget Characteristics

- It is an economic instrument that can direct a nation’s, state’s and even municipality’s economic growth and development.

- A budget is an accounting instrument that holds government officials responsible for both the expenditures and revenues of the programs over which they exercise control.

- In a Planned public financial management framework, annual budgets provides the desired link between strategic initiatives, Programmes and projects and serves as an annual tool of implementing national plans.

- With a programmed based budgeting, public sector performances is easily evaluated as key performance indicators provides a guide for performance measurement.
Budget Characteristics

- Financial Information

  - The budget is compiled to provide the National Assembly with a full exposition of all policy objectives and the cost required to fund these objectives. More information may be required, but for the purpose of approving the budget, in parliament no more than overall objectives and total costs are required.

  - Additional breakdown of line items are provided to guide National Assembly towards clear appropriation to competing areas of national priorities.
Budget Characteristics

● Source of Information

● Contains information concerning

● Policy Objectives

● Monetary or financial implications associated with the objectives

● Estimated income and expenditure across line items

● Implied taxation/revenue measures linked to the financial implications
Budget Characteristics

● Working Document

● Contains the votes identifying the various programmes that departments and other government institutions will undertake

● Provide a valuable oversight of the financial activities of the government for politicians and other stakeholders in the national economy such as:

○ World Bank, IMF, ADB and other international bodies

○ Development Partners

○ Non Governmental Organizations, Journalists and general public
Budget Characteristics

Control Instrument

- Provide the main framework against which performance and financial management results are determined.

- It serves as framework of reference for both the legislature and other institutions such as the Auditor General and the Accountant General for prudent public financial management.

- The Auditor-General would, for control purposes, not rely totally on the budget but would also obtain all other documents from Ministries and agencies necessary to conduct the audit required in compliance with statutory audit requirements.
Budget Characteristics

Control Instrument

As part of control, budget systems have been developed to:

- Identify the aims and objectives of spending agencies in broad outline and closely scrutinise these policy objectives regarding the allocation of means;
- Identify the executive programmes whereby these objectives are pursued or are to be pursued;
- Emphasize policy priorities and consider alternative possibilities for allocation of means;
- Integrate objectives and their executive programmes into the budget - directly connecting specific policy aims with their financing
Components of FGN Budget

- Statutory Transfer
- Debt Service
- Recurrent
- Capital
Budgeting in Without Planning

- A Key development tragedy that befalls a developing economy
- An indication of distorted and structural rigidities oriented development strategy
- Addressing development needs in a distorted manner
- Absence of a clear framework for Public Private Partnership (PPP) for development interventions and projects
- A nation with no clearly defined and articulated sectoral development strategies that define sectoral needs, articulated initiatives and interventions and programmed implementation of same through annual budgets
Budgeting in Without Planning (Cont’d)

- Second implementation plan yet to be conceived
- The Vision document abandoned for Transformation Agenda
- Last development plan abandoned in 1985
- Resuscitating effort made with the conception and
- Real national development only attainable through structured programming of national development aspirations and priorities
Budgeting in Without Planning
(Cont’d)

- $25 billion annual budget too inadequate to address development needs and challenges
- The conception of Sustainable Development Goals (SDGs) provide a framework for revising and aligning Vision 20:2020 to Vision 20: 2030
- Infrastructure gap and funding requirements for Nigeria up to 2030 amounts to N398 trillion or $1.39 trillion
- With a yearly budget of N1.75 trillion for capital budget, it would take 227 years to fill the infrastructure gap
Budgeting in Without Planning (Cont’d)

- Yearly budget of N6 trillion of $21 billion cannot optimize our development potentialities and aspirations.
- Brazil with similar emerging country status as Nigeria spends $835 billion as annual budget in 2015.
BUDGETING PROCESS

The budgeting process is like a cycle:

