

Kaduna State Government



Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS)

To Cover Period: 2016-2018

OCTOBER, 2015

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Abbreviations

AEO	Africa Economic Outlook
AfDB	Africa Development Bank
AG	Accountant General
BPS	Budget Policy Statement
BRICS	Brazil, Russia, India, China, South Africa
CBN	Central Bank of Nigeria
CGS	Conditional Grants
CRF	Consolidated Revenue Fund
CSOs	Civil Society Organisations
DFID	Department for International Development
DMD	Debt Management Department
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
EFU	Economic and Fiscal Update
ExCo	Executive Council
FAAC	Federal Allocation Accounts Committee
FDI	Foreign Direct Investment Inflows
FIRS	Federal Inland Revenue Service
FSP	Fiscal Strategy Paper
GDP	Gross Domestic Product
HRM	Human Resource Management
IDA	International Development Association
IDB	Islamic Development Bank
IGR	Internally Generated Revenue
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
KDSG	Kaduna State Government
KSMC	Kaduna State Media Corporation
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MINT	Mexico, Indonesia, Nigeria, Turkey
MOEP	Ministry of Budget and Planning
MoF	Ministry of Finance
MTBF	Medium Term Budget Framework
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
MTSS	Medium Term Sector Strategy
NBS	National Bureau of Statistics
NGOs	Non –Governmental Organisations
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management

PITA	Personal Income Tax Account
PPP	Public Private Partnership
SEMA	State Emergency Management Agency
SESP	State Education Sector Projects
SHoA	State House of Assembly
TWG	Technical Working Group
VAT	Value Added Tax
WEO	World Economic Outlook

Section 1 Introduction and Background

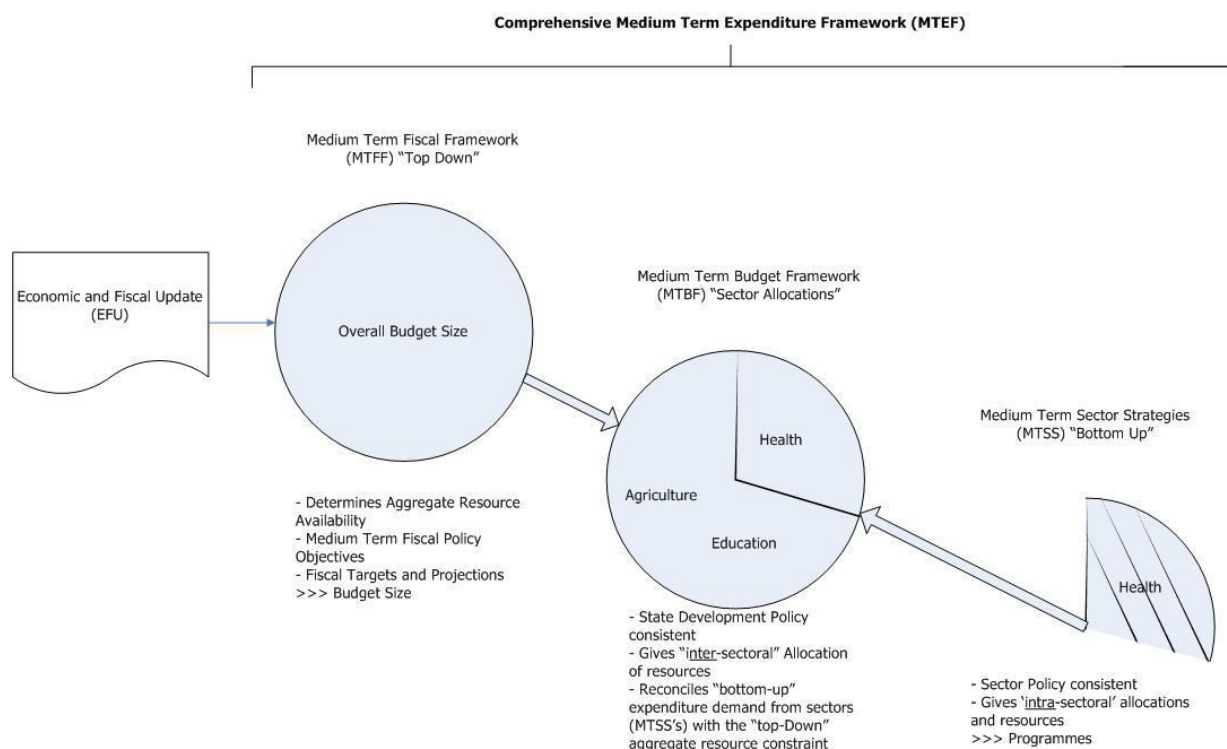
1.A Introduction

1. The Economic and Fiscal Update (EFU) provides economic and fiscal analyses which form the basis for budget planning process. It is aimed primarily at policy makers and law makers in Kaduna State Government (KDSG). The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.
2. On the other hand, Fiscal Strategy Paper (FSP) is a key element in Medium Term Budget Framework (MTBF) and annual budget process, and as such, it determines the resources available to fund Government projects and programmes from a fiscally sustainable perspective.
3. Budget Policy statement (BPS) states the overarching policy goals that will guide the Government Budget decisions and how the budget accords with the government short term intention. It also states any changes to the government long term and short term fiscal objectives. In addition it explains how any changes in the long term fiscal objectives and short term fiscal intentions accord with principles of responsible fiscal management.

1.A.1 Budget Process

4. The budget process describes the budget cycle in a fiscal year. Its conception is informed by the MTEF process which has three components namely:
 - i. Medium Term Fiscal Framework (MTFF)
 - ii. Medium Term Budget Framework (MTBF)
 - iii. Medium Term Sector Strategies (MTSS)
5. It commences with the conception through preparation, execution, control, monitoring and evaluation and goes back again to conception for the ensuing year's budget.
6. The MTEF process is summarised in diagram below:

Figure 1: MTEF Process



1.A.2 Summary of Document Content

7. In accordance with international best practice in budgeting, the production of a combined EFU and FSP is the first step in the budget preparation cycle for KDSG for the period 2016-2018.
8. The purpose of this document is three-fold:
 - To provide a backward looking summary of key economic and fiscal trends that will affect the public expenditure in the future - EFU;
 - To set out medium term fiscal objectives and targets, including tax policy; revenue mobilisation; level of public expenditure; deficit financing and public debt - FSP; and
 - Provide indicative sector envelopes for the period 2016-2018.
9. The EFU is presented in Section 2 of this document. The EFU provides economic and fiscal analysis in order to inform the budget planning processes. The EFU provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation. It includes:
 - Overview of Global, National and State Economic Performance
 - Overview of the Petroleum Sector
 - Trends in budget performance over the last six years
10. The FSP is a key element in the KDSG Medium Term Budget Framework (MTBF) and annual budget process, as such, it determines the resources available to fund the Government's growth and poverty reduction programmes from a fiscally sustainable perspective.

1.A.3 Preparation and Audience

11. The purpose of this document is to provide an informed basis for the 2016-2018 budget preparation cycle for all the key Stakeholders, specifically:

- State House of Assembly (SHoA);
 - Executive Council (ExCo);
 - Ministry of Budget and Planning (MoEP);
 - Ministry of Finance (MoF)
 - All other Government ministries, departments and agencies (MDAs);
 - Civil Society Organisations (CSOs)
12. The document is prepared by KDSG prior to the annual budget process. It is prepared by KDSG EFU-FSP Technical Working Group (TWG) using data collected from International, National and other State organisations.

1.B Background

1.B.1 Legislative and Institutional arrangement for PFM¹

13. **Legislative Framework for PFM in Kaduna State** - The legal instruments and enactments governing PFM in Kaduna State include the 1999 constitution of the Federal Republic of Nigeria, the Personal Income Tax Act (PITA) 1993, the Finance (Control & Management) Act 1958 as amended, the Financial Instruction 2005 and occasional service circulars issued by the Accountant General (AG). As the grand norm of the country, the 1999 constitution as amended is the overriding law governing PFM in Kaduna State. Its provisions supersede and override the content of any other law or provision in the states to the extent that other laws are inconsistent with the constitution. The other PFM related laws and provisions elaborate and expand on the provision of the constitution; however, they cannot contradict its latter and intent.
14. **Institutional Framework for PFM in Kaduna state** - Within Kaduna State, sub-National Public Finance is managed by KDSG and the 23 Local Governments. The Executive of KDSG, headed by the State Governor, is responsible for the KDSG Budget, and reports on its execution to the Kaduna SHoA.
15. State Governments usually have Public service rules that further define the roles of public officers in the PFM system. The rules detail Human Resources Management (HRM) processes and tools including, job descriptions, roles and responsibilities, recruitment, career, discipline, and boarding procedures.
16. The Debt Management Department (DMD) operating under the office of the AG deals with professional management of public debt, including recording and collating of debt figures and advising the Government on issues of debt related issues.

1.B.2 Overview of Budget Calendar

17. Indicative Budget Calendar for Kaduna State Government is presented below:

Table 1: Budget Calendar

Stage	Date (s)	Responsibility
Presentation of EFU- FSP & BPS to EXCO	16/09/15	MoBP
Transmittal of EFU- FSP & BPS to SHoA for Information	21/09/15	MoBP

¹ Based on 2011 PEFA Assessment for Kaduna State Government

Stage	Date (s)	Responsibility
Commencement /updating Of Sector Restoration Strategies (SRS) by all MDAs	14-09 - 15/28-09-15	MoBP
Call Circular to MDAs with indicative MDAs envelopes	09/09/15	MoBP
Training on the concept of ZBB and SRS for all MDAs	21-26/09/15	MoBP
First draft of SRS and Strategic Plans	30/09/15	MoBP
Third Quarter year Budget Review	20/10/15	MDAs
Refinement and completion of Sector Restoration Strategies Plan and other MDAs plans with compilation of Budget		MoBP
Final day for MoBP to submit details 2016-2018 Budget proposals		MDAs
Final day for MOBP to finish analysing MDAs Budget Proposals		MoBP
Defence of Budget proposals		MDAs
Collection and preparation of First draft 2016-2018		MoBP
Presentation of 2016 draft Budget to HE for perusal/comments		HC MoBP
Effecting corrections/ amendments by MOEP vide HE observations		MoBP
Presentation of Draft Budget to Council for deliberations		HC MoBP
Presentation of draft Budget to the SHoA		His Excellency
Review and approval by SHoA		His Excellency
Assent by the Governor		Hon. Speaker
Public Presentation and analysis		MoBP
Production of guidelines for 2016 Budget Implementation Circular		MoBP

Section 2 Economic and Fiscal Update

2.A Economic Overview

2.A.1 Global Economy

18. Based on the International Monetary Fund's (IMF's) April 2015 World Economic Outlook (WEO) Update, global growth remains moderate with uneven prospect across the main countries and regions. It is projected to be 3.5% in 2015. Relative to last year, the outlook for advanced economies is improving, while growth in emerging market and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil exporting countries. Global growth in 2014 was a modest 3.4%, reflecting a pickup in growth in advanced economies relative to the previous year and a slowdown in emerging market and developing economies. Complex forces that affected global activities in 2014 are still shaping the outlook: medium and long term trends, global shocks and many countries or region specific factors. Financial conditions have eased in advanced economies, financial conditions have also eased in several emerging market oil importers which have reduced policy rates as lower oil prices and slowing demand pressures have lowered inflation. More generally, risks spreads have risen and currencies have depreciated in a number of commodities exporters and risks spreads on high yield bonds and other products exposed to energy prices have also widened.
19. A solid recovery is expected to continue in the United States, where growth averaged about 4% in the last three quarters of 2014. Conditions remain in place for robust economic performance in 2015. Markedly lower energy prices, tame inflation, reduced fiscal drag, strengthened balance sheet and an improving housing market are expected to sustain the momentum of the past three quarters. Growth is projected to reach 3.1% in 2015 as well as 2016. However, the picture over a longer horizon is less upbeat, with potential growth estimated to be only about 2%, weighed down by an aging population and weaker total factor productivity growth. The Euro Zone continues to recover during the past year, 2014. Lower oil prices, lower interest rate and Euro depreciation as well as the shift to a broadly neutral stance are projected to boost activity in 2015-2016. Specifically, growth is expected to increase from 0.9% in 2014 to 1.5% in 2015 and 1.6% in 2016.
20. Overall, growth in emerging market and developing economies is projected to rise slightly from 2.8% actual in 2014 to 2.9% in 2015 and to 3.2% in 2016. Lower oil prices and the gradual recovery in the euro area are expected to provide a lift to the region, offsetting the effect of the contraction in Russia and still-elevated corporate debt levels.
21. Countries selected are chosen to represent G20, Brazil, Russia, India, China and South Africa (BRICS), Mexico, Indonesia, Nigeria, Turkey (MINT), Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea and Vietnam (N-11), Petro-economies (countries that depend heavily on oil revenue eg Saudi Arabia, Nigeria, Venezuela etc) and other large African countries.

