

**Delta State**

**EXPLANATORY NOTES**

**TO DELTA STATE 2020 REVISED BUDGET**

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1.0 **Introduction**

Economies around the world are fighting the effects on the COVID-19 pandemic including Delta State. Nigeria is still dependent on oil, so the current crash in oil prices is adding to the COVID-19 lockdown effect where the spending capacity of the people has been drastically reduced. In addition to the impact on health, there is also a significant economic impact being felt worldwide including Delta State.

Delta State 2020 Budget was predicated on some assumptions including that the crude oil will sell at an average of $57 per barrel. The oil price plummeted by about 60% following the spread of the global pandemic. As the oil sector accounts for the bulk of Nigerian government revenue, this collapse in prices had profound implications for the budget as the projected revenue is no longer realistic. The sharp drop in oil price has impacted negatively on the FAAC returns to the State. In effect, the assumptions underlying the 2020 budget are no longer sustainable.

The Delta State Approved 2020 Budget has been amended to respond to recent developments in particular, COVID-19 pandemic. The scarce resources have been reallocated to ensure implementation of required health and emergency measures as well as mitigate the negative socio-economic effects of the COVID-19 Pandemic. The overall budget size was dropped from the sum of N395bn to the sum of N283bn.

**2.0 MACROECONOMIC FRAMEWORK**

The 2020 Delta State revised budget is tailored after the Federal Government’s macro-economic framework which key assumptions are:

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| **Macro-Economic Framework**

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| --- | --- | --- |
| **Item** | **2020 Budget****Assumptions** | **Revised 2020****Budget Assumptions** |
| National Inflation | 10.36% | 14.13% |
| National Real GDP Growth | 3.6% | -4.41% |
| Oil Production Benchmark (MBPD) | 2.18 | 1.9 |
| Oil Price Benchmark ($) | 57 | 25 |
| NGN:USD Exchange Rate | 305 | 360 |
| **Other Assumptions** |  |  |
| Mineral Ratio | 34% | 27.0% |

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Delta State Budget was based on certain fiscal assumptions which the State has been compelled to revisit given the emerging economic realities. Following the impact of the pandemic, the Brent crude oil price crashed to an all-time low of $19.13 per barrel in the month of April 2020 while oil production in 2020 year-to-date has dropped significantly below 2.0 million barrels per day. Though oil price hovers around $41/barrel as at 30th June, 2020. Government has been compelled to revise the benchmark oil price for 2020 to $25 per barrel to be able to absorb any shocks in case of an eventual misfortune in the sector. Also, oil production was adjusted from 2.18 million barrels per day in the original assumptions to 1.9 million barrels per day noting that with the global economy picking up gradually, the market for the product will remain viable. The official exchange rate has also been adjusted upwards to N360/ US$1 by the Central Bank of Nigeria (CBN) hence the adjustment made in the assumption from N305/dollar to N360/dollar. This is because it is projected that there will be capital inflow as export of commodity (oil) increase in the coming months, and also it is expected that the FDIs inflow will resume.

The increase in inflation rate is based on the April 2020 Consumer Price Index (CPI) Report recently released by the National Bureau of Statistics (NBS) for activities in March 2020, the inflation rate was 12.26% (year-on-year) which is 0.06% points higher than the rate recorded in February 2020 (i.e. 12.20%). Based on this, the State aligned with the projection of the Federal Government Assumptions which put National Inflation at 14.13%.

3.0 **REVENUES AND GRANTS**

It is our view that things will not get worse than they currently are. That being the case, our revenue projections have taken account of our actual receipts over the first 6 months of the year. In addition, we have made projections for the next 6 months using, in some cases, our poorest receipt over the period April – June, 2020 as run-rate.

