

# **SOKOTO STATE GOVERNMENT**



## **DETAILS OF EXPLANATORY NOTES (EN) FOR 2020 REVISED BUDGET**

**JULY 2020**

**Contents**

- 0. OPENING BALANCE, FINANCING GAP AND REVISED BUDGET SIZE ..... 3**
- 1. ASSUMPTIONS (EN1)..... 3**
- 2. REVENUE..... 4**
  - 2.1 STATUTORY ALLOCATION, VAT AND IGR (EN 2.1) ..... 4
  - 2.2 CAPITAL RECEIPTS (FOREIGN AND DOMESTIC GRANTS) (EN2.2) ..... 5
  - 2.3 OTHER CAPITAL RECEIPTS (EN2.3) ..... 6
- 3. EXPENDITURE (EN3) ..... 6**
  - 3.1 PERSONNEL (EN3.1) ..... 6
  - 3.2 CONSOLIDATED REVENUE CHARGES (EN3.2) ..... 6
  - 3.3 PUBLIC DEBT CHARGES (EN3.3) ..... 6
  - 3.4 OVERHEAD COSTS (EN3.4)..... 7
  - 3.5 CAPITAL EXPENDITURE (EN3.5) ..... 8
- 4. FINANCING & FINANCING GAP (EN4)..... 10**
  - 4.1 FINANCING (EN4.1) ..... 10
  - 4.2 FINANCING GAP (EN4.2)..... 11
- 5. COVID-19 SHARE OF TOTAL EXPENDITURE ..... 11**

## **0. OPENING BALANCE, FINANCING GAP AND REVISED BUDGET SIZE**

**EN-0:** N1,492,302,000.00 represents the Opening balance as part of the recurrent component of the closing balance of year 2019 which is brought forward to year 2020. This amount is a projection in the initial budget and retained.

**EN-0.1:** In the amended Y2020 budget, the State is proposing zero financing gap by ensuring that the budget deficit is fully financed from identified financing sources) without accumulation of new domestic expenditure arrears (contractors, salaries, pensions, and gratuities).

**EN-0.2:** The total budget size of the State is N164,394,397,817.90

## **1. ASSUMPTIONS (EN1)**

**EN-1.1:** The weakening of oil demand and the effects of COVID-19 pandemic on the global economy plunged oil price below the \$57 per barrel that was initially used by the FGN in the originally approved 2020-2022 MTEF/FSP. With the reality of the market situation, the FGN revised the oil benchmark price to \$25 per barrel while NGF, in its advisory capacity, suggested a benchmark price of \$20 per barrel. Sokoto State, being heavily dependent on revenues from oil (via FAAC transfers) decided to be conservative by using \$20 per barrel to reduce the risk of revenue shocks should the price of crude oil stay below the \$25 benchmark of the Federal Government, in relation to the uncertainties in the current market realities.

**EN-1.2:** Given the potential uncertainty and disruption of global supply/output chains, weakening global demand for crude and the possibility of disturbances to crude production activities in Nigeria, the State decided to be conservative by using oil production benchmark of 1.7mbpd instead of 1.9mbpd used by the Federal Government in its Addendum to 2020-2022 MTEF/FSP. The conservative benchmark of 1.7mbpd would afford the State some level of comfort should the production level fall below the Federal Government estimate of 1.9mbpd.

**EN-1.3:** As a result of the drastic drop in crude oil price and global disruptions in economic activities occasioned by the COVID-19 pandemic which affected Nigeria foreign exchange earnings and increased pressure on foreign reserves, Central

Bank of Nigeria depreciated naira exchange rate from N305/\$ to N360/\$. This revised budget is adopting the new exchange rate of N360/\$.

**EN-1.4:** GDP Growth rate is projected to reduce as a result of shocks to Growth components of global, national and subnational economy coupled with declining oil prices. Hence, the growth rate is projected to decline from the initial forecast value of 3.16% to -4.42%. This is the position used in this revised Y2020 budget of Sokoto State.

**EN-1.5:** An inflation rate of 14.13% was adopted as against the earlier projected inflation rate of 11.7% as a result of low economic activities caused by closure of factories across the globe and restricted movement across borders, Nigeria inclusive, leading to scarcity of goods which results in persistent increase in commodity prices across board. This is in tandem to the FGN and NGF projected 14.3% inflation rate.