Table 2: Real GDP Growth - Selected Countries

Country	% Actual ²			% Forecast		
	2012	2013	2014	2015	2016	2020
Mexico	3.6	1.2	2.1	3.0	3.3	3.8
Indonesia	6.2	5.3	5.1	5.2	5.5	6.0
Turkey	2.2	3.8	3.1	3.1	3.6	3.5
United States	2.8	1.6	2.6	3.1	3.1	2.0
Germany	0.9	0.5	2.6	1.6	1.7	1.3
United Kingdom	0.2	1.4	2.6	2.7	2.3	2.1
China	7.7	7.6	7.4	6.8	6.3	6.3
Ghana	7.9	7.9	4.7	3.5	6.4	4.3
South Africa	2.5	2.0	1.4	2.0	2.1	2.8
Brazil	0.9	2.5	0.1	-1.0	1.0	2.5
Angola	5.2	5.6	4.4	4.5	3.9	5.8
Nigeria	4.3	5.4	6.3	4.8	5.0	6.0

Source: IMF's World Economic Outlook, April 2015.

22. BRICS and MINT countries show on average high growth than G20 and G7 countries over the period, with Ghana also being particularly well performing.

Table 3: Inflation (CPI) - Selected Countries

Country	% Actual			% Forecast		
	2012	2013	2014	2015	2016	2020
Mexico	4.1	4.0	4.0	3.2	3.0	3.0
Indonesia	4.0	8.1	5.4	6.8	5.8	4.8
Turkey	4.9	7.4	9.0	6.6	6.5	6.0
United States	2.1	1.5	2.4	0.1	1.5	2.3
Germany	2.1	1.2	0.9	0.2	1.3	1.9
United Kingdom	2.8	1.0	2.2	0.1	1.7	2.0
China	2.6	2.5	2.3	1.2	1.5	3.0
Ghana	7.1	13.5	18.5	12.2	10.2	7.4
South Africa	5.7	5.4	6.3	4.5	5.6	5.5
Brazil	5.4	5.1	6.2	7.8	5.9	4.5
Angola	10.3	7.7	7.4	8.4	8.5	6.5
Nigeria	12.2	8.5	8.1	9.6	10.7	7.0

Source: IMF's World Economic Outlook, April 2015

23. Ghana and Angola both experienced high inflation rates together with their high real GDP growth. Globally inflation rates are set to decrease over the next five years as mineral and agriculture prices stabilise.

² * = estimate

2.A.2 Africa

24. Africa's economy continues to show a high degree of resilience against global economic shocks. However, the growth momentum has eased in countries with strong links to global markets and also in those where political and social tensions have increased. With a gradual recovery of the global economy, the continent's average growth of gross domestic product (GDP) is likely to amount to 4.8% in 2014 and 5.7% in 2015, respectively (see Africa Development Bank's Africa Economic Outlook (AEO) 2014). If the effect of the assumed rebound in Libya's oil production in 2015 is excluded, Africa's growth is estimated at 5.2% in 2015. Africa's underlying growth will then have returned to the earlier path before the 2009 global recession. An assumption underlying this favourable outlook is that the world economy will strengthen and that political and social stability in those African countries, which have been affected by conflict, will improve. According to the Economist, in 2014 commodity prices tumbled. Many economists feared the worst for Africa. For decades the continent has been worryingly dependent on commodities to power economic growth. When prices crashed, economies will go into a tailspin. This time around, though, things seem different. The continent is holding up well. Good harvests have boosted agricultural production in many countries and helped mitigate the adverse effects of high international food prices on consumers. Manufacturing output in the continent is expanding as quickly as the rest of the economy. Growth is even faster in services which have expanded at an average rate of 2.6% per person across Africa. Tourism in particular has boomed: the number of foreign investors doubled and receipt tripled. All this means that even if the income from commodity production slips, other parts of the economy can take up the slack.
25. Africa's economic prospects depend on global and domestic factors, which are highly uncertain. The main channels of transmission of weaker global growth would be lower commodity export earnings, shrinkages in export volumes of other goods, tourism receipts, official development assistance (ODA), foreign direct investment inflows (FDI) and workers' remittances. According to AfDB estimates, a one-percentage point decline in the GDP of Organisation for Economic Co-operation and Development (OECD) member countries causes African GDP to decline by about 0.5% and Africa's export earnings by about 10%. Trade is the most important channel of transmission. African exports are already affected by the downturn of the global economy; a worsening of Europe's debt crisis could constrain Africa's exports even more. While ODA, FDI and remittances have so far remained supportive of growth in Africa, a prolonged and deeper crisis in Europe could rapidly curb these financial flows.
26. Despite the risks, the economic outlook for Africa remains cautiously optimistic. Impressive growth over the past 15 years, underpinned by resilience during the 2009 global recession and the recent global downturn, support such optimism. The main short-term challenge for the continent is to consolidate stable macroeconomic conditions in the face of a more volatile global economic environment. In addition, institutions and regulations for private sector activity must be further improved. Addressing infrastructure bottlenecks increasing access to key public services such as education, health and security would put countries on a durable high growth path and reduce poverty and inequality.

2.A.3 Nigerian Economy³

Macroeconomic

27. Over the last decade Nigeria grew by 7.5% and is next to the two of the world fastest growing economies of Asia, namely China and India which had grown at 10.4% and 7.6%, respectively over the same period. Nigeria's GDP growth rate remains robust at 5.4% for 2013, 6.3% for 2014 and a projected growth rate of 4.8% and 5.0% in 2015 and 2016, respectively.

³ Source:

28. Inflation fell from 12.2% in 2012 to 8.5% as at March 2015 following monetary policy tightening and the easing of food prices. The government is expected to record an inflation rate of between 10 - 12% in 2015 amidst the crisis triggered by the plunge in crude oil prices and the corresponding pressure on the naira as reported by the Financial Derivatives Company (FDC).
29. The exchange rate was relatively stable at N157 to \$1 while the fiscal deficit is 2% of GDP which is below threshold of 3% of GDP in 2013. Given the devaluation of the naira in early 2015 the exchange rate is between N190 - N210 to a dollar. The National debt is at a sustainable level of 11% of GDP which indicates that the economy is strong if compared to debt level over 91.90% of GDP in the Euro Zone as at 2014 and is projected to peak at 95.9% in 2015.
30. As Nigeria's economic development kicks off, increasing demand for power, housing and retail goods will continue to attract new investment and make Nigeria Africa's largest destination for Foreign Direct Investment (FDI).
31. Notwithstanding the positive developments, major challenges for the economy remain, namely the dilapidated state of infrastructure, the over-dependence on the oil and gas industry and insecurity. Tackling these is high on the Government's agenda. The authorities are seeking to get the private sector involved in infrastructure development and to develop the non-oil sector.

Table 4: Nigeria Key Macroeconomic Indicators

Indicator	2012	2013	2014	2015
GDP Growth	4.3	5.4	6.3	4.8
GDP Current Basic Price (Billion Naira)	71,186	80,222		-
Inflation (%)	12.2	8.5	8.1	9.6
Exchange Rate (NGN:USD IFEM Rate)	158.8	159.3	164.9	192.6
Balance of Payments (% of GDP)	10.4%	11.8%	14.6%	N/A

Source: (Economic Outlook) National Bureau of Statistics, (WEO) IMF; CBN

Petroleum Sector

32. Global oil prices have risen steadily since the global economy crisis in 2008. The 2015 International Energy Outlook's reference crude oil price⁴ is forecast at \$56 per barrel in 2015 rising to \$80 by 2020. The high and low oil price scenarios are \$122 and \$52 in 2015 and \$252 and \$76 in 2040. By the end of 2014, there was a global crash in the price of oil from \$115pb to \$60pb which has disrupted to a certain degree the financial plan of oil dependent economies.
33. Global demand for crude oil is robust regardless of the price scenario with anticipated consumption level at approximately 120mbpd by 2040 across reference, low and high oil price scenarios. This compares to demand of around 92.5mbpd in 2014. The growth is due to increased economic activity in Non-OECD countries.

Table 5: Nigeria Mineral Statistics

Year	Average Actual Price USD (CBN)	FAAC Benchmark Price USD	Average Actual Production (CBN)
2009	101	60	2.099167
2010	64	45	2.110833
2011	81	60	2.4675
2012	114	75	2.080833
2013	113	70	2.318333

⁴ Reference price is based on the current economic outlook

2014	111	79	2.2
2015	-	53	-

34. The above table shows that over the last five years the Federal Allocation Accounts Committee (FAAC) benchmark price for crude oil has almost doubled from \$40 to \$79 per barrel, whereas over the same period prices have only increased by around 50%. Production has fluctuated around the 2.2 mbpd mark over the period. It is unlikely that either benchmarks for price or production will increase significantly over the next five years.

2.A.4 Kaduna State Economy⁵

35. Agriculture is the main stay of the economy of Kaduna state with the majority of the people actively engaged in farming. A significant number of families are involved in livestock production. The important livestock reared include poultry, cattle, sheep, goats and pigs. Small scale farmers dominate agricultural production in the State.
36. The percentages of the National outputs of major crops that are produced in the state have increased over the past years, thus indicating the rising importance of the state in food production in Nigeria. The State Government has been providing support to farmers in terms of extension advisory services.
37. Kaduna state has over 80 commercial and manufacturing industries and the State has the potential to develop industries based on its mineral resources such as clay, serpentine, asbestos, amethyst, gold, and graphite. In addition, the State has natural and historic endowments that can serve as the basis for creating a virile tourism industry.
38. Kaduna State is indeed one of the most privileged States in Nigeria in terms of number and variety of primary, secondary and tertiary institutions. These institutions provide access to education to the people of Kaduna State.
39. The State Health Sector goal is to ensure all citizens of Kaduna state have quick and easy access to improved and affordable curative, preventive, rehabilitative and promotive health services.
40. The policy thrust for improving the lives of women and the youth is the economic empowerment of women and the vulnerable through skills acquisition and the reduction of youth unemployment. Substantial social development in Kaduna State is vested on the activities of women, youth and non- governmental organisations (NGOs).