3.1 **Opening Balance:**

The opening balance of **N5,879,335,115** is the balance brought forward at the beginning of 2020 accounting period from the end of a previous accounting period, 2019. As explained in the published Audit Report 2019, the net assets of the State Government in 2019 rose from ~~N~~164,992,091,785.38 in 2018 to ~~N~~170,485,080,921.55 in 2019. The increase is a result of the massive investment in infrastructure which grew from ~~N~~243,983,02,376.87 in 2018 to ~~N~~349,899,946,146.14 in 2019, an increase of ~~N~~105,916,343,769.27 or 43.4%. The growth rate was obliterated by the increasing pressure on cash and cash equivalent which resulted in a reduction from ~~N~~32,730,293,857.54 in 2018 to ~~N~~5,879,335,115 in 2019. Also the increase in Payables from ~~N~~123,452,744,335.22 in 2018 to ~~N~~177,407,145,663.18 in 2019 an increase of N53,954,401,327.96 or 43.7% significantly impacted the net asset value.

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3.2 **Gross Statutory allocation**

The revised gross statutory allocation for 2020 is **~~N~~31,614,008,516**. The figure is derived from actual revenue receipt of ~~N~~17,775,114,113 for the period Jan. - June, 2020 and projected revenue for the period July – December, 2020 using the receipt for the month of May, 2020 (~~N~~2,306,482,401) to project for the next six months which is (~~N~~13,838,894,40). The figure for May was used because it is the lowest for the months between April – June, 2020. The revised figure of **~~N~~31,614,008,516** is well within the upper bound of **N33,514,057,996** provided by the Nigeria Governors Forum estimate/guidelines.

3.3 **Derivation**

 The revised Derivation figure for 2020 is **~~N~~121,720,761,134**. This figure is derived from actual revenue receipt of **N71,920,761,134** for the period Jan. - June, 2020 and projected revenue for the period July – December, 2020 using an average run-rate of **N8,3000,000,000**. It is necessary to add that the lowest receipt thus far was in the month of April, 2020 with a figure of N9,813,328,667. However, with the dwindling fortunes in the oil market between March and now, a lower figure of **N8,3000,000,000** was used to project for the next six months amounting to **N49,800,000,000,** added to the actual receipt gave a revised figure of **~~N~~121,720,761,134.** This figureis above the upper bound of **N95,844,955,614** provided by the Nigeria Governors Forum. We are convinced beyond any doubt, that the upper bound projection by NGF is unrealistic. This is so because the sum of **N71,920,761,134** has already been received as at the month of June. Also, the Federal Government has recently ceded two oil wells to Delta State viz Okpohuru and Abura. However, subsequent interaction with the Nigeria Governors Forum is indicative that our projection on Derivation will be accepted as more realistic.

3.4 **Other FAAC Transfers**

The revised budget for other revenues is **~~N~~12,061,195,850**. This is derived from actual revenue receipt of ~~N~~6,700,664,361 for the period Jan. - June, 2020. The projected revenue for the period July – December, 2020 is 80% of the actual receipt for the period Jan. – June, 2020 (~~N~~5,360531488). The assumption here is that we are not expecting revenue from sources such as good and valuable Consideration, Recovered Excess Bank Charges and Forex Equalization.

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3.5 **Value Added Tax (VAT)**

 The revised VAT figure for 2020 is **~~N~~14,913,079,084**. This is derived from actual revenue receipt of ~~N~~7,532,245,532 for the period Jan. - June, 2020 and projected revenue for the period July – December, 2020 using the receipt for the month of April (~~N~~1,230,138,925) to project for the next six months (~~N~~7,380,833,553). The figure for April, 2020 was used because it is the lowest for the months of April – June, 2020. The revised figure of ~~N~~14,913,079,084 is below the upper bound of ~~N~~26,546,879,576 provided by the Nigeria Governors Forum. This projection is a conservative one considering the actual receipts in the first six (6) months of the year.