**EN-1.6:** The Mineral Ratio of 27% was adopted instead of 35% because of increased cost of production and of low economic activities, inclusive of mineral exploration and extraction.

## **2. REVENUE**

### **2.1 STATUTORY ALLOCATION, VAT AND IGR (EN 2.1)**

**EN-2.1.1:** Given the assumptions enumerated in EN1, the projected revenue from FAAC is reduced drastically from N43,758,249,540.00 to N29,575,327,328.88 representing 32.41% of the initial budget. Following the trajectory (trends) of the State's monthly allocation from FAAC between January and May 2020, it is hoped that the State' share of statutory allocation will surpass the N29.5bn projected.

**EN-2.1.2:** With the drastic crash in crude prices witnessed early in the year, and the high potential for reoccurrence of oil price crash, a conservative projection of N1bn was made for revenue from the excess crude oil account with the hope that, the oil prices will stabilize before the end of the year.

**EN-2.1.3:** No provision for revenue from derivation because Sokoto State is not an oil producing State.

**EN2.1.4:** With the assumptions, especially of GDP Growth, VAT collections across the Country are expected to fall. Due to this, Sokoto State' share of VAT has been reduced from N19,856,829,804.00 to N18,007,258,664.00 having considered the amount of VAT received by the State from January to June 2020, and the upper and lower bands advised by NGF.

**EN-2.1.5:** The ability of government to generate Independent Revenue (or IGR) has been seriously hampered by the long period of lockdown that prevented businesses and offices from effective operations; as well as the intra and interstate movement restriction and international movement restrictions that affected economic activities. As a measure of relief towards the damage to the economy by COVID-19 pandemic and the need for recovery, the State Government is also expected to give tax relief/holiday to individual taxpayers and businesses in the State. Consequently, the projected IGR has been reduced from N33,305,768,269.00 to N17,322,201,009.00 (2019 Jan-Sept. Actual)

The IGR collections on Tuition fees, Sales of Government Quarters, Sales of Vehicles and Earnings from Commercial activities were reduced significantly from the Initial budget since these activities were greatly affected by COVID-19.

The major components of the amended revenue are PAYE and Tax Audit. Sokoto State has Migrated to Electronic base Revenue collecting Mechanism, this is expected to boost the efficiency and effectiveness of the State Internal Revenue Service (SSIRS).

## **2.2 CAPITAL RECEIPTS (FOREIGN AND DOMESTIC GRANTS) (EN2.2)**

**EN-2.2.1:** The projected aids and grants have been reduced from N14,584,832,082.62 to N12,551,332,082.62 due to extensive efforts of the government to be prudent and based on the realisation that donor organisations are more focused on fighting the pandemic and significant proportion of grants

channeled to that cause, with governments having very high infection level the primary beneficiaries.

### **2.3 OTHER CAPITAL RECEIPTS (EN2.3)**

**EN-2.3.1:** Other capital receipts include: Excess Crude Oil - N1,000,000,000:00; Reimbursement of Excess deduction on Foreign loans - N2,000,000,000:00; NNPC refund-N250,000,000:00; Refund on Road Construction works by FGN - N7,300,000,000:00; Petroleum Profit Tax - N1,000,000,000:00; Reimbursement of PAYE by OAGF - N6,000,000,000:00; Exchange Rates differential - N1,500,000,000:00; and Solid Mineral derivation - N852,000,000:00.

Only N1bn was reduced on Excess deduction on foreign loan from the initial budget because the State government is currently negotiating with the OAGF for the reimbursement of about N13.3bn of the initial projection of N20.9bn before the end of the year.

## **3. EXPENDITURE (EN3)**

### **3.1 PERSONNEL (EN3.1)**

**EN-3.1:** Personnel cost has been increased from N32,767,326,765.80 to N33,611,814,479.01. The increment is to take care of increase in minimum wage by N694,487,713.21 and N150,000,000.00 was projected for payment of hazard allowances to Health workers as a result of COVID-19 pandemic.

### **3.2 CONSOLIDATED REVENUE CHARGES (EN3.2)**

**EN3.2:** These are Salaries of Public Servants i.e. the Chairman of Commissions, Board Members, Kadis and Grand Kadis that are now embedded in Personnel Cost of the MDAs under International Public Sector Accounting Standard (IPSAS).