2.B Fiscal Update

2.B.1 Historic Trends

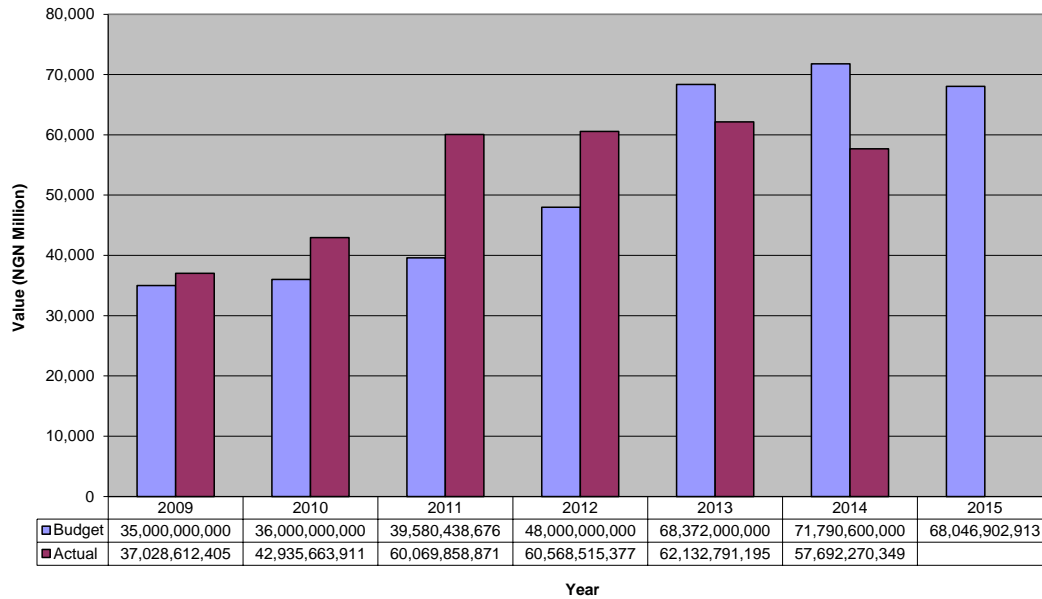
Revenue Side

41. On the revenue side, the document looks at Statutory Allocation, VAT, IGR, Excess Crude, and Capital Receipts – budget versus actual for the period 2009-2014 (six year historic) and 2015 budget.

⁵ Source: Kaduna State Development Plan 2014-2018

Figure 2: Statutory Allocation

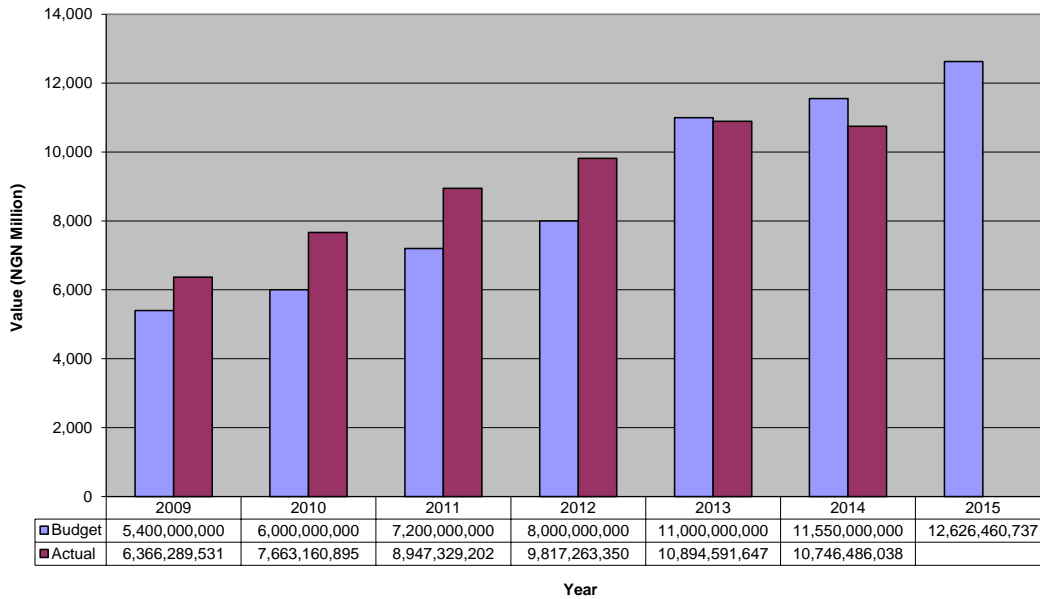
FAAC Statutory Allocation Budget vs Actual: 2009 - 2015



42. Statutory Allocation is a share from Federation Account that is distributed to all three tiers of government based on vertical (percentage to each of the three tiers) and horizontal (example equality, land mass, population etc.) sharing formula. The revenues that flow into federation account come from Mineral (largely Oil and Gas) and Non-Mineral (Customs & Excise and Federal Inland Revenue Service). Actual performance has on the whole increased over the period, except in 2014 (due to the global economic decline).
43. Performance against budget for the six years under review was consistently higher except for 2013 and 2014 where it marginally fell against budget. The collection averaged N60 billion for the last three years and actually reached N62 billion in 2013 before declining in 2014 with about N4 Billion.
44. Most of the growth in Statutory Allocation since 2009 has been driven by the increase in the benchmark of crude oil price from \$40 to \$79 per barrel - this rate of increase is unlikely to continue due to decline in world oil prices. In 2015, the price per barrel fluctuates between \$47 to \$61 per barrel in first and second quarter of the year. KDSG should also be mindful of the slight under performance of Statutory Allocation against budget in 2014.

Figure 3: VAT

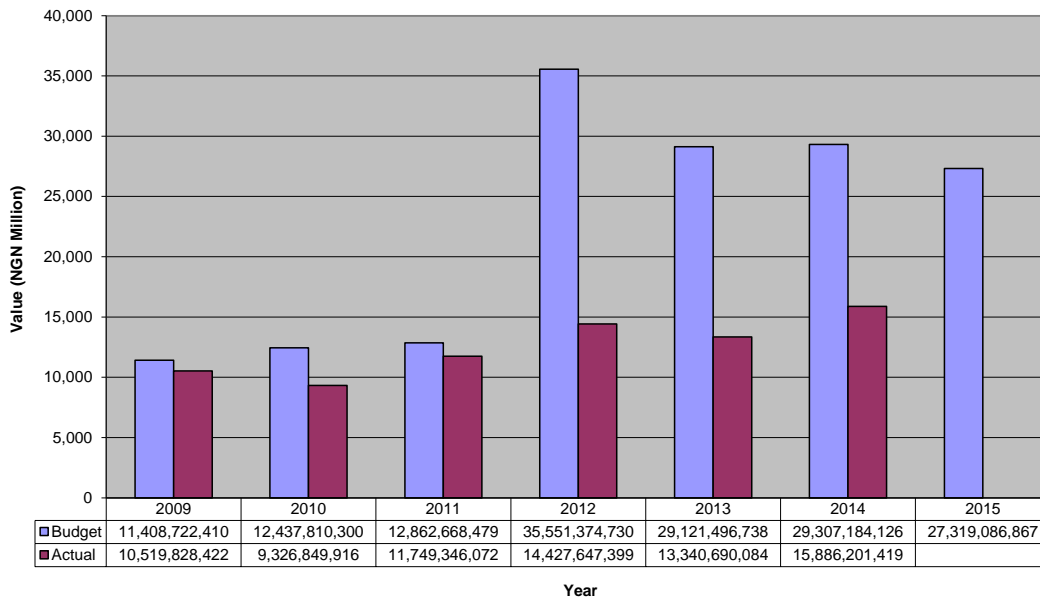
VAT Budget vs Actual: 2009 - 2015



45. Value added tax (VAT) is an ad-valorem tax applied to sales of almost all goods and services within the Nigerian economy. It is applied at a rate of 5%. VAT is collected by Federal Inland Revenue Service (FIRS) and distributed across the three tiers of government - states shares 50% of the total VAT receipts. The distribution to each state is based on a set of criteria slightly different to those used for Statutory Allocation.
46. VAT receipts have increased every year since 2009 - largely due to sustained annual increases in economic activity over the period. VAT has outperformed budget every year since 2009 and 2013 performance was the closest to budgeted figure. The performance of 2014 was below the budgeted figure and this could be attributed to the sudden decline in the oil price globally which has affected the spending pattern.

Figure 4: IGR

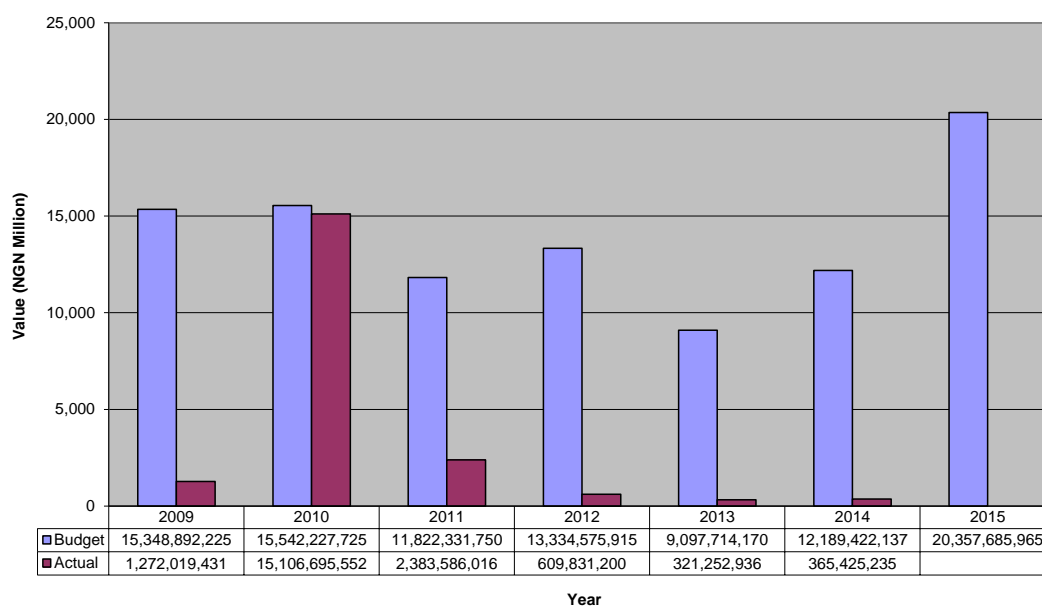
IGR Budget vs Actual: 2009 - 2015



47. IGR is revenue collected for Kaduna State related to income tax (PAYE represents the highest contributor to IGR), fines, levies, fees and other sources of revenue in the state.
48. IGR has performed on the average 85% between 2009-2011. However, between 2012-2014, the performance was 45% this was largely due to high projection due to putting in place planned strategies for raising revenue collection as potentials exist.
49. The budget for 2015 is based on expectation that current reforms and support in collection process of IGR will yield significant increase. Half year performance for 2015 should be considered when finalising the budget for 2016-2018.