3.6 **Internally Generated Revenue (IGR)**

 The revised IGR figure for 2020 is **~~N~~49,255,129,890**. This is derived from actual revenue receipt of ~~N~~22,918,376,062 for the period Jan. - May, 2020 and using the average revenue of ~~N~~3,762,393,404 received between the months of March-May, 2020 as run rate for the remaining months of June – December, 2020 (~~N~~26,336,756,823). The projected figure is added to the actual receipt of ~~N~~22,918,376,062 to arrive at the revised sum of **~~N~~49,255,129,890.**

 It is important to note that as a way of reducing the pressure on tax payers, Government may, in the course of the year grant tax holidays to the SMEs. For this reason, some of the revenue heads have been adjusted downwards. This further justifies the drop in IGR estimates from ~~N~~71,012,876,590 in the original budget to **~~N~~49,255,129,890**

3.7 **Internal grants**

Delta State is expecting internal grants of about ~~N~~6,000,000,000 from

1. SUBEB counterpart fund of (~~N~~2,000,000,000),

(ii) Miscellaneous (~~N~~4,0000,000,000): To support the fight against COVID-19 pandemic, it is expected that the State Government would receive support from various sources. It is expected that the State will receive revenue from some internal sources such as further assistance from federal government (N1,000,000,000), TETFUND (~~N~~2,000,000,000), intervention agencies like NDDC (N500,000,000) and PTDF (N500,000,000).

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3.8 **External grants**

The State Government is also expecting external grants amounting to about **N8,732,997,861** made up of;

1. UNICEF (~~N~~172,997,861)
2. WASH (~~N~~1,000,000,000)
3. Legacy SFTAS and Additional Financing (~~N~~7,560,000,000)

In the legacy SFTAS programme, Delta State received a grant of $4.5m from the 2018 assessment which disbursement was made in 2020. It is also expected that the State would be able to repeat that same feat with the 2019 APA bringing the total expected grant from the legacy SFTAS programme to $9.0m. For the Additional Financing DLIs, Delta State is sure to meet at least four (4) of the eight (8) new DLIs because the work it has already done on these DLIs. The four include:

* DLI #1: Published approved credible revised 2020 COVID 19 responsive budgets ($5m) with deliverable date as July, 2020
* DLI #3: Announced and implemented a tax relief and incentive programme for taxpayers and businesses to cushion COVID 19 crisis impact ($2.5m) with deliverable date as September, 2020
* DLI #4: Increased efficiency in PIT collection and strengthened the foundation by Property Taxation ($2m) with deliverable date as July, 2020 and
* DLI #5: Strengthened procurement function during COVID/emergency situation and facilitated participation of SMEs ($2.5m) with deliverable date as September, 2020
	1. **Excess crude**

The revised budget for excess crude is **~~N~~11,402,690,970**. This is derived from actual revenue receipt of ~~N~~5,701,345, 485 for the period Jan. - June, 2020 and projected revenue for the period July – December, 2020 by multiplying the actual receipt by two. It is expected that with a budget benchmark of $25 per barrel, and actual price of oil hovering around $40 per barrel, we may even surpass our budget for excess crude. In the event that excess crude savings are not retained, this figure can be applied as other revenues in the budget.

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4.0 **EXPENDITURES (Recurrent)**

The total recurrent budget dropped by 11.44% from ~~N~~172,154,484,315 to **~~N~~152,450,230,043**. The details are as follows:

4.1 **Personnel Cost:** The personnel cost provision in the revised budget was dropped from ~~N~~83,959,405,755 to **~~N~~82,891,689,326** as Government intends to adjust salaries of Civil Servants on Salary Grade Level 07 and above to pre-minimum wage era which resulted in adjustment of minimum wage component of the original 2020 budget. The revised personnel budget is inclusive of allowances for front line health workers. The sum of **~~N~~6,222,700,146** has been earmarked as COVID-19 expenditure for salaries and allowances of Health workers.