### **3.3 PUBLIC DEBT CHARGES (EN3.3)**

**EN3.3:** Public Debt charges are made up of Contractual Liabilities of N150,000,000:00; percentage of Local Generated Revenue Payable to Local Government amounting to N100,000,000:00; State Government Contribution to Local Government Pension Board of N100,000,000:00; N100,000,000:00 as the percentage Contribution to Primary Pension Scheme; N100,000,000:00 as Cost of

Revenue Collection Payable to SSIRS; and N2,576,504,622:00 being percentage of Consolidated Revenue Fund going to State Health Contributory Scheme.

In the amended budget the contractual Liabilities was reduced by N50m, State government contribution to pension schemes was reduced by N100m, percentage contribution of revenue collection by Local Government was reduced by N50m, percentage contribution of revenue collection by SSIRS was reduced by N50m while consolidated Revenue Fund to the State Health Contributory Scheme was reduced by N1.326bn totaling N1.576bn.

The consolidated Debt charges were scaled down due to nonperformance.

### **3.4 OVERHEAD COSTS (EN3.4)**

**EN-3.4.1:** In response to the reduction in revenue, total overhead cost has been reviewed downward from N32,293,098,137.69 to N26,537,098,137.69 representing 18% of the initial budget. There were significant reduction on Transport and Travelling expenses, Other maintenance services, Training etc. from the Overhead cost of several MDAs. However, N1,689,700,000.00 was projected to be spent on COVID-19 response. These COVID-19 response overhead expenditures are listed below:

1. Ministry for Religious Affairs: N813,000,000.00 estimated for additional funding for consistent compliance monitoring and enforcement in response to the spread of COVID-19. Also for special deployment during Ramadan and Christmas celebrations.
1. Careers & Special Services: N250,000,000.00 estimated for special health services, front line logistics and activities of the State's Taskforce Committee on COVID-19 as well as additional security measures to enforce compliance during lockdown.
2. Ministry of Health: N411,000,000.00 estimated as part of the incentives for health workers, maintenance of the State Isolation Centre, additional disposable working materials for Government hospitals, development of State COVID-19 guidelines, contact tracing, as well as installation of safety procedures across the MDAs of the State Government.

3. Ministry of Information: N85,700,000.00 for COVID-19 related State-wide sensitization and information dissemination.
4. Hospitals Services Magt. Board: N105,000,000.00 overhead cost in response to COVID-19; for monitoring compliance of health institutions to COVID directives, hiring additional medical personnel required in the fight against COVID-19 and ensuring healthcare services for other ailments are sustained amidst the pandemic, not neglected.
5. Maryam Abacha W& Child. Hospital: N15,000,000.00 estimated as additional overhead cost as one of the hospitals intended for primary call in the event that the COVID-19 cases in Sokoto State gets increasing.
6. Specialist Hospital: N5,000,000.00 estimated as additional COVID-19 response overhead cost as one of the hospitals intended for primary call in the event that the COVID-19 cases in Sokoto State gets increasing.
7. Primary Health Care Development Agency: N5,000,000.00 additional COVID-19 response overhead cost for continuous (safe) functioning and monitoring of Primary Healthcare centers (PHCs) due to the rising surge of patronage during the pandemic and for grassroots-focused sensitization; PHCs being the closest health institution to the people.

### **3.5 CAPITAL EXPENDITURE (EN3.5)**

**EN-3.5:** Capital Expenditure has been reduced from N122,829,552,208.07 to N97,510,226,063.60 based on priority ranking. Capital Projects on Administrative Expenditure such as Purchase of Vehicles, Renovation of Buildings, and other Non-essential Capital Expenditures were reduced by N25bn from the initial budget. A pro-poor Capital budget N21,098,832,014.80 is earmarked for COVID-19 response in the amended budget. The COVID-19 response Capital expenditures are listed below:

**EN-3.5.1:** Poverty Reduction Program N150,000,000 to secure livelihood and alleviate the effects of COVID-19 on the loss of income and livelihood source of citizens.



**EN-3.5.2:** Ministry of Agriculture and Natural Resources N7,870,000,000.00. Citizens of Sokoto State depends are predominantly agrarian and have been adversely affected by COVID-19. Therefore the State has decided to budget funds to provide additional funding for farmers to cushion the effects and also to ensure food security during the pandemic and also generate more employment through the inclusion of more youths and women in agriculture.

**EN-3.5.3:** FADAMA III NIG. CARES SUPPORT PROGRAMME N769,000,000.00 additional budget for the agric program to reduce the adverse effect of COVID-19 by increasing the income of rural dwellers and reduce rural-urban migration can could increase the surge of COVID-19 cases.