Formulation → Approval → Implementation → Monitoring and Evaluation

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KEY STAGES & REQUIREMENTS IN ANNUAL BUDGET CYCLE

1. Medium-Term Revenue Framework
2. Medium-Term Fiscal Framework
3. Medium-Term Sector Strategies
4. Formal MTEF/FSP Reports
5. Budget Presentation & Appropriation
6. Budget Monitoring & Evaluation
The Revenue Framework:
Sources of FGN Revenue

- **FEDERATION ACCOUNT**
- **VAT**
- **CIT**
- **FIRS**
- **INDEPENDENT REVENUE**

**Sources of FGN Revenue**

- **OIL REVENUE (MARKET PRICE)**
  - 7% Cost of Collection
  - 13% DERIVATION
  - 20.60% LOCAL GOVT
  - 26.72% STATE GOVT
  - 52.68% FGN

- **EXCESS CRUDE**
  - BUDGETED OIL REVENUE
  - 4% Cost of Collection

- **BUDGETED OIL REVENUE**
  - 14% of VAT Pool

- **FEDERATION ACCOUNT**
  - 4.18% of Federation Account
  - 1.68% NAT. RESOURCES
  - 0.5% STABILIZATION

- **CONSOLIDATED REVENUE FUND OF THE FEDERATION**
  - 1% ECOLOGICAL
  - 1% FCT

- **FEDERAL BUDGET**
  - 2% of CRF
  - UBE
  - NNDC
  - NJC

- **INDEPENDENT REVENUE**
  - 35% of VAT Pool
  - 50% of VAT Pool
  - Local Govt
  - State Govt

- **FEDERATION ACCOUNT**
  - 15% of VAT Pool

- **FIRS**
  - 4% Cost of Collection

- **CUSTOMS & EXCISE**
  - 7% Cost of Collection

- **CIT**
  - 96%

- **VAT**
  - 96%

- **SPECIAL FUNDS**

- **DEBT SERVICE**

- **MDAs**

- **STAT TRANSFERS**

- **FCT**

- **UBE**

- **NNDC**

- **NJC**
Sources of Revenue for FGN Budget

1. Oil Taxes
   - Crude Oil Sales
   - Petroleum Profits Tax
   - Royalties

2. Non-Oil Taxes
   - Company Income Tax
   - VAT
   - Customs and Excise Duties

3. Independent Revenue
Revenue Projections

- Oil Taxes
  - Level of output
    - Production Capacity
    - Production Quota
  - World Crude Oil Price and Benchmark Crude Price for Budget
  - Operating Costs
  - Capital Costs
  - Government share of different Joint Venture Operations
  - Tax Rate
  - Collection Efficiency
Revenue Projections

- Non-Oil Taxes
  - Value Added Tax (VAT)
    - VAT Rate
    - Economic Activity (GDP, Consumption)
    - FIRS Collection Efficiency
  - Company Income Tax (CIT)
    - CIT Rate and Investment Tax Holiday Rules
    - Economic Activity (GDP)
    - FIRS Collection Efficiency
Revenue Projections

● Non-Oil Taxes
  ● Customs and Excise Duties
    ● Weighted Average Tariff Rate
    ● Trade Activities (Exports and Imports by value)
    ● NCS Collection Efficiency

● Independent Revenue
  ● Activity of Revenue Generating Agencies
Expenditure Framework:
The Budget Process

STAGE 1
MEDIUM TERM REVENUE FRAMEWORK
• OIL REVENUE
• NON-OIL REVENUE
• INDEPENDENT REVENUE

STAGE 2
MEDIUM TERM EXPENDITURE FRAMEWORK
• AGGREGATE SPENDING
• MAJOR HEADS (MDA, DEBT, TRANSFERS)
• DEFICIT

STAGE 3
SET PROSPECTIVE MDA ENVELOPES

STAGE 4
MEDIUM TERM SECTOR STRATEGIES (ANNUAL UPDATE)