Suffice it to explain that out of the total sum of ~~N~~15,556,750,364 appropriated as personnel budget for the Ministry of Health and its parastatals, 40% (**~~N~~6,222,700,146**) of this fund has been appropriated for COVID-19 expenditure. This sum represents the emoluments and allowances of front line health workers drawn from relevant units in the Ministry of Health Headquarters, the four hospitals housing the four isolation/treatment centres of COVID-19 infected patients viz Asaba Specialist Hospital, Asaba, Federal Medical Centre, Asaba, Central Hospital, Warri and Delta State University Teaching Hospital, Oghara. The four centres currently have a combined bed capacity of 206 beds and the rate of transmission is increasing in the State. In order to provide adequate incentive for the health workers, it is the policy of government through the revised budget that as the salaries of other workers are being adjusted downwards in line with the dwindling revenues, that of the health workers will not be adjusted. In the main Ministry of Health, the following departments are at the frontline of COVID-19 management viz, Medical Services and Training, Public Health, Nursing, and Pharmacy Departments.

4.2 **Overhead cost**: The revised budget estimate for overhead dropped by 28.20% from ~~N~~60,826,151,369 to ~~N~~44,189,613,526. The adjustment is aimed at reducing non-essential overhead expenditures in order to concentrate the scarce resources on COVID-19 responsive items. The revised budget for overhead will be concentrated more on providing palliative measures for citizens, micro businesses affected by COVID-19, capacity building for COVID related activities, insurance cover for front line workers and emergency response expenditures for State Emergency Management Agency (SEMA). It is necessary to add that the COVID -19 expenditure lines were not reduced to as much as 28.7% as mentioned above. In fact, a number of these essential expenditure lines maintained same figures in the revised budget. Examples include the budget for Contributory Health Scheme which remained ~~N~~1,200,000,000 and Government Assistance for Medical Treatment reduced by 25% only from N150,000,000 to ~~N~~112,500,000.

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4.3 **Consolidated Revenue Funds Charges (CRFC)**: The original budget for CRFC was ~~N~~27,368,927,191. The revised budget dropped by 0.7% from ~~N~~27,368,927,191 to **~~N~~25,368,927,191**. The difference of ~~N~~2,000,000,000 came from Assistance to Local Governments. The original budget of ~~N~~1,2000,000,000 for Contributory Health Scheme was not reduced as Government intends to sustain the contribution to enable citizens access health care facilities easily and also fund health Insurance Cover for Health Workers. The make-up of the CRFC is as follows:

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|  |  |  |
| --- | --- | --- |
| **Items** | **Approved 2020 Budget** | **Revised 2020 Budget** |
| Statutory Emolument | 467,230,932 | 467,230,932 |
| **Social Contribution:** Contributory Health Scheme, Pension (10% Govt. contribution) | 7,800,000,000 | 7,800,000,000 |
| Social Benefit (Gratuities, Pensions) | 5,008,000,000 | 5,008,000,000 |
| Domestic Loan Repayment (Principal ) | 6,667,696,259 | 6,667,696,259 |
| External Loan Repayment (Principal ) | 300,000,000 | 300,000,000 |
| Grants and Contribution (10% Allocation to LGAs, 2.5% contribution to LGA pension fund, State assistance to LG for primary Education) | 7,126,000,000 | 5,126,000,000 |
| **Total** | **27,368,927,191** | **25,368,927,191** |

The revised domestic loan repayment budget was retained at ~~N~~6,667,696,259 and ~~N~~300,000,000 for external loan repayment. The State has recorded the sum of ~~N~~3,942,968,332 for loan repayment from January to June, 2020 and expected to pay the sum of ~~N~~1,370,448,552 from July to December, 2020 bringing the total to ~~N~~5,313,416,883. We decided to retain the original budget to avoid unforeseen circumstances.

5.0 **EXPENDITURE (Capital)**

The revised capital budget dropped by 41.84% from ~~N~~223,320,909,354 to ~~N~~**129,881,666,342**. The revised budget figure will be concentrated on projects and programmes that will alleviate sufferings of the citizens as a result of the economic downturn caused by COVID-19. They will be impacted on activities such as medical procurements, Social Security, Job Creation programmes, sustenance of major road construction projects, Secretarial Complex, Agricultural Programmes, and other pro- poor programmes e.t.c. all geared towards improving healthcare and stimulating economic activities of the state.