**EN-3.5.4:** MIN. OF COMMERCE, INDUS. & COOP. N2,131,000,000.00 estimated for engendering commercial activities that has multiplier effect in increasing employment and productivity in the State and consequently boost the IGR of the State and strengthen fiscal stance weakened by COVID-19. This would reduce the increase in unemployment caused by the pandemic. This also includes financial support to Cooperative Societies to support livelihood and business of members.

**EN-3.5.5:** MINISTRY FOR RELIGIOUS AFFAIRS N225,000,000.00 estimated for supporting and leveraging religious institutions in the fight against the pandemic, these includes using the religious bodies to sensitise the people on the pandemic and also offer palliatives to the worst hit households during Ramadam and Christmas (through the Religious bodies). Leveraging the religious bodies to fight the pandemic was also a key demand during the consultation with the citizens on the revised budget.

**EN-3.5.6:** MIN. OF ANIMAL & FISHERIES DEV. N 90,000,000.00 estimated to sustain production of farmers and engaged more youths in Animal and fish farming as part of empowerment to sustain rural livelihoods during the pandemic and also ensure food security.

**EN-3.5.7:** LIVESTOCK DEVELOPMENT PROGRAMME N3,345,375,000.00 estimated, to reduce the loss of livestock farmers due to reduced access to

market outside the State as a result of the pandemic; training farmers on preservation, providing support on farm-market logistics etc.

**EN-3.5.8:** MIN. OF ENVIRONMENT N695,000,000.00 estimated to provide sound environmental response to the pandemic. These include investment in essential services, from water and sanitation to waste management amenities in healthcare facilities to uphold the proper handling of chemicals and increasing medical waste necessitated by the medical response to the pandemic (including disposing of nose masks).

Being a State with huge Animal and livestock subsector, investment would also go into prevention of transmission of the Corona Virus between humans and animals.

**EN-3.5.9:** Ministry of Health N5,543,457,014.80 for medical and isolation facility equipment to combat the pandemic, and for the advancement of telemedicine during lockdown.

**4. FINANCING & FINANCING GAP (EN4)**

**4.1 FINANCING (EN4.1)**

**EN-4.1.1:** Domestic bonds. Negotiations on Domestic Bonds with some financial Institutions are ongoing.

**EN-4.1.2:** Commercial bank loans remain unchanged at N32,234,476,733.40.

The State Government has signed and secured sum of N17.7bn of the domestic loans, below are the list of the Banks and the amount secured:-

S/N	AMOUNT	DISCRIPTION OF LOAN	PROJECT/PROG.	BANK
i.	N3.4bn	Commercial Agric. Credit Scheme	Purchase of Fertilizer	Access
ii.	N4.0bn	Commercial Agric. Credit Scheme	Rice & Wheat Programme	Access

iii.	N2.4bn	Commercial Agric. Credit Scheme	2 <sup>nd</sup> Phase of Cattle Breeding Programme	Zenith
iv.	N2.0bn		Construction of Teaching Hospital	Access
v.	N1.5	ADDS		Zenith
vi.	N1.5		Construction of Gidan Man Ada Housing Estate	Heritage
vii.	N1.5bn	SUBEB	Matching Grant	Zenith
viii.	N1.0bn		Ramadan Palliatives	Fidelity
	N320m		Car Loan to Judiciary Staff	Polaris

- Negotiations on the remaining loans are ongoing.
- The aforementioned loans have received Legislative approval.
- The State Debt Sustainability Analysis is in progress

**EN-4.1.3:** External loans have been reduced from N35,170,000,000.00 to N32,169,500,000.00.

The loans on RAMP and NEWMAP were erroneously projected in the initial budget. This informed the reduction of the External loans in the amended budget

The State Government has signed and secured \$100m from African Development Bank and \$250m from Islamic Development Bank.

**EN-4.1.4:** Sales of government assets; No Government Assets is earmarked for sale.

## 4.2 FINANCING GAP (EN4.2)

**EN-4.2:** To avoid accumulation of deficit, the State is not planning to contract any loan to finance the amended budget.

## 5. COVID-19 SHARE OF TOTAL EXPENDITURE

**EN-5:** The total covid-19 response expenditure is N22,938,532,014.80 This represents 13.95% of total expenditure.