Figure 5: Grants

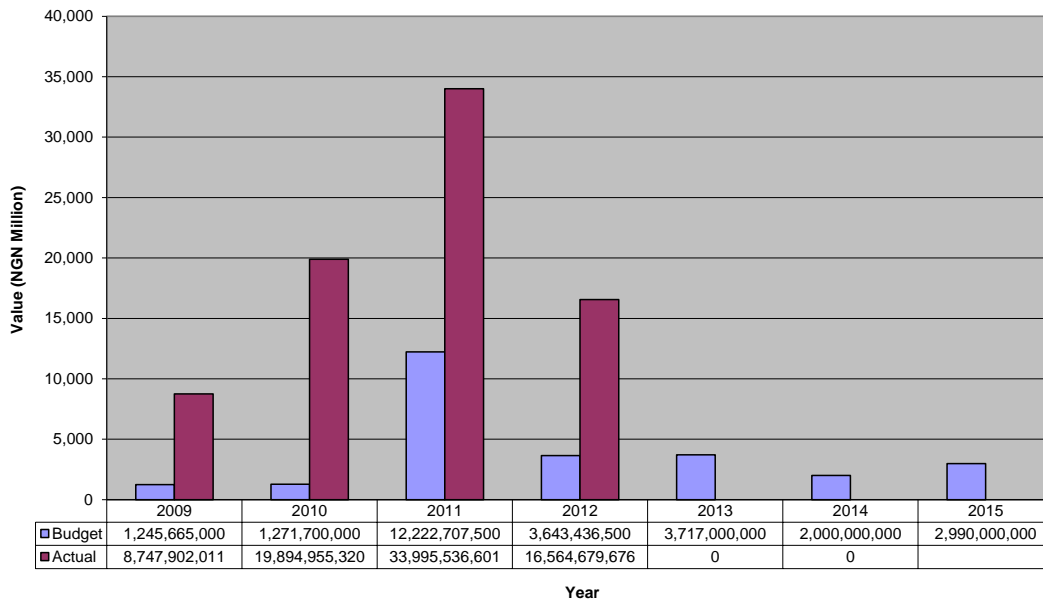
Grants Budget vs Actual: 2009 - 2015



50. Grants are receipts from federal government and development partners such as Federal Government millennium development goals (MDGs) Conditional Grants (CGS) Scheme, Department for International Development (DFID) off budget grants, United Nation System (UNS) grants, etc.
51. Between 2009 and 2014 actual grant receipts have been variable reaching a peak in 2010 but falling back in 2011. In terms of actual performance against budget, there has been consistent over budgeting. The level of deviation between budgeted and actual from 2011 to 2014 reflects significant difference between expectation of receipts and what was provided by Donors. On the other hand, the poor performance in accessing grants could be attributed to non-payment of counterpart funds from the State Government.
52. The high level of unpredictability needs to be considered when formulating the fiscal forecast.

Figure 6: Other Capital Receipts

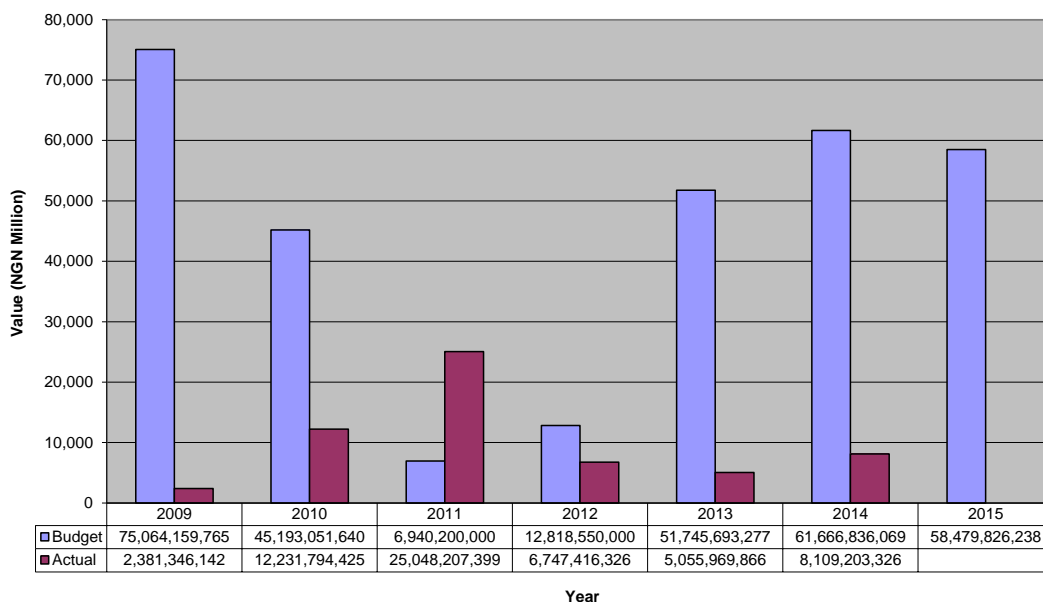
Other Capital Receipts Budget vs Actual: 2009 - 2015



53. Other Capital comprises revenues from sales of capital assets dedicated for capital expenditure; proceed from sales of fertilizer, infrastructure, survey and demarcation of layout, development levy by land allottees, Ecological fund and development programme for destitute. Revenues from sales of capital assets are sometimes difficult to realise as sales usually from divestment policies may not be consummated in the years they are planned.

Figure 7: Loans / Financing

Loans Budget vs Actual: 2009 - 2015



54. Loans include internal and external loans. Internal loans comprise capital markets, receipts and Commercial Bank loans. External loans are receipts from World Bank, Islamic Development Bank (IDB), AfDB etc.

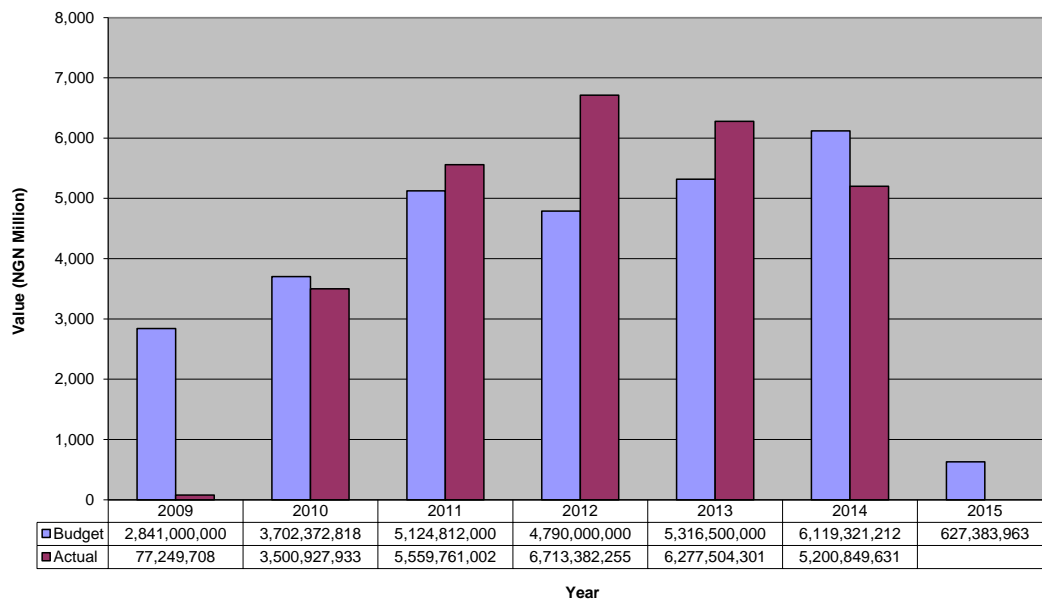
- 55. Between 2009 and 2014 actual loan has been variable reaching a peak in 2011. In terms of actual performance against budget there has been consistent over budgeting apart from 2011 where the actual was more than budgeted amount. The level of deviation between budgeted and actual particularly in 2010 and 2011 reflects significant difference between expectation of receipts and what was provided by Creditors.
- 56. The high level of unpredictability needs to be considered when formulating the fiscal forecast.

Expenditure Side

- 57. On the expenditure side, the document looks at Consolidated Revenue Fund (CRF) charges, Personnel, Overheads and Capital Expenditure – budget versus actual for the period 2009-2014 and 2015 budget.

Figure 8: CRF Charges

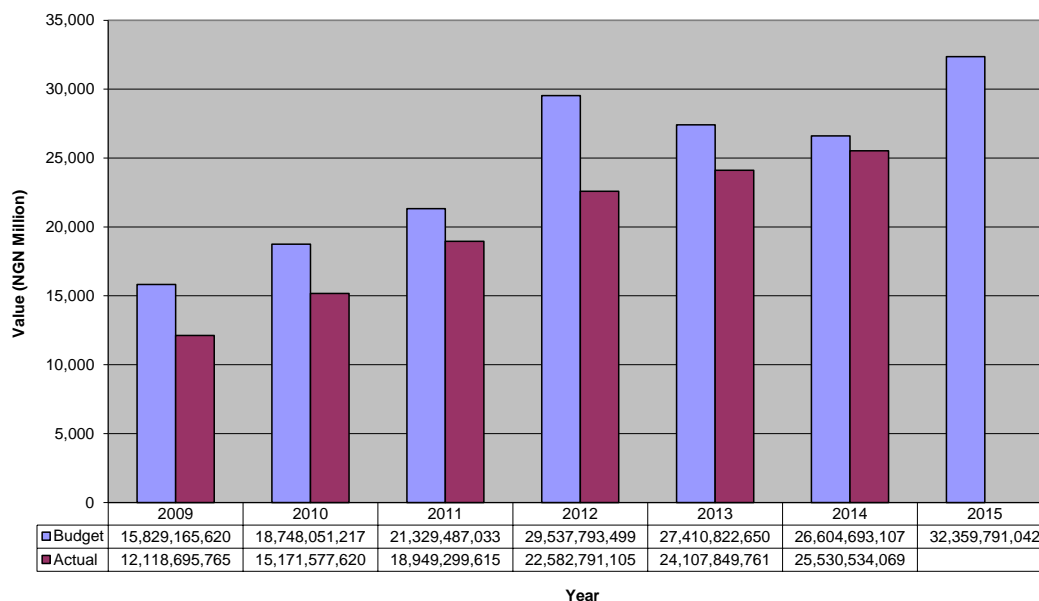
CRF Charges Budget vs Actual: 2009 - 2015



- 58. Consolidated Revenue Fund Charges (CRF) consist of payment of pensions, gratuity and salaries of statutory office holders (all politically elected or appointed officers). The performance of the actual CRF charges between 2009 and 2014 has shown a consistent increase with a sharp increase in 2010. However, in 2014 there was a decrease compared to 2013.
- 59. Comparing budgeted against the actual, the performance is mixed with instances of good performance and over expenditure.

Figure 9: Personnel

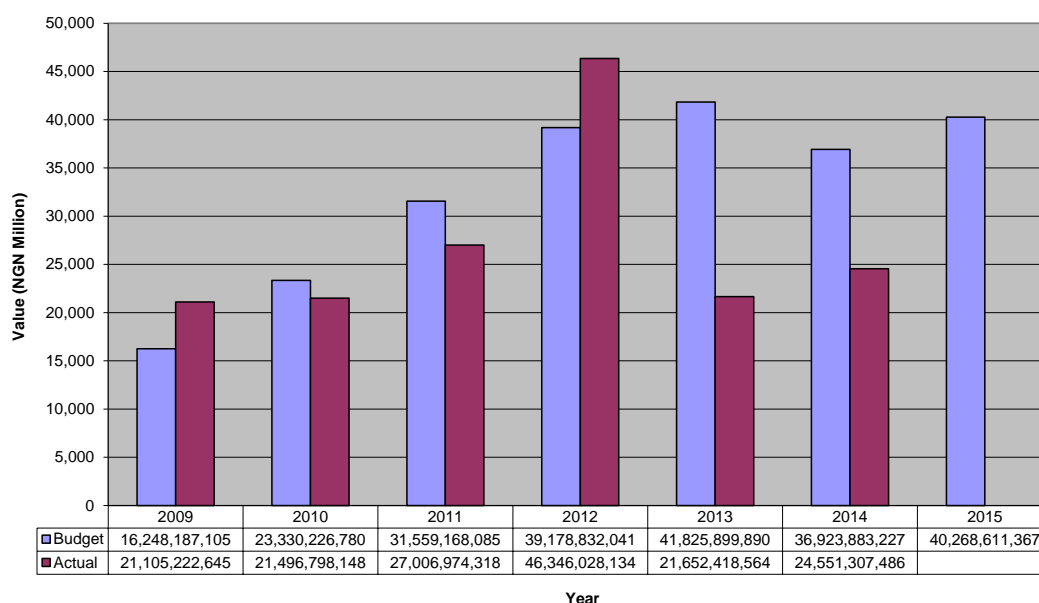
Personnel Expenditure Budget vs Actual: 2009 - 2015



60. Personnel costs comprise salaries and allowances of civil servants, political appointees and Consolidated Revenue Fund (CRF) charges of KDSG. The actual personnel costs have been on the increase with a sharp rise in 2011 occasioned by review of salaries by Government.

