



# **MAKING TOUGH CHOICES: BUDGETARY EXPENDITURE RE-ALIGNMENT AND FISCAL AUSTERITY**

**Being a presentation at the Institute of Chartered Accountants (ICAN) Symposium on the 2015 Federal Budget with the theme: "Come back Nigeria: The Nation`s Fiscal Challenges and Way Forward for the New Administration held on Thursday 13<sup>th</sup> August, 2015 at the Shell Hall, Muson Centre, Onikan, Lagos**



# OUTLINE

- **Introduction.**
- **Highlights of FGN`s Y2015 Budgeted Expenditures.**
- **Critical Evaluation of Budgeted Expenditures.**
- **Concluding Remarks.**



# INTRODUCTION

- **Budget presented to the National Assembly on 17<sup>th</sup> December, 2014 for total proposed expenditure of N4.425 trn.**
- **The Senate passed the Budget on 28<sup>th</sup> April, 2015 (House of Reps 23<sup>rd</sup> April, 2015) for a total expenditure of N4.493trn.**
- **The former President, Mr. Goodluck Jonathan, signed the budget into law early May 2015 without fanfare**

# INTRODUCTION

➤ **Key Assumptions underlying the Y2015 Budget include:**

- **Crude Oil price benchmark - \$53pbl**
- **Daily Crude production - 2.278mbpd**
- **Exchange Rate - N190/\$**
- **Budget Deficit - N1.075 trn**



# HIGHLIGHTS OF Y2015 BUDGETED EXPENDITURES

	N/bn
• Total FGN Revenues	3,452.0
• Statutory Transfers	375.6
• Total Recurrent Expenditure	2,607.1
<b>Total capital expenditure</b>	<b>557.0</b>
- By MDAs	536.2
- SURE-P	21.0
• Total Debt Service	953.6
• Total Expenditure	4,493.3
• Fiscal Deficit	1,041.3



# HIGHLIGHTS OF Y2015 BUDGETED EXPENDITURES

	N/bn
• Defence and Security (incl. amt in SWV)	991.6
• Education	415.9
• Health	259.8
• Service wide votes (SWV)	354.3
• National Assembly (incl. N1bn for National Assembly Clinic)	121.0
• National Judicial Council	73.0
• INEC (incl. amts in SWV)	79.5

# CRITICAL EVALUATION OF BUDGETED EXPENDITURES



- **Budgeted revenues may not be realizable for following reasons:**
  - **While oil price benchmark of \$53 falls in the range of \$52-\$60 projected for rest of 2015, current daily production averages 1.85mbpd vs 2.28mbpd in the budget (about 20% shortfall)**
  - **Non-oil revenues not performing significantly above budget; new revenue lines like Luxury taxes not likely to make significant impact**
  - **Improving accountability over revenues as well as slightly higher actual exchange rate however providing some mitigation**

# **CRITICAL EVALUATION OF BUDGETED EXPENDITURES**



- **On the other hand, budgeted expenditures are also lacking in reality for following reasons:**
- **No provision for fuel subsidies, and yet at current run-rate subsidies will reach nearly N1trn in 2015**
  - **Significant un-provided amounts exist for items like pensions**
  - **Upward pressure on interest rates means higher debt service costs than budgeted**
  - **Inflationary pressures may also mean higher cost of running basic government services**



# **CRITICAL EVALUATION OF BUDGETED EXPENDITURES**



- **Capital expenditure (incl. N144bn in Statutory transfers) of only 16% of budgeted expenditure in face of massive infrastructure deficits is untenable; worse still, as in the past, the capital budget is more likely to suffer in face of cash flow challenges;**
- **As a minimum, Capex should be 25% of the budget in 2015, growing annually towards 50% at least by 2019.**

# **CRITICAL EVALUATION OF BUDGETED EXPENDITURES**



- **A re-alignment of budgeted expenditures, in the absence of significant additional revenues, is therefore an imperative for the federal government; areas to consider include:**
  - **Personnel Costs (PCs) accounting for nearly 50% of the budget is unsustainable; personnel amounting to under 1% of national population cannot consume 50% of the national budget on wages & pensions alone!; PCs grew from N800m /15% in 2007 to N2.1trn/46% in 2015!; target should be no more than 25% of budget by 2019; efforts to implement the Integrated payroll & Personnel Information system (IPPIS) and flush out ghost workers needs to be comprehensively pursued**

# CRITICAL EVALUATION OF BUDGETED EXPENDITURES



- **Service-wide Votes (SWV) still a whopping N354.3bn (8% of total budget); SWV is a Contingency fund for MDAs managed by the Fed. Min. of Finance (FMF) ; many strange/questionable expenditure items included in the SWV require serious scrutiny/reduction/elimination; SWV still includes several items relating to personnel costs!**
- **Focus on the several seemingly small but unnecessary items of expenditure which aggregate to a lot, eg, Pilgrimages (N1.8bn); over N200m for canteen/kitchen equipment & crested crockery; several sundry/frivolous overhead items that are merely carried over from the previous year**

# **CRITICAL EVALUATION OF BUDGETED EXPENDITURES**



- **The National Assembly's budget of N121bn (2.6% of total budget; 47% of Health & 29% of Education budgets) is not sustainable, and requires significant reduction; the budget needs to be scrutinized and all frivolities/waste removed**
- **Operational costs of parastatal / extra-ministerial institutions need to be scrutinized, eg, N5.5bn of the N63.3bn budget for Presidential Amnesty Programme is for operational cost!**

# CONCLUDING REMARKS



- **The 2015 Budget is technically dead on arrival; so greatly flawed it is un-implementable in its current form**
- **The new administration really has no option than to significantly re-work the budget**
- **Re-alignment of the 2015 budgeted expenditures will require some bold actions; some form of tough love especially on personnel-related matters**
- **Somehow, the Executive must persuade the national Assembly to take the same perspective in re-working the 2015 budget/**