PRELIMINARY VIEWS ON THE 2015 FEDERAL BUDGET

By Centre for Social Justice Limited By Guarantee

1. INTRODUCTION

The 2015 federal budget laid before the National Assembly on December 17 2015 by the Minister of Finance came very late in the year and marks the second time the President chose to make himself unavailable to address the Nigerian people on key economic policy directives contained in the budget. Although, legal scholars opine that the Constitution did not oblige the President to come in person to present or lay the budget before the legislature or even address the nation, the idea of a President and Commander in Chief of the Armed Forces of the Federal Republic of Nigeria shying away and delegating his core duty to another person is a departure from tradition and does not portray Mr President as being in charge of the economic policy direction of the country.

The second issue is that the budget is being laid before the legislature at a time the Medium Term Expenditure Framework has not been approved. This is contrary to section 18 of the Fiscal Responsibility Act. The MTEF undergirds the budget and nothing is to be found in the budget that has not already been approved in the MTEF.

The third issue is that the fiscal authorities in the Ministry of Finance and Budget Office of the Federation have refused to provide information on the implementation of the 2014 budget. As at today, only the first and second quarter budget implementation reports of 2014 is available to the public. This is contrary to section 30 of the Fiscal Responsibility Act (FRA). Thus, the parametres for comparing the budgets of 2014 and 2015 may not be fully available to Nigerians.

2. KEY ASSUMPTIONS

The 2015 Federal budget is premised on the following key assumptions in Table 1

ASSUMPTIONS	THE APPROVED 2014 BUDGET	PROPOSED 2015 BUDGET	
		Initial Proposal	Revised Proposal
OIL PRICE (PER BARREL)	$77.5	$78	$65
CRUDE OIL PRODUCTION (mbpd)	2.39	2.2782	2.2782
EXCHANGE RATE (N/$)	160.3	160	165
GDP GROWTH RATE (%)	6.75	6.35	5.5

A. Benchmark Price on Crude Oil: Insisting on a benchmark price of $65pb at a time crude oil is trading below $60pb is an exercise in futility which seeks to lay the foundation for budget failure. It is also a ready-made excuse for the budget not to achieve its objectives. A budget must be realistic and its revenue framework based on accruable revenue sources. Planning with facts and statistics which the planner knows to be wrong is a waste of time. For the government to merely hope without any empirical basis that the price of oil will rebound in 2015, as the basis for fixing a benchmark higher than the actual price raises issues about the credibility of the budget. The benchmark should have been lower than current prices and if the price eventually goes up, savings can accrue to the Excess Crude Account.

B. Crude Oil Production: The unfortunate apology that this projection reflects our actual production for the time being speaks volumes of the willingness of the government to perform its basic obligation which is to secure lives and properties. The Budget Office of the Federation describes the lowered quantity produced in 2014 it as quantity shock. A government with all the paraphernalia of security at its disposal including the army, navy, airforce, police, civil defence, NIMASA and security contracts to some notable companies cannot be heard pleading oil theft and pipeline vandalism as an excuse for lowered production estimates. Considering that crude oil is the virtual mainstay of our economy, this abdication of duty to police the production and transportation of the product is unimaginable and ranks the government low.

C. Exchange Rate: Insisting on an exchange rate of N165 to 1USD at a time when the currency is facing severe pressure and the Central Bank has fixed a band of - + 5percent around the N168 to 1USD corridor appears overtly optimistic. Why not use N168 to 1USD or the interbank rate of N167.5 to 1USD. With the sell-off of stocks by foreign investors, increased frivolous spending for the 2015 campaigns and obvious liquidity challenges, the naira may likely depreciate further. Undue optimism in the face of daunting challenges pointing in the opposite direction is not the way for credible planning.

- **Therefore the benchmark price of crude oil and the exchange rate projection seem to be based on inaccurate data and information and will lead to lack of predictability in the budget**

3. THE FISCAL ITEMS

The composition of the fiscal items in the 2015 proposed budget is as follows in Table 2.