Figure 10: Overheads

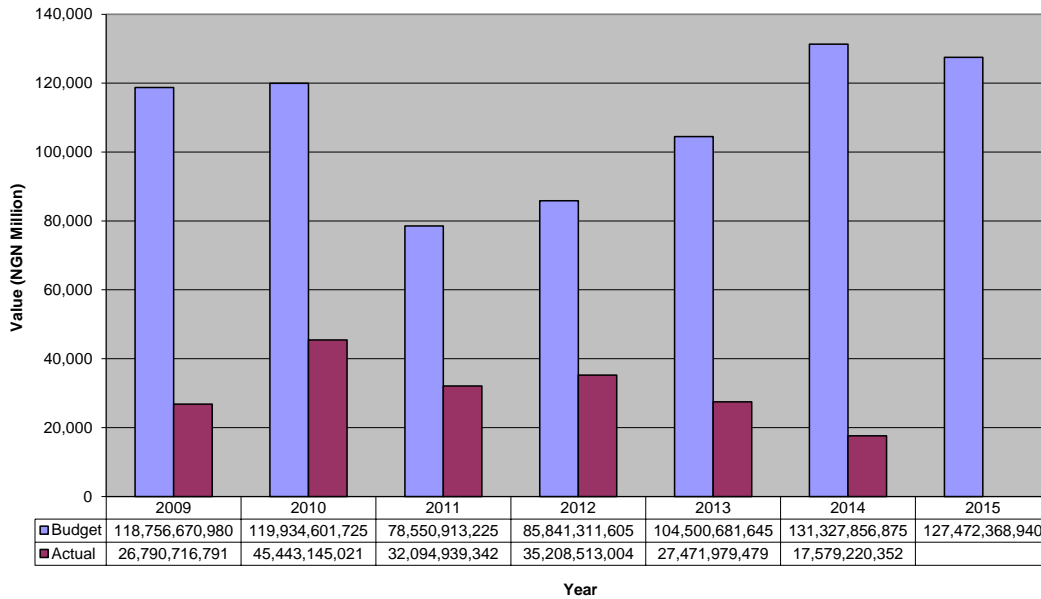
Overhead Expenditure Budget vs Actual: 2009 - 2015



61. Overheads comprise mainly of operational and maintenance costs for running the government. The actual performance reflects consistent increase from 2009 to 2011. However, in 2012 the actual expenditure experienced a sharp increase which was attributed mainly to security challenges.
62. The performance of actual against budget has consistently been lower than budgeted except for 2009 and 2012.

Figure 11: Capital Expenditure

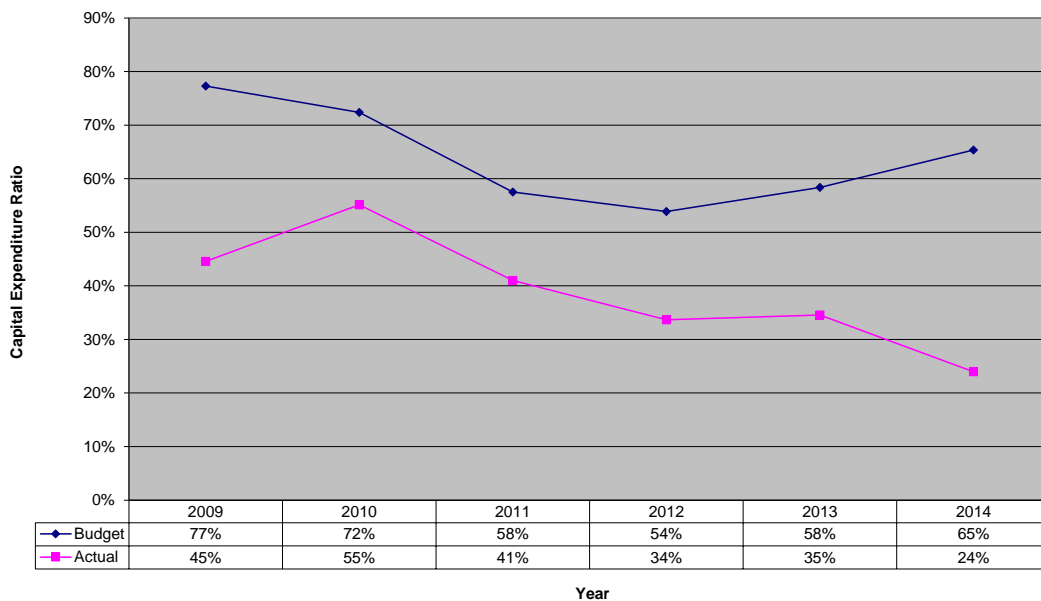
Capital Expenditure Budget vs Actual: 2009 - 2015



- 63. Capital expenditure includes the main investments and programmes of government. Over the period of 2009 to 2014 generally there has been a fluctuating trend in actual capital expenditure.
- 64. There has been significant variance between budgeted and actual capital expenditure over the years. The variance over the period is due to unmet expectations on IGR, grants and expected loan drawdown making the capital receipts and projections unrealistic.
- 65. This will require more accurate forecasting in the future.

Figure 12: Recurrent: Capital Expenditure Ratio

Capital Expenditure Ratio Budget and Actual: 2009 - 2015



- 66. Over the period, capital budget receive more funds allocation compared to recurrent with the highest allocation in 2009 (77%). But in actual, more resources are channelled towards

recurrent expenditure which negates budget credibility. Budget credibility ensures that budget is realistic and implemented as intended. 2014 witnessed the lowest actual capital budget expenditure (24%) compared to other years.

By Sector

67. Sector expenditure (budget and actual from 2011-2014) is shown in two tables below for recurrent and capital expenditure and respectively.
68. **Recurrent Expenditures** are made up of Personnel and overhead costs.
69. The Social sector received the highest allocation due to high number of personnel and priorities in the sub-sectors.
70. Administration sector, received the second highest allocation due to increasing cost of running Government and security challenges
71. Economic and regional sectors maintained stable level of personnel and consequently maintained a steady level of allocation over the period.
72. Within the Economic Sector, the Finance & Investment subsector did not receive allocations over the years. Agriculture subsector spending reflected an increase over 2012 in 2013 before a sharp decrease in 2014. Transport subsector on the other hand, showed a fluctuating trend in the years under review.
73. The Social subsector experienced increased spending in education over the three years while health, Information and Social Development subsectors experienced slight decreases in spending in 2014.
74. Recurrent spending in the Regional sub-sector showed a general rise except for Urban Development which experienced a drop in 2014.
75. **Capital Expenditure** - Sectoral Allocations in the State for the period 2011 to 2014 shows that the Economic sector received the highest allocation followed by Regional, Social with Administration the lowest.
76. The Transport subsector of the Economic Sector has received more capital allocations across the years. This is targeted at achieving government's desire to develop and expand the roads in the State as a means of stimulating economic activities.
77. Agriculture being the major preoccupation of the generality of the citizens of the State received the second highest allocation between 2011 and 2013. This is borne out of the desire to boost food security and providing employment for the teeming youth by way of modernizing agriculture in terms of improved seedlings and modern farming implements. In 2014, attention was shifted from agriculture to Commerce and Industry.
78. Power and Finance & Investments as subsectors have received only modest allocations over the period. There is the need to critically look at the sector with a view to improving its performance.
79. Other subsectors combined, have received less allocations than Power subsector.
80. Comparatively, education subsector has received more than the health subsector due to expansion of basic and secondary education institutions in the state to attain the targets set in the Education master plan (SESP), the two subsectors however witnessed declining allocations over the period under review.
81. Social development and Information allocations were the least in the sector. It could be due to inability to complete negotiations and drawdown on the China Exim bank loan for digitalization of Kaduna State Media outfits in the State.
82. Regional Sector covers investment in Water, Housing and environmental infrastructure.
83. The highest allocation for the period under review has gone to the water sub-sector; with draw down in AfDB and IDB facility for the Zaria Water expansion programme.

Table 6: Recurrent Expenditure by Sector– Budget Vs Actual

IPSAS Sector		Sectoral Recurrent Expenditure										
Sector	2011 Budget	2011 Actual	2012 Budget	2012 Actual	2013 Budget	2013 Actual	2014 Budget	2014 Actual	2011 - 2014 Performance	Average	Average Actual	
Administrative												
Governance	30,745,277,349	18,007,796,783	37,849,501,428	20,477,702,042	41,024,857,559	20,912,354,936	35,681,873,823	27,012,403,736	59.47%	53.18%	45.96%	
Social												
Health	5,965,655,763	4,846,591,772	8,800,367,613	5,788,144,323	7,878,857,504	5,939,532,179	7,112,785,110	5,764,228,316	75.07%	10.99%	12.82%	
Education	12,901,445,402	12,398,608,225	17,894,808,862	13,731,481,041	17,211,146,478	15,266,064,592	18,305,932,679	17,130,546,948	88.26%	23.29%	32.03%	
Social Welfare	1,109,761,192	755,698,850	1,061,405,596	550,314,715	913,811,041	553,519,460	1,040,495,906	200,966,485	49.95%	1.50%	1.44%	
Economic												
Works and Infrastructure	846,062,413	682,205,788	964,340,980	926,088,610	1,024,054,648	751,630,920	910,092,673	981,161,824	89.23%	1.38%	1.83%	
Power	72,704,393	63,812,880	82,373,777	360,763,619	133,212,699	244,483,286	105,839,508	347,473,066	257.92%	0.14%	0.52%	
Agriculture	634,537,642	634,583,141	1,012,205,663	729,706,293	763,601,554	784,777,763	801,499,757	366,643,384	78.33%	1.17%	1.66%	
Water Resources	461,740,706	86,936,753	394,810,104	127,198,142	185,356,974	127,260,430	149,004,577	221,282,130	47.25%	0.51%	0.26%	
Environment	241,245,147	189,846,113	324,240,264	242,250,064	283,841,906	225,933,708	275,053,006	550,517,441	107.49%	0.41%	0.51%	
Commerce	209,961,802	190,156,666	244,266,761	205,234,904	237,666,934	236,652,175	224,087,318	112,842,779	81.32%	0.34%	0.49%	
Law and Justice												
Internal Security, Law and C	4,946,768,010	3,205,599,293	4,858,304,496	0	4,836,415,738	0	5,041,246,291	0	16.29%	7.10%	2.48%	
Total	58,135,159,819	41,061,836,265	73,486,625,544	43,138,883,752	74,492,823,035	45,042,209,448	69,647,910,648	52,688,066,109	65.97%	100%	100%	