STAGE 5
MDA ENVELOPES AGREED

STAGE 6
STAKEHOLDER CONSULTATION
• OPS
• COS
• PUBLIC SECTOR
• NASS

STAGE 7
FISCAL STRATEGY
• REVENUE FRAMEWORK
• EXPENDITURE FRAMEWORK
• PRIORITY FOCUS
• MDA ENVELOPES

STAGE 8
FMF ISSUE BUDGET CALL CIRCULAR INSTRUCTIONS - MDA ENVELOPES

STAGE 9
SUBMISSIONS BY MDAS

STAGE 10
EVALUATION AND CONSOLIDATION OF SUBMISSIONS BY BOF

STAGE 11
PRESENTATION OF DRAFT BUDGET TO MR PRESIDENT & APPROVAL OF DRAFT BUDGET

STAGE 12
TRANSMISSION OF BUDGET BY MR PRESIDENT

STAGE 13
NASS APPROVES & PASSES APPROPRIATION BILL

STAGE 14
MR PRESIDENT ASSENTS
The Annual Budget Process

1. Update MTSS
2. Draft MTEF/Fiscal Strategy Paper
3. Issue Call Circular
4. Receive Submissions from MDAs
5. Evaluation and consolidation of Submissions by BOF
6. Presentation of Draft to Mr. President
7. Transmission to NASS
8. NASS Approves and Passes Appropriation
9. Mr. President Assents
10. Distribution of signed copy to all MDAs.
Payroll budget

Salary Structures in Public Service

- Consolidated Public Service Salary Structure (CONPSS)
- Consolidated Tertiary Educational Institutions Salary Structure (CONTEDEISS)
- Consolidated Police Salary Structure (CONAPOSS)
- Consolidated Paramilitary Salary Structure (CONPASS)
- Consolidated Armed Forces Salary Structure (CONAFSS)
- Consolidated Intelligence Community Salary Structure (CONICSS)
- NNPC Salary Structure (NSS)
- BPE Salary Structure, etc.
Overhead budget

**Objectives**

- To ensure that key overheads of government is provided for
- To ensure that appropriate justification is provided for each overhead item in the budget
- To ensure that appropriate coding is used to aid reporting and accounting
- To ensure that overheads are not unnecessarily padded
- To ensure that Ministries, Departments and Agencies develop cost containment strategies on their own
Overhead budget

Issues in Overhead Budget

- Adequacy of funds for overheads
- Abuse of overheads by MDAs
- Expected reduction in overheads because of the introduction of Monetization
- Fund reallocation within Overhead subheads
Overhead budget

Steps and Procedures

- Determine the key overhead of the agency
- Review the total past expenditure on the respective expense head
- Used as a basis for estimating the budget for the current year and subsequent years
Capital Budget

Objectives

- To ensure that scarce government funds is expended on projects and programmes that positively and materially affect the life of the citizens

- To ensure that our capital expenditure take into cognisance Millennium Development Goals (MDGs) and our NEEDS priorities and NOW Transformation Agenda.

- To substantially reduce abandoned projects by ensuring that ongoing projects and programmes are first considered before opening new ones

- To develop a database of projects and programmes that will enable government monitor and control development funds
Capital Budget

- Issues in Capital Budget
- Steps and Procedures
B: Approval

- Presentation to Presidential Committee by HMF
- Presentation to Mr. President/FEC
- NASS
  - Appropriation Committees
  - Budget Defence with relevant Committees
  - Harmonization
  - NASS approves/passes the harmonized budget
- Mr. President assents to the Budget to become an Appropriation ACT
C: Implementation

- Federal Budget is implemented through the following instruments:
  - Warrants
  - Authority to Incur Expenditure (AIE)
WARRANTS AND AIEs

Types of Warrant

- Recurrent General Warrant
  - Personnel
  - Overhead

- Development Fund General Warrant

- Provisional Warrants
AGGREGATE RELEASE OF CAPITAL ALLOCATION

- Beginning from third quarter of 2008, Government commenced the release of capital warrant only with the aggregate due to each MDA on their total capital allocation in line with the classification code as contained in the Charts of Account.