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5.1 **COVID RESPONSIVE EXPENDITURES**

Out of the total capital budget of **~~N~~129,881,666,342** the sum of **~~N~~41,975,365,418** has been earmarked for COVID-19 responsive projects and programmes in the capital budget. The details are shown in the attached COVID-19 responsive projects table.

The COVID-19 responsive projects and programmes include all activities in the budget geared towards ameliorating the health and economic impact of the pandemic on the citizens. More emphasis is given to projects/programmes that target the poor and vulnerable who receive more in terms of the economic burden. The projects/programs also give huge attention to the prevention measures and management of already infected Deltans. Such projects/programmes include purchase of hospital equipment, provision of palliative measures to the poor and vulnerable, funding of capital projects that can create employment and keep workers on the job, sensitization programmes for Deltans on the current pandemic, payment of salaries and allowances to frontline workers, provision of insurance cover for health workers, etc. For all of these projects/programmes, provisions in the revised budget were either retained as the original budget or increased. Where they were reduced, such reductions were marginal and nowhere near the average 41.84% reduction in total capital expenditure.

5.2 **Challenges arising from COVID-19 in Delta State**

1. Revenue from statutory allocation dropped by about 60%
2. The Internally Generated Revenue (IGR) dropped as economic activities became very low
3. The purchasing power of the ordinary citizen of the State dropped drastically as many businesses have closed shop following the policies of Government to shut down some segment of the economy like hotels, mass transportation, schools, etc
4. Meeting payment of salaries and allowances became difficult
5. The health facilities became over stretched
6. The Health workers became afraid to put their lives on the line
7. The frontline health workers do not have sufficient Personal Protective Equipment (PPE) to protect themselves from infection
8. The isolation centres do not have sufficient facilities

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1. The major construction sites are closing down and the workforce are being downsized due to the poor funding from Government.
	1. **Strategic options for responding to the challenges**
2. Government has to first amend the budget to align with current realities as the original assumptions are no longer achievable
3. The revised budget should reallocate resources to critical expenditures that will help ameliorate the impact of the pandemic;
4. Government to provide funds for the procurement of hospital equipment especially for the isolation centres, provide PPEs and provide drugs
5. To motivate the frontline workers, Government has to provide special allowance for health workers
6. In order to keep the local economy working and keep construction workers on their jobs, Government will continue to fund major construction projections.
7. More funding is being provided for social security to enable Government reach out to the needy in the society and provide palliatives for the ordinary citizens.

6.0 **COMMERCIAL BANK BORROWING (Net financing)**

The revised budget for net financing is **~~N~~20,752,697,964.** This funding gap is expected to be met from commercial bank borrowing targeted at funding critical COVID -19 responsive projects and pro-poor programmes. These projects include Asaba- Ughelli dualization project, Beneku Bridge, Agro-Industrial Park and Kwale Industrial Park, advanced medical laboratory, pediatric hospital, small and medium enterprises credit scheme, widows programme, girl-child programme, mother and child hospital, film village amongst others. These are economic stimulus projects which will keep the economy running and also create employment. They will be spread across the capital and recurrent sides of the budget.

The fundamental assumption underlying the bank loans is that when secured, it will be utilized to fund COVID-19 responsive projects and programmes. The projects listed above will stimulate the economy and keep the worker on the job. It is important to state that though not all loans have been secured at the moment, offers “in principle” have been received from commercial banks operating in the state. Government is also preparing to approach the bond market which comes with cheaper cost, however, due to the longer processes of documentations and necessary approvals required, the State has decided to secure these funding from the commercial banks as some of the activities to be funded are urgent and critical. For instance, procurement of palliative materials for the poor and vulnerable, purchase of medical equipment and drugs for the isolation centres, activation of dormant water heads to enable Deltans have access to clean water which is a basic necessity for hygiene, etc. It may be necessary to mention that funding for the Agro-Industrial Park as well as Asaba-Ughelli dualization has been secured.