Table 7: Capital Expenditure by Sector– Budget Vs Actual

IPSAS Sector		Sectoral Capital Expenditure										
Sector	2011 Budget	2011 Actual	2012 Budget	2012 Actual	2013 Budget	2013 Actual	2014 Budget	2014 Actual	2011 - 2014 Performance	Average Budget	Average Actual	
Administrative												
Governance	12,118,319,200	5,693,650,750	19,540,901,980	5,897,254,756	24,358,506,545	1,534,355,196	21,216,602,955	1,415,411,239	18.83%	20.83%	13.90%	
Social												
Health	5,535,788,840	2,530,637,042	6,806,243,430	1,792,326,055	6,387,860,405	906,183,825	10,429,297,595	334,942,200	19.08%	6.97%	5.54%	
Education	11,135,995,215	3,272,447,175	11,497,026,845	2,938,674,877	13,204,835,065	4,946,342,889	19,059,514,250	684,558,338	21.57%	13.33%	11.81%	
Social Welfare	571,730,030	57,453,699	747,022,830	24,183,838	531,061,995	72,538,892	774,955,500	2,297,437	5.96%	0.69%	0.16%	
Economic												
Works and Infrastructure	21,477,540,780	7,102,529,765	24,286,889,110	16,231,850,544	28,307,940,690	8,273,464,570	38,379,844,975	7,349,024,746	34.64%	27.55%	33.46%	
Power	2,309,723,750	692,166,118	2,496,077,340	0	1,429,606,635	2,461,108,410	0	0	7.96%	2.32%	0.73%	
Agriculture	14,080,846,270	4,000,966,377	9,379,867,075	1,547,260,668	8,093,419,685	3,441,789,489	7,725,921,190	663,060,770	24.58%	11.73%	9.52%	
Water Resources	8,070,907,190	6,254,460,060	8,754,922,095	5,634,984,899	20,050,806,840	4,932,335,829	24,200,007,400	1,720,473,439	30.36%	13.71%	17.81%	
Environment	3,200,061,950	2,239,186,368	1,637,360,900	777,987,997	1,192,237,945	1,325,097,370	4,162,607,580	2,665,773,948	68.76%	2.24%	4.60%	
Commerce	50,000,000	252,883,976	10,000,000	39,460,769	168,076,665	2,039,871,419	2,091,926,410	2,743,505,090	218.78%	0.08%	2.47%	
Law and Justice												
Internal Security, Law and Ord	0	0	685,000,000	0	776,329,175	0	826,070,610	0	0.00%	0.54%	0.00%	
Total	78,550,913,225	32,096,381,330	85,841,311,605	34,883,984,403	104,500,681,645	27,471,979,479	131,327,856,875	17,579,047,207	27.99%	100%	100%	

2.B.2 Debt Position

84. A summary of the consolidated debt position for Kaduna State Government is provided in the table below.

Table 8: Debt Position as at 31st December 2014

Debt Sustainability Analysis			
		Federal DMO Sustainability Thresholds	Kaduna State Sustainability Thresholds
A	DSA RATIO SCENARIOS:		As at 31st December 2014
	Solvency Ratios		Percentage
1	Total Domestic Debt/Total Recurrent Revenue		72.31%
2	Total Domestic Debt/IGR	92-167%	150%
3	Total External Debt/Total Revenue	250%	50%
4	Total Public Debt/Total Revenue	250%	100%
5	Total Public Debt/State GDP Ratio	40%	40%
	Liquidity Ratios		No GDP Figure Available
6	External Debt Service/Total Revenue	30%	10%
7	Total Debt Service/Total Revenue	30%	15%
8	Domestic Debt Service/IGR	28-63%	10%
			2014 Actual
B	PUBLIC DEBT DATA AS AT 31st DECEMBER 2014		Naira
1	Total Domestic Debt		60,973,445,530
2	Total External Debt		46,777,200,174
3	Total Public Debt		107,750,645,704
4	Total Domestic Debt Service 2014		41,977,958,935
5	Total External Debt Service in 2014		714,445,928
6	Total Public Debt Service		42,692,404,863
C	STATE GDP FOR 2014		
1	State GDP		

85. **External Loans:** These loans are multilateral loans collected from different financial institutions for various infrastructure development projects. The financial Institutions include International Development Association (IDA), AfDB, and IDB etc. The Federal MoF signs the credit facility and on-lend to State Government by signing subsidiary Loan Agreement.
86. **Internal Debts** constitutes Commercial Banks loans, Contractors' Arrears, Bonds, Pension, Gratuity and salaries arrears.
87. **Solvency:** This measure the ability of the State in meeting its future debt obligations. From the above analysis it clearly shows that Kaduna State is not within the sustainable threshold limit.
88. **External Debt Service to FAAC Allocation:** External debt to FAAC revenue ratios as indicated above is 0.85% Given that part of the State's FAAC allocation has been employed in servicing external debt liabilities, this assessment evaluates the level of pressure put on FAAC revenue in providing adequate cover for such obligations. Accordingly from the above assessment it clearly shows the robustness of the State's FAAC allocation in meeting the External debt repayment.
89. **Domestic Debt Service to IGR:** This ratio assesses the capacity of the State's Internally Generated Revenue in meeting its domestic debt service obligations. From the table above it shows that we have exceeded the threshold by 264.24%. This indicates that a lot of pressure is put on the FAAC allocation to service both the domestic and external debt obligations.
90. **Total Debt Service to Revenue:** This is a measure of the liquidity position of the State, which assesses the State's ability in meeting annual debt service liabilities as they fall due. The ratio of 50.63% as indicated above shows that our liquidity position is not comfortable. However, our liquidity position has gradually improved from August, 2015 due to the repayment of all commercial bank loans.

Section 3 Fiscal Strategy Paper

3.A Macroeconomic Framework

91. The Macroeconomic framework is based on the latest Nigerian National real GDP growth and inflation (CPI) as estimated in the Nigeria in 2014: Economic Review and 2015-2017 Outlook published by NBS on 28th January, 2015. The Oil production benchmark for 2015 is based on the current production level according to the Nigeria crude oil output report from March 2015, the production level of 2016-2018 are the same as this year's benchmark production level. The NGN: USD exchange rates is based on the 2015 benchmark and for 2016-2018 an appreciation is assumed to take the rate back to 165. Finally, for price for 2015 benchmark is adopted, a 5 USD increase is anticipated in 2016 and a further 2 USD in 2017.

Figure 13: Kaduna State Macroeconomic Framework

Macro-Economic Framework				
Item	2015	2016	2017	2018
National Inflation	8.78%	8.10%	7.52%	7.52%
National Real GDP Growth	5.54%	5.78%	5.80%	5.80%
Oil Production Benchmark	2.08	2.273	2.273	2.273
Oil Price Benchmark	53	58	63	65
NGN:USD Exchange Rate	197.5	165	165	165

3.B Fiscal Strategy and Assumptions

Policy Statement

92. The overall policy of government when considering its budget are the following key criteria:
1. Invest in education, healthcare and social welfare to ensure Kaduna residents are healthy, productive and competitive.
 2. Foster the security of lives and property throughout Kaduna State by targeting the roots and symptoms of intolerance and communal violence.
 3. Institute a good governance system that is founded on a competent and responsive public service with zero tolerance for corruption.
 4. Maintain, rebuild and expand our decaying infrastructure particularly our water supply, electricity and road networks to accelerate economic growth that will create jobs, jobs and more jobs;
 5. Promote agriculture and food security and reform of land administration as a basis for wealth creation and capital formation, while preserving and enhancing environmental management

Objectives and Targets

93. The key targets from a fiscal perspective are:
- Attain a 35-65 ratio for Recurrent and Capital;
 - Maintain a sustainable debt position in line with Federal debt management office (DMO) criteria.
 - Expanding the revenue base of the state by exploring untapped sources.
 - Improve economic growth through investment in infrastructure.

3.C Indicative Three Year Fiscal Framework

94. The indicative three year fiscal framework for the period 2016-2018 is presented in the table below.

Table 9: Kaduna State Medium Term Fiscal Framework⁶

Macro-Economic Framework				
Item	2015	2016	2017	2018
National Inflation	8.78%	8.10%	7.52%	7.52%
National Real GDP Growth	5.54%	5.78%	5.80%	5.80%
Oil Production Benchmark	2.08	2.273	2.273	2.273
Oil Price Benchmark	53	58	63	65
NGN:USD Exchange Rate	197.5	165	165	165
Fiscal Framework				
Recurrent Revenue	2015	2016	2017	2018
Statutory Allocation	42,652,786,638	45,055,124,540	50,268,854,715	54,978,874,018
VAT	11,704,690,600	12,641,628,664	13,586,131,384	14,620,749,901
IGR	17,704,762,652	19,061,796,329	38,123,592,658	57,185,388,987
Exchange Gains	4,141,277,093	4,141,277,093	4,141,277,093	4,141,277,093
Total Recurrent Revenue	76,203,516,982	80,899,826,626	106,119,855,850	130,926,289,999
		6.16%	31.17%	23.38%
Recurrent Expenditure				
CRF Charges	6,263,991,053	6,890,390,158	7,579,429,174	8,337,372,092
Personnel	26,400,000,000	29,040,000,000	31,944,000,000	35,138,400,000
Overheads	22,580,000,000	17,280,000,000	17,280,000,000	17,280,000,000
Total	55,243,991,053	53,210,390,158	56,803,429,174	60,755,772,092
		-3.68%	6.75%	6.96%
Transfer to Capital Accou	20,959,525,929	27,689,436,467	49,316,426,676	70,170,517,907
Capital Receipts				
Grants	19,019,977,680	3,000,000,000	3,000,000,000	3,000,000,000
Other Capital Receipts	2,990,000,000	0	0	0
Total	22,009,977,680	3,000,000,000	3,000,000,000	3,000,000,000
Capital Expenditure	59,571,984,357	41,750,000,000	63,376,990,209	84,231,081,440
Net Financing	16,602,480,748	11,060,563,533	11,060,563,533	11,060,563,533
Total Budget Size	114,815,975,410	94,960,390,159	120,180,419,383	144,986,853,532
Capital Expenditure Rate	51.88%	43.97%	52.73%	58.10%
Deficit to Total Expenditu	14.46%	11.65%	9.20%	7.63%

3.C.1 Assumptions

95. **Statutory Allocation** - is based on an elasticity based forecast consistent with the macroeconomic framework displayed above. Excess Crude is captured in the Statutory Allocation in the Fiscal Framework in line with the AG's annual report.

⁶ Note: The figures contained in table 9 are based on modelling forecasts as at August 2015

96. **VAT** - The estimate for VAT is based on elasticity.
97. **IGR** – A base of 2014 actual collections is used as the basis for the IGR forecast, and subsequent years incorporate expansion of IGR from the introduction of the new administration’s policies.
98. **Excess Crude** – is based on the current collection level (January-May) 2015.
99. **Grants** - Grants are very hard to predict and the recording of actual grant receipts is not very accurate as a lot of expenditure is off budget. The forecasts are based on current commitments from federal government and the development partners (including UN System, DFID and the World Bank group). Since grant funding is non discretionary, these funds are tied to the implementation of specific programmes/projects. If the funds are not forthcoming, the programmes/projects will not be implemented. The estimates for 2016-2018 are based on the actual 2015 budget.
100. **Miscellaneous Capital Receipts** - Based on lease of state assets, (such as Kachia Ginger factory and Ikara Processing company, Zaria), income would be realised in 2016-2018. Also the loan component for the digitalisation of Kaduna State Media Corporation (KSMC) and a windmill on a public private partnership (PPP) basis are included.
101. **Financing (Net Loans)** – includes subsidised long-term loans provided under special arrangements by the Federal Government.
102. **Personnel** - Marginal employment is restricted to health and education sectors. The state considers a 10% annual increment to be sufficient to cover new entrants and salary increments. The 10% is also considered a cap. The 2015 figure is based on the current N2.2 billion monthly personnel costs.
103. **Overheads** – includes standing orders and overheads which for the first five months of 2015 are averaging N825 million per month which has been reduced by 60% totalling N330 million per month to reflect Government commitment to reduce cost of governance. Added to this is N4.45 billion of pension costs, N4.5 billion of gratuities and the current level of special releases (for security and other expenditures) suggest an annual cost of N7.68 billion. In addition, in 2015 there is a one off gratuities areas payment of N1.4 billion. It is assumed that there will be zero increment for 2016 and beyond.
104. **Capital Expenditure** - is based on the recurrent account surplus plus capital receipts plus net financing. The ratio of Capital expenditure rises to around 60% at the end of the three year period.