Fiscal items	Approved 2014budget	% of Total 2014 Approved Budget	2015 Proposed Budget	% of Total Proposed 2015 Budget
	N'bn		N'bn	
FGN Government Revenue	**3,731.00**	**74.72**	**3,602.96**	**80.78**

TOTAL FGN EXPENDITURE	**4,993.06**	**100.00**	**4,460.46**	**100.00**
Statutory Transfers	***408.69***	***8.19***	***411.84***	***9.23***
Debt Service	***712***	***14.26***	***943***	***21.14***
Recurrent Expenditure	***2,468.83***	***49.45***	***2,616.01***	***58.65***
Personnel Costs (MDAs)	1,727.61	34.60	1,836.73	41.18
Overheads	251.93	5.05	199.18	4.47
CRF Pensions	187.45	3.75	231.41	5.19
Other Service Wide votes	301.84	6.05	348.69	7.82
Capital Expenditure (including SURE-P)	***1,552.99***	***31.10***	***633.53***	***14.20***
Share of Capital as % of Non-Debt Expenditure	36.28%		18.01%	
Share of Capital as % of Total Expenditure	31.10%		14.20%	
SUBIDY REINVESTMENT PROGRAM (SURE-P)	***268.37***	***5.37***	***102.5***	***2.30***
SURE-P Board (Running Cost)	1.2	0.02	0.5	0.01
SURE-P (Capital Expenditure)	267.17	5.35	102	2.29
Fiscal Deficit (Based on Regular Budget)	**-993.68**		**-755**	
DEFICIT/GDP	**-1.24%**		**-0.79%**	
Some financing				
Sharing from Stabilisation Fund Account (ECA)	324.97		80	
New Borrowing	624.22		570	

A. Capital Expenditure: At a time of lean resources, the FGN proposal brings home the wrong steps of the current and previous administrations. A capital expenditure proposal of N633.53bn (14.20% of budget), down from the N1,552.99bn (31.10% of budget) proposed in 2014 is a huge decline -16.9 percent decline. For an infrastructure deficient economy, this level of capital expenditure is totally unacceptable. And the snag is that if tradition is to be followed, in no year in the last ten years has FGN released and cash-backed up to 80% of budgeted capital expenditure. Definitely, implementation of the capital budget will witness further decline as a percentage of overall expenditure. While capital expenditure declines, recurrent spending is increasing.

B. Recurrent Expenditure: The same mantras that have been mouthed since 2006 are still the panacea that the government offers to bring down recurrent spending. IPPIS, GIMFIS, Single Treasury Account, etc. Why would IPPIS take 8 years to complete and enrol all government workers? But the government is not showing the results of previous interventions and how it intends to stop the waste in the system. Despite promises to hand over the persons who looted the treasury with ghost workers, the government appears to be shielding them. Since early in 2014, the Minister of Finance claimed that a report has been lodged with ICPC, absolutely nothing has been done or has come out of it. The thieves are working the streets free.

C. Debt Service: The demand for funds to service debts is increasing. It rose from N712bn in 2014 being 14.26% of budget to N953bn in 2015 being 21.14% of budget. The major issue with the increased spending on debt servicing is that the bulk of these debts were not incurred in accordance with due process of law. With a debt profile of $69.6bn, FGN and the states cannot point to capital projects and activities or human capital developmental projects worth that much. A good part of the debts were incurred to fund recurrent instead of capital expenditure against the clear provisions of the FRA (sections 41- 44 of the FRA). To imagine that Nigeria is spending more on debt service compared to capital expenditure is a nightmare. We are proposing to spend N310bn more on debt service than capital expenditure. The debt service provision is 148.84% of capital expenditure! At the same time, debt service amounts to 26.17% of our retained revenue.

D. Personnel Costs (MDAs): The rising personnel costs after ghost workers have been purportedly weeded out from the federal service and other reforms, such as IPPIS kicking in is a bit confounding. It is unfair that less than 1% of Nigerians should be getting 41.18% of the overall budget, up from the 34.60% they got in the 2014 allocation. The N1,836.73bn for MDA personnel costs is an allocation that needs appropriate action geared to reduce the same in the short, medium to long term.