- MDAs collect every quarter development warrant with the total quarterly without details of the amount allocated to each expenditure line item (project/programme) as specified in the Appropriation Act.
AGGREGATE RELEASE OF CAPITAL ALLOCATION

The Purpose are to:

• allows for flexibility in the utilization of funds for capital projects/programme.
• eliminates any form of constriction in the procurement process. MDAs could spend their capital allocation according to their set priorities.
• enhances the self-accounting status of each MDA.
AGGREGATE RELEASE OF CAPITAL ALLOCATION

• However, MDA must ensure that spending on individual capital projects/programmes should not exceed the amount allocated in the Appropriation Act.

• Any spending on capital projects and programmes above the allocation in the Appropriation Act is a violation of the Financial Regulation.
Zero-based budgeting (ZBB) is a technique used for developing annual budgets that complement the budget planning and review process.

Zero-based budgeting allows top-level strategic goals to be implemented into the budgeting process by tying them to specific functional areas of the organization.

Due to its flexibility, this method of budgeting allows department heads to identify alternative ways to utilize limited resources through a systematic review.

A zero-based budgeting starts from a “zero base” and every function within an organization is analyzed for its needs and costs — all expenses must be justified.
Zero Based Budgeting and National Development (Cont’d)

- The budget is built based on the needs for the upcoming year, regardless of whether the new proposed budget is higher or lower than the previous one. Once developed, the budget is balanced given funding constraints.

- Zero-based budgeting is a method of budgeting in which all expenses must be justified and every function within an organization is analyzed for its needs and costs. The purpose of the ZBB analysis is to assess a particular program’s activities against its statutory responsibilities, purpose, cost to provide services, and desired performance outcomes.
Zero Based Budgeting and National Development: Benefits

- Facilitates efficient allocation of resources, as it is based on needs and benefits rather than history.
- Drives managers to find cost effective ways to improve operations.
- Increases staff motivation by providing greater initiative and responsibility in decision-making.
Zero Based Budgeting and National Development: Benefits

- Increases communication and coordination within the organization.
- Identifies and eliminates wasteful and obsolete operations.
- Requires programs to identify their purpose and their relationship to strategic goals.
- Helps in identifying areas of wasteful expenditure, and if desired, can also be used for suggesting alternative courses of action.
CHALLENGES IN BUDGET PREPARATION & EXECUTION

- Unexplained delay in Budget preparation commencement process
- Mismatch between realistic period of capital budget implementation and budget approval cycles
- Lack of linkage between annual budgets and national development aspirations manifest in the absence of national development planning culture
- Results based framework not available courtesy of using a non-programmed based budgeting
CHALLENGES IN BUDGET PREPARATION & EXECUTION (2)

- Determination of realistic assumptions and parameters underlying MTRF & MTEF.
- Weak reporting culture by MDAs:
- Poor project planning and conceptualisation by MDAs
- Unplanned expenditure, in particular recurrent, on the size and composition of the budget
- Inability to fully release funds due to shortfalls in realising financing items (Revenues) despite high oil revenues
Next Steps towards Results Based Budgeting and National Development Planning

- Immediate revision of NV 20:2020 to Vision 2030 and its alignment with Sustainable Development Goals (SDGS)
- Development of Five year National Development Plan commencing from 2017
- Review and upgrade of our Public Private Partnership (PPP) policy by ICRC towards filling our huge infrastructure gap
- Incorporation of Quantity Surveyors in the costing of all capital projects at all tiers of public financial management
Next Steps towards Results Based Budgeting and National Development Planning

- Signing of a memorandum of Understanding by NIQS with all tiers of government towards actualizing the proposed partnership
- Complete reverting to Programmed based budgeting with a clear results framework
- Incorporation of at least one percent of annual budget as a provision for a results based monitoring and evaluation framework
- Review and passage of National Development Planning and Continuity Bill
THANKS AND GOD BLESS NIGERIA AND NIGERIANS

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