3.C.2 Fiscal Trends

105. Based on the above envelope, plus actual figures for 2009-2014 (using the same basis for forecasting as noted in the sub-sections within section 3.B), the trend from historical actual to forecast can be seen for revenue and then expenditure in the line graphs below.

Figure 14: Kaduna State Revenue Trend

Revenue Trend: Actual 2009 - 2014 and Forecast 2015 - 2018

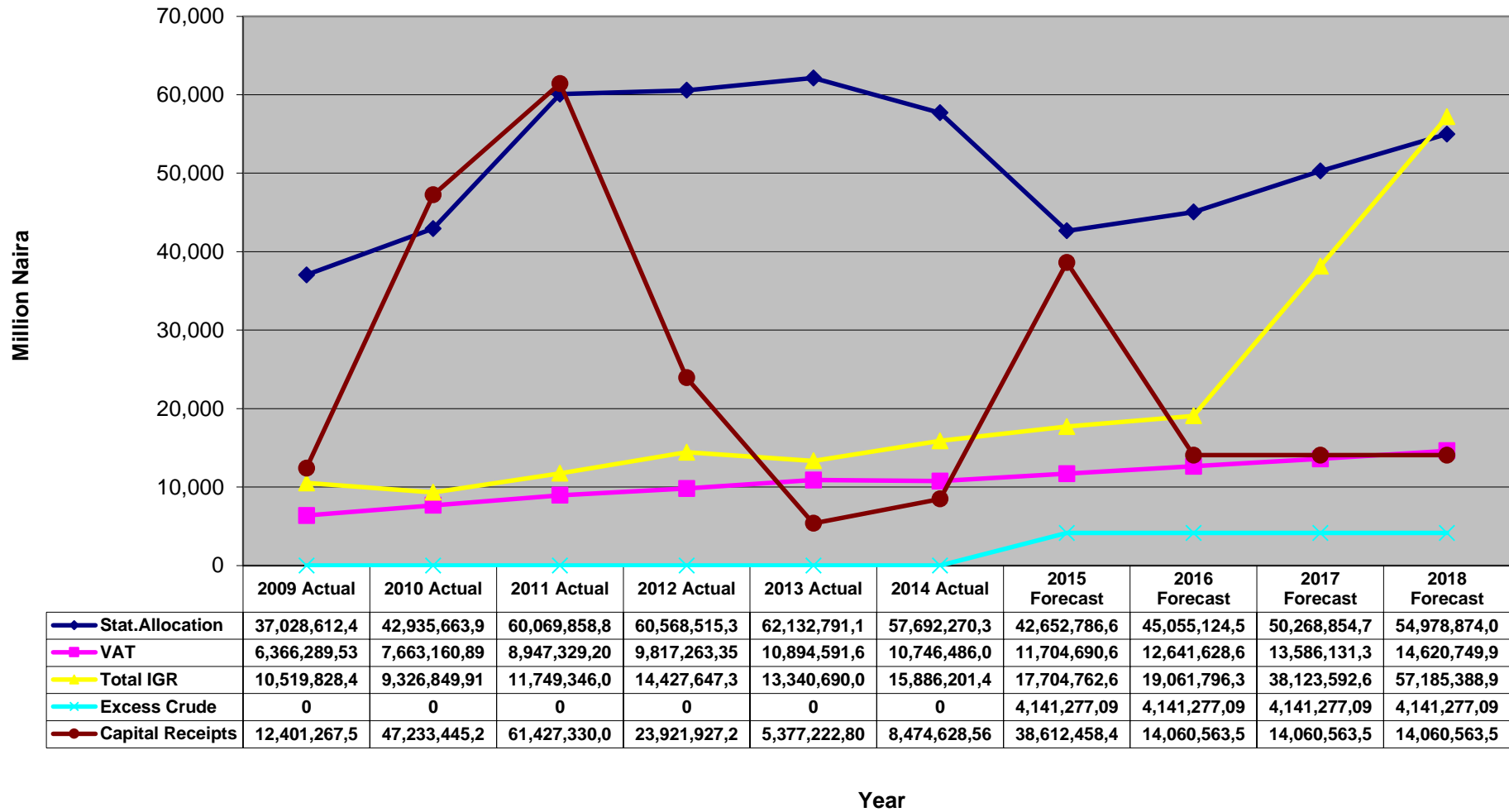
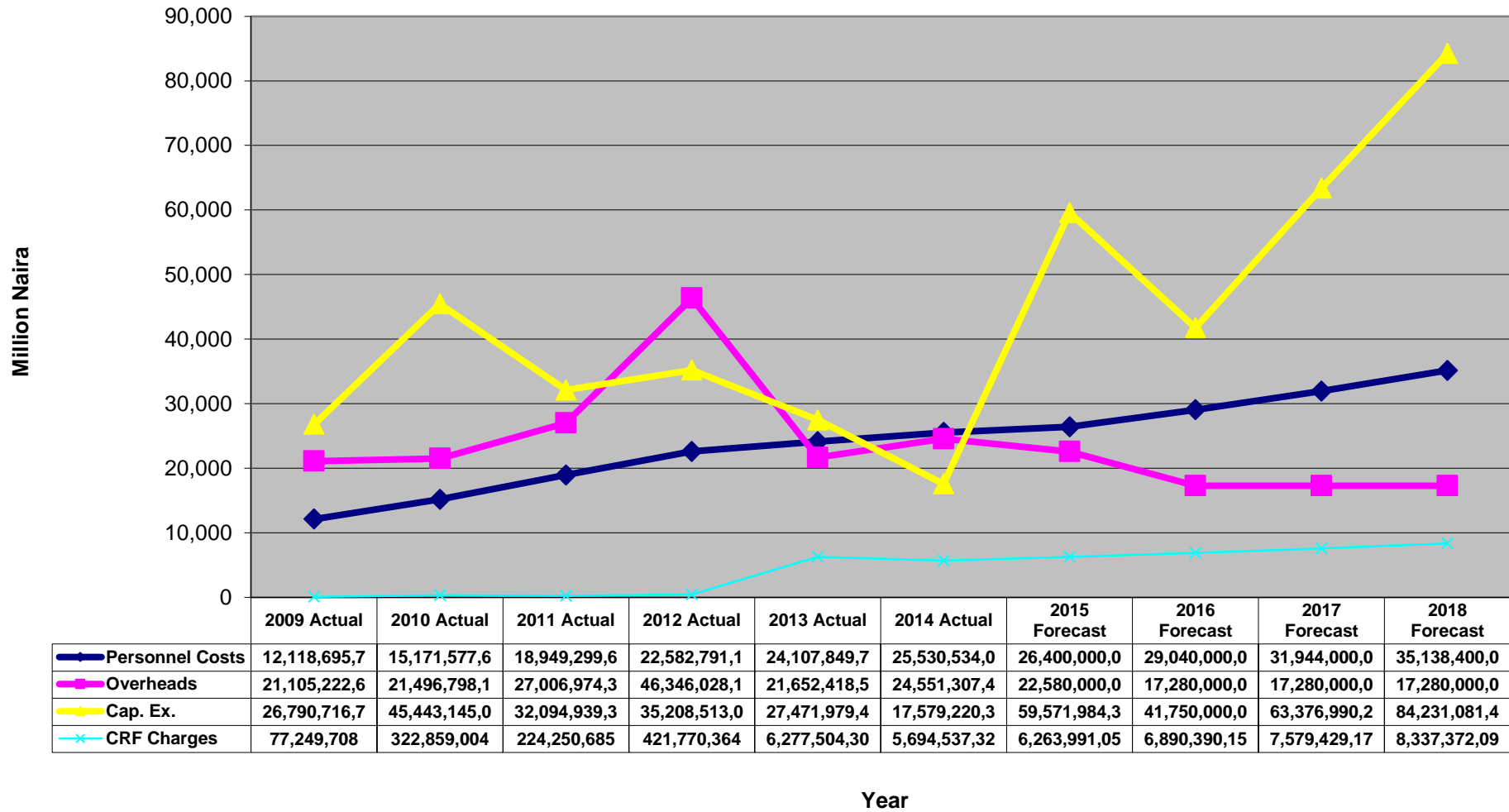


Figure 15: Kaduna State Expenditure Trend

Expenditure Trend: Actual 2009 - 2014 and Forecast 2015 - 2018



3.D Fiscal Risks

106. The analysis and forecasting basis as laid out above implies some fiscal risks, including but not limited to.

Table 10: Fiscal Risks

Risk	Likelihood	Reaction
Risks to Statutory Allocation and Excess Crude based on Oil Price or Production shock	High	In longer term, Kaduna state must become less dependent on Statutory Allocation and Excess Crude to fund its expenditure – this would be achieved through higher IGR collection. In the short term, capital projects must be prioritised and overhead expenditure must be flexible for reduction if short-falls are further experienced.
Threat to security in neighbouring states spills over into Kaduna state resulting in reduced IGR and increased overhead costs	Medium	Proactive engagement with the neighbouring states (through collaborative effort with State Emergency Management Agency (SEMA), Northern Governors' Forum) to reduce risk of security spill-over and enacting of legislation for "pooling resources" to stabilise revenue and expenditure
Floods and other natural disasters impact on economic activity and hence IGR tax base, and causing increased overhead expenditure	Low / Medium	Increased investment to increase climate resilience (flood control and irrigation) adaptation, and awareness
Security situation nationwide deteriorates causing reductions in Federal transfers	Medium	In longer term, Kaduna state must become less dependent on Statutory Allocation, VAT and Excess Crude to fund its expenditure – this would be achieved through improved IGR collection. In the short term, capital projects must be prioritised and Overhead expenditure must be flexible for reduction if short-falls are experienced.
Risk that insufficient state funds in the Capital Development Fund to pay counterpart contributions resulting in lost grants	High	Increase IGR, ensure identification of counterpart funding requirements and prioritisation of allocations based on this

107. It should be noted however that no budget is without risk. The ongoing implementation of the 2015 budget should be closely monitored, as should the security situation and impact of the fiscal and economic outlook.

Section 4 Budget Policy Statement

4.A Budget Policy Thrust

108. The overall policy of government when considering its budget are the following key areas:
- i. Invest in education, healthcare and social welfare to ensure Kaduna residents are healthy, productive and competitive.
 - ii. Foster the security of lives and property throughout Kaduna State by targeting the roots and symptoms of intolerance and communal violence.
 - iii. Institute a good governance system that is founded on a competent and responsive public service with zero tolerance for corruption.
 - iv. Maintain, rebuild and expand our decaying infrastructure particularly our water supply, electricity and road networks to accelerate economic growth that will create jobs, jobs and more jobs;
 - v. Promote agriculture and food security and reform of land administration as a basis for wealth creation and capital formation, while preserving and enhancing environmental management
109. As an interim measure, prior year actual expenditure by sector and subsector (2012-2014 for recurrent and capital expenditure) has been used (with some revision from high level discussions) as the basis for the 3-Year allocations for the period 2016-2018.