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The amended budget has carefully given attention to critical projects/programmes as well as making provision for funding already ongoing projects. In this regard, there will be no accumulation of new domestic expenditure arrears (contractor or salary).

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6.1The State has done its debt sustainability analysis as shown below:



The table above shows the current debt position of the State which indicates that the State has capacity to sustain additional loan to fund the COVID-19 expenditures in the revised 2020 budget. The analysis shows the ratio of total domestic debt/total recurrent revenue of 33.74% as against a sustainability threshold of 50%. The ratio of total external debt to total revenue is 8.82% as against the sustainability threshold of 50%. The ratio of total public debt to total revenue is 42.56% compared to the sustainability threshold of 100%. Therefore, the slight increment in loan stock will be feasible as the facilities will be procured on concessionary rate in line with Federal Government directive to commercial banks to work out a reduced credit repayment regime for borrowers. It is further expected that the facilities will be procured on a minimum moratorium of between six and twelve months, during this period, the cash flow impact will be minimal, making the loan sustainability feasible. Moreso, the repayment has been negotiated to be paid from internal source therefore does not require the approval of the Federal Ministry of Finance. Necessary approvals have been obtained from

1. The State Executive Council, and
2. The State House of Assembly

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**7.0 Reduction in non-essential overheads and capital expenditures**

All expenditures that are COVID-19 responsive are treated as essential expenditures. The total recurrent budget dropped by 11.44% from ~~N~~172,154,484,315 to **N152,450,230,043** while the capital budget dropped from ~~N~~223,320,909,354 to ~~N~~**129,881,666,342**. This amount shows a decrease of 41.84% when compared with the original capital budget. The drop in total budget size is in response to the decline in projected revenue due to the economic shock occasioned by the COVID-19 pandemic. You may note that the drop is not the same across board as more funds have been allocated to COVID-19 responsive projects/programmes compared to what has been classified as ***non-essential expenditures***. Non-essential and deferrable expenditure are those we have classified as Administrative Expenditures which has been reduced in favour of growth enhancing, pro-poor funding expenditures and social sector investments (***essential expenditures***) in order to combat the current pandemic as well as its negative impacts on the economy.

It is necessary to emphasize that some expenditure line remained unchanged like the Consolidated Revenue Funds Charges (CRFC) which include statutory emoluments, social contributions, social benefits like pensions/gratuities and loan repayment (domestic and external).

In the **recurrent budget**, the original provisions made for workshops and seminars, local and international travels and the likes have been significantly reduced to free funds for essential expenditures like payment of allowances for frontline workers, insurance cover for frontline workers, sensitization on the pandemic, etc.

In the **capital budget**, the original provisions for administrative capital expenditures have been slashed significantly. Such expenditures include purchase of furniture and equipment, renovation of offices and official residences, etc. The revised budget has given more funds to expenditures for the provision of palliatives to the poor and needy, provision of health equipment for the fight against COVID-19, funding of major civil works like roads and bridges in order to keep the workers on the job, provision of adequate funds for the State’s Job Creation office who supervises the training and equipping of entrepreneurs in the State.

8.0 **External Loans**

Delta State has a proposed external loan of ~~N~~12,463,936,618 expected from NEWMAP (~~N~~10,672,591,144) and SEEFOR project (~~N~~1,791,345,474). However, this figure was not factored in the revenue projections for funding the ongoing revised budget and was not used in planning the budget. The reasons are:

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1. the figures represent what is contained in the approved work plan for the two projects in year 2020 fiscal year but with the pandemic altering trajectories of almost all projects, the State may not be able to draw down these funds between now and the end of the year;
2. the external loan figure was not factored in the summary table because by the implementation structure of the projects, the transactions do not pass through the main State Budget, therefore cannot be used for expenditure planning. The State Budget is predicated on recurrent revenues, internal borrowings to plug financing gaps and grants that are almost certain; and
3. these loans, so to speak, do not hit the State’s treasury directly rather are released to the intervention agencies. Moreover, the spending pattern is determined by the foreign creditors including what to spend, how to spend and who to spend.

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