E. Statutory Transfers: Although the full breakdown of statutory transfers are not available to the authors, the increase from N408.69bn being 8.19 % of the budget in 2014 to N411.84 being 9.23% of the overall budget in 2015 appears on the high side. It appears that in this period of austerity, key institutions have not adjusted their votes to reflect the lean times.

F. Other Service Wide Votes: This rose from N301.84bn being 6.05% of the 2014 budget to N348.69bn being 7.82 of the 2015 proposal. This increase is unacceptable in a time of lean resources. The Oronsanye Committee on reforming the cost of governance stated as follows of service wide votes:

The committee noted the widely held view of the abuse of the utilization of the service wide vote. It was the view of the committee that budget heads currently captured under that vote could actually be captured either under specific MDAs or the contingency vote. Considering the constitutional provision for the contingency vote, it is believed that the service wide vote is not only an aberration, but also an avoidable duplication. The committee therefore recommended that the service wide vote should be abolished and items currently captured under it transferred to the contingency vote or the appropriate MDAs.

It is therefore our considered view that this allocation be restructured and given to the respective MDAs in need of them.

4. ADJUSTMENT MEASURES

A. Leakages and Under Remittance of IGR by MDA: The proposal by FGN is to ramp upon collecting 25% of gross independent generated revenues by MDAs. This is a welcome development. But FGN should also take cognisance and seek to enforce the express provisions of sections 22 and 23 of the FRA. Section 22 requires 80% of the operating surplus of scheduled corporations to be paid over to the consolidated revenue fund of FGN. In this direction, the strengthening of the Fiscal Responsibility Commission to perform its assigned statutory role is imperative so that more revenues may be collected and paid over to the treasury. Further, there is the need for collaboration between the FRC and the Accountant -General of the Federation to firm up the template for the calculation of operating surplus for the scheduled corporations.

B. Surcharge on Luxury Goods and Efficiency Gains: Table 3 shows new sources of financing and efficiency gains that would come with the adjustments.

Adjustment Measures:

Revenue Side:	**Expected Income/Amount Saved**
Surcharges on certain luxury items	N23billion
10% import surcharge on new private jets	N3.7billion
39% import surcharge on luxury yatch	N1.6billion
5% import surcharge on Luxury Cars	N2.6billion
Surcharge on Business & First Class Tickets on Airlines	yet to fix rate
3% luxury surcharge on Champagnes, Wines & Spirits	N2.3billion
1% FCT Mansion Tax on Residential Properties with value of N300million & above	N360million
Strengthening Tax Administration and tax policy (N460billion in 3years) that's an average of	N153.3billion
Expenditure Side:	
Freezing purchase of new office equipment & other	

administrative capital. This will generate some savings:	
Purchase of Office Buildings	N1.99billion
Construction/Provision of Office Building	N24.05billion
Purchase of office furniture and fitting	N9.50billion
International travel and training will be limited to only the most crucial for now:	
This applies to all public servants so that parastatals can remit more IGR to Treasury	N14.02billion
Rationalize expired committees and commissions that lead to leakages	N6.49billion
TOTAL	**N243.36Billion**

Although these steps are commendable, more still needs to be done to save resources from leakage points and get new sources of funding. The implementation of the Oronsaye Committee report with modifications as are reasonably necessary in the circumstances will go a long way in facilitating the adjustments.

4. CONCLUSIONS

- Let the Presidency and National Assembly lead the way in the austerity measures and adjustments. Nigerians will be too willing to follow.
- The executive should empower security agencies to do the simple task of stopping oil theft and thereby increasing our crude oil production volume to not less than 2.5mbpd.
- The benchmark price of crude oil should be reduced to a realistic estimate, not more than $55pb.
- A moratorium on borrowing unless it is tied to specific capital projects.
- Reallocate service wide votes to MDAS.
- The Budget provides an opportunity for the presidential candidates to have a debate around the different perspectives of handling fiscal policy at a time of crisis and uncertainty.
- Take steps to recover the N160bn stolen by ghost workers.
- Strengthening the Fiscal Responsibility Commission to performs its statutory duties
- Full implementation of the provisions of the Fiscal Responsibility Act.