4.B Zero-Based Budget Formulation

110. In accounting terms, ZBB is a method for preparing cash flow budgets and operating plans which every year must start 'from scratch' with no pre-authorized funds. Unlike incremental budgeting in which past revenues and expenditure trends are assumed to continue, ZBB requires each activity to be justified, for example on the basis of cost-benefit analysis. It may also assume that no present commitment exists, and that there is no balance to be carried forward. By forcing the activities to be ranked according to priority, ZBB can provide a systematic basis for resource allocation. The State Government is interested in establishing 'from scratch' its revenue and expenditure budgets.

111. Revenue Budget

It is critical that a realistic revenue budget is established to determine the financing framework for the expenditure budgets, and also highlight financing constraints. A number of actions are necessary as part of establishing the revenue budget which includes:

- i. A realistic review of all revenue sources and anticipated revenues (Statutory Allocations, Value Added Tax, Internally Generated Revenue, etc.);
- ii. A realistic review of capital receipts – grants, loans and other capital receipts – all of which must be fully justified;
- iii. The identification of all debt servicing liabilities;
- iv. The identification of all existing contractual liabilities and commitments, on-going projects and projects being 'rolled-over'.

112. Personnel Budget

In many cases, personnel budgets are based on the costing of the approved establishment – whether posts are filled or not, or as an increment on the previous year’s budget by a pre-determined increment.

The State Government has already taken an important step forward in this regard through its ongoing comprehensive payroll/personnel audit (staff verification) to establish which posts are filled – thereby removing ‘ghost workers’ and establishing a clear base for the payroll. However, once this is completed a system of ‘checks and balances’ to manage recruitment, etc. in the future, should be introduced. This should include an integration of the new ‘clean’ payroll into the information system platforms of government such as the HRMIS and BATMIS.

This would establish a more rigorous basis for the personnel budget.

113. Overhead Budget

Each overhead budget should be reworked ‘from scratch’ and justified. This may involve costing skills which are not readily available within the state - for example to determine vehicle maintenance costs, fuel usage, etc. Such an exercise may also be time consuming. However, the adoption of some initial rudimentary costing techniques would almost certainly improve the quality of the overhead budget.

114. Capital Budget

The Medium Term Sector Strategy (MTSS) costing process provides the basis for establishing costs within capital programmes. The MTSS process is results-based and uses activity-based costing in producing the budget, and should include components of the personnel and overhead budgets related to development programmes.

Each year, Kaduna struggles with budgeting and allocation of resources that deliver no tangible results. With improved executive and political commitment, it should be expected that this process can improve.

4.C Sector Allocations (3 Year)

115. Based on the above policy, below are the high level sector envelopes for Capital expenditure.

Table 11: Indicative Sector Capital Expenditure Ceilings 2016-2018

Sector	% 2016	2016 Allocation	% 2017	2017 Allocation	% 2018	2018 Allocation
Administrative						
Governance	20.6%	8,605,875,220	20.6%	13,063,819,631	20.6%	17,362,447,343
Social						
Health	13.2%	5,522,486,772	13.2%	8,383,199,763	13.2%	11,141,677,439
Education	14.7%	6,136,096,414	14.7%	9,314,666,403	14.7%	12,379,641,599
Social Welfare	1.5%	613,609,641	1.5%	931,466,640	1.5%	1,237,964,160
Economic						
Works and Infrastructur	17.6%	7,363,315,697	17.6%	11,177,599,684	17.6%	14,855,569,919
Power						
Agriculture	12.1%	5,062,279,541	12.1%	7,684,599,783	12.1%	10,213,204,319
Water Resources	11.8%	4,908,877,131	11.8%	7,451,733,123	11.8%	9,903,713,279
Environment	4.9%	2,024,911,817	4.9%	3,073,839,913	4.9%	4,085,281,728
Commerce	2.9%	1,227,219,283	2.9%	1,862,933,281	2.9%	2,475,928,320
Law and Justice						
Internal Security, Law a	0.7%	285,328,483	0.7%	433,131,988	0.7%	575,653,334
	100.0%	41,750,000,000	100.0%	63,376,990,209	100.0%	84,231,081,440

Appendix: Sector and MDA Classifications

SECTOR AND SUB-SECTORS GROUPING			
IPSAS Sector Groupings	Sub-Sector	MDAs	
Administrative	Governance	Government House	
		Deputy Governor's Office & Parastatals	
		Office of the Head of Service & Parastatals	
		Ministry of Economic Planning & Parastatals	
		Ministry of Finance & Parastatals	
		Ministry for Local Government	
		Office of the State Auditor-General	
		Office of Auditor-General (Local Govt)	
		Due Process Office	
		Kaduna State Liaison Office Abuja	
		Kaduna State Liaison Office Lagos	
		Bureau of Religious Affairs (Christian Matters) & Parastatals	
		Bureau of Religious Affairs (Islamic Matters) & Parastatals	
		Bureau of Establishments and Training & Parastatals	
		Local Government Service Commission	
		Kaduna State Assembly Service Comm.	
		Civil Service Commission	
		Kaduna State Indep. Electoral Commission	
		Government Printing Department	
		Accountant General (Centralized Head)	
Social	Health	Ministry of Health & Parastatals	
	Education	Ministry of Education, Science & Parastatals	
	Social Welfare	Ministry of Women Affairs & Social Developopt & Parastatals	
		Ministry of Youth Sports and Culture	
Economic	Works and Infrastrure	Ministry of Works, Housing and Transport & Parastatals	
		Lands and Survey & Parastatals	
			Rural & Community Development
		Power	Rural & Community Development
			Kadua State Power Supply Company (KAPSCO)
		Agriculture	Ministry of Agriculture & Forestry and Parastatals
		Water	Ministry of Water Resources & Parastatals
		Environment	Min. of Environment & Natural Resources & Parastatals
		Commerce	Ministry of Commerce, Industry & Tourism & Parastatals
			State Industrial & Micro-Credit Mgt Board
Law and Justice	Internal Security, Law and Justice	High Court of Justice	
		Sharia Court of Appeal	
		Customary Court of Appeal	
		Judicial Service Commission	
		Kaduna State Legislature	

Organization Code	Main Organization Name	Sub Organization	
0517001001	MINISTRY OF EDUCATION, SCIENCE AND TECHNOLOGY	Ministry of Education, Science and Technology	
0517008008		Kaduna State Library Board	
0517010010		Kaduna State Agency For Mass Literacy	
0517018018		Nuhu Bamalli Polytechnic, Zaria	
0517019019		College Of Education,Gidan Waya	
0517026026		Kaduna Capital School	
0517026026		Barewa College Zaria	
0517026026		Alhudahuda College, Zaria	
0517026026		Sardauna Memorial College	
0517026026		Government College Kaduna	
0517026026		Queen Amina College Kaduna	
0517026026		Government Secondary School, Kagoro	
0517026026		Rimi College Kaduna	
0517026026		Government Girls' College, Zonkwa	
0517026026		Government Secondary School Fadan Kaje	
0517054054		Teachers Service Board	
0517055055		Science And Technical Schools Management Board	
0517055055		Science Secondary School Kufena	
0517055055		Govt Girl Science Secondary School, Soba	
0517055055		Ggss Kwoi	
0517055055		Gsss B Gwari	
0517055055		Government College , Kagoro	
0517056056		Kaduna State Scholarship Board	
0517057057		Private School Board	
0517059059		Quality Assurance Board - Moe	
0517003003		SUBEB	
0517021021		Kaduna State University	
0517055055		Science Secondary School Ikara	
0111001001		GOVERNMENT HOUSE	Government House
0111001001			Department Of Land, Surveys And Country Planning
0111001001	Kasupda		
0111002002	Deputy Governors Office		
0111001001	Department For Rural And Community Development		
0111003003	Secretary To The State Government		

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0111008008		State Emergency Management Agency
0111010010		Due Process Office
0111020020		Poverty Alleviation Programme
0111021021		Liaison Office Abuja
0111021021		Liaison Office Lagos
0111033033		Kaduna State Aids Control Agency
0111034034		Bureau Of Public Service Reform
0111035035		Bureau Of State Pension
0111037037		Bureau Of Religious Affairs (Islamic Matters)
0111037037		Muslims Pilgrims Welfare Board
0111038038		Christian Pilgrims Welfare Board
0111032032		Special Duties Office Intergovernmental
0111001001		Government Printing Department
0111007007		Industrialization And Micro Credit Management Board
0111038038		Bureau Of Religious Affairs (Christian Matters)
0111001001		Kaduna State Media Corporation
0220001001	MINISTRY OF FINANCE KADUNA STATE	Ministry Of Finance Kaduna State
0220007007		Accountant General Centralized Head
0220008008		Board Of Internal Revenue
0220009009		Tender'S Board
0220011011		Body Of Appeal Commision
0220012012		Project Finance Management Unit
0521001001	MINISTRY OF HEALTH AND HUMAN SERVICES	Ministry Of Health And Human Services
0521114114		College Of Midwifery Kaduna
0521003003		Primary Health Care Agency
0521104104		College Of Nursing Kafanchan
0521106106		Shehu Idris College Of Health Sciences And Technology, Makarfi
0521113113		Drugs And Medical Supplies Management Agency
0125001001	OFFICE OF THE HEAD OF SERVICE	Office Of The Head Of Service
0125005005		Bureau Of Establishments, Management Services And Training
0125005005		Kaduna State Public Service Institute (Kapsi)
0125007007		Local Government Staff Pension Bureau
0326001001	MINISTRY OF JUSTICE	Ministry Of Justice
0326051051		High Court Of Justice
0326052052		Customary Court Of Appeal

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0326053053		Sharia Court Of Appeal
0318011011	JUDICIAL SERVICE COMMISSION	JUDICIAL SERVICE COMMISSION
0234001001	MINISTRY OF WORKS HOUSING AND TRANSPORT	Ministry Of Works Housing And Transport
0234054054		Kaduna State Public Works Agency
0234054054		Kastee
0215001001	MINISTRY OF AGRICULTURE AND FORESTRY	Ministry Of Agriculture And Forestry
0215102102		Kaduna State Agricultural Development Project
0215109109		Kaduna State Forest Management Project
0252001001	MINISTRY OF WATER RESOURCES	Ministry Of Water Resources
0252004004		Ruwassa
0235001001	MINISTRY OF ENVIRONMENT AND NATURAL RESOURCES	Ministry Of Environment And Natural Resources
0235016016		Kaduna State Environmental Protection Authority
0112003003	KADUNA STATE LEGISLATURE	Kaduna State Legislature
0112004004		Kaduna State Assembly Service Commission
0164001001	LOCAL GOVERNMENT SERVICE COMMISSION	Local Government Service Commission
0514001001	MINISTRY OF WOMEN AFFAIRS AND SOCIAL DEVELOPMENT	Ministry Of Women Affairs And Social Development
0514054054		Kaduna State Rehabilitation Board.
0513001001	MINISTRY OF YOUTH, SPORTS AND CULTURE	Ministry Of Youth, Sports And Culture
0551001001	MINISTRY OF LOCAL GOVERNMENT AND CHIEFTAINCY AFFAIRS	Ministry Of Local Government And Chieftaincy Affairs
0147001001	CIVIL SERVICE COMMISSION, KADUNA STATE	Civil Service Commission, Kaduna State
0148001001	INDEPENDENT ELECTORAL COMMISSION	Independent Electoral Commission
0161001001	OFFICE OF THE AUDITOR-GENERAL (LOCAL GOVERNMENTS)	Office Of The Auditor-General (Local Governments)
0140001001	OFFICE OF THE STATE AUDITOR-GENERAL	Office Of The State Auditor-General
0222001001	MINISTRY OF COMMERCE, INDUSTRY AND TOURISM	Ministry Of Commerce, Industry And Tourism
0238001001	MINISTRY OF BUDGET AND PLANNING	Ministry Of Budget And Planning
		Kaduna State Bureau Of Statistics