

An Evaluation of Local Government Budget Process: Challenges and Prospect

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Abstract

The main purpose of this paper is to evaluate the budget process, Challenges and prospect of Budget process at the local government, which was constructed on empirical review. In this study a general search was conducted to accumulate empirical literature on Budget process, Challenges and prospect in different online data base sources and related documents on budget. It was found that corruption, lack of skill staff, interference of higher level of government and finance has been the major challenges of budget at the local government level. If these challenges could be addressed meaningful development and dividend of democracy could be achieved at the grassroots level.

Keywords:

Evaluation, Budget,
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Background to the Study

The *raison d'être* for the establishment of Local Government world over is to bring government and its activity nearer to the people (Ozor, 2002). However, it will be well-very difficult if not impossible for mere presence of such government to make a difference except if and only it engages in better process of budget formulation and implementation that will guide the preparation of the local government towards execution of meaningful projects and program that will bring about development and impacted on the life of the people.

Based on the fact that Federal Government sees to the affairs of the entire nation and has institution under it, which it needs to coordinate and maintain for national growth this prompted the need for creation of local government as a third tier government and the last hope for the rural people. The local governments are charged with the responsibility of uplifting the lives of rural dwellers. It is important to note that the basic amenities which are dear to the people are left in the hands of local government such as Primary Health Care Delivery, Rural Electrification, pipe borne Water, Primary Education etc. it is in that there is the need for batter process of Budget formulation and implementation at the local government level.

The budget is central policy document of government, showing how it will prioritize and achieve annual and multi-annual objectives. Apart from financing new and existing program the budget is the primary instrument for implementing fiscal policy and thereby influencing the economy as a whole. The budget aims to turn plans and aspirations into reality. More than this the budget is a contract between government and citizens. Showing how resources are raised and allocated for the delivery of public services such a document must be clear, transparent and credible if it is to command trust, and to serve as a basis of accountability.

Literature Review

Concept of Budget

Budgeting is truly an important concept that is pertinent to any organization Schadone, (2012) in very generic term also, Igbara Tordee, nwadike and Abuba, (2016; p1) described the budget as the distribution of resources (most often money) for certain purposes as the word can be attribute to mean "pouch" or "Purse". A budget is therefore, is what is in pouch. A budget to these authors is a measurable manifestation of a strategy for defined period of time. It may include deliberate sales, volumes and revenue, resources, quantities, cost and expenses, assets, charges and cash flows. It expresses as strategic plans of government, business, units organization and activities or events in demonstrable terms.

Igbara Tordee, nwadike and Abuba, (2016; p3) further highlighted "a budget is equally an authority for public officers to collect taxes, fees, charges and fines. It is also an authorization for officials to spend public revenue as provided in the approved allocation and in accordance with financial regulations. The authorization by legislators promotes

the principles of popular sovereignty. It also serves as essential device for relating total expenditure to total revenue. A budget is a scientific means of quantification and measurement of services in terms of expenditure within a given period.”

According to Igboeche (2017; p52) the term budget is derived from an old English word Bougett which means a sack or pouch. It was a leather bag from which the British Chancellor of exchequer extracted his paper to the parliament, the government's financial programme for the ensuing financial year.

Omolelunwa (2005) in malgwi and Unegbu (2012; p1) presented the same historical context as follows “the word originated from French word bougett, meaning litte bag. In Britain the word was used to describe the leather bag in which the Chancellor of exchequer used to carry to parliament, the statement of government needs and sources.” Ekhaton & Chima (2015) in Nwankpa, Linda Oluchi& okeke Remi (2017) “the budget in modern term means a financial scheme or statement or document which contains estimate of revenue and expenditure for a year.

Ekhaton and chima, (2015; p2) further amplified; “that budget is a statement of probable revenue and expenditure for the ensuing year, with financial proposal founded thereon. However, budget these days goes beyond that of revenue and expenditure. It has developed into elaborate system of financial management which involves not only plan of public revenue and expenditure, but whole of material finances which are disclosed in ministerial statement placed before legislature and orderly administration of the financial affairs of government.”

Battacharya, (2002), Ekhaton & Chima, (2015) in Nwankpa and Okeke, (2017) further highlighted that “ a budget is more than estimates of revenue and expenditures, but encompasses, reports regarding how government managed affairs in previous year, the condition of public treasury, programme of work for years to come and how such work should be financed.”

Ekhaton & Chima, (2015) in Nwankpa and Okeke (2017) hence itemized the characteristic of budget as follows:

- i. Clear identification of all activities to be carried out within the budget period;
- ii. Accurate estimate of resources required to carry out activities identified;
- iii. Allocation of funds amongst competing department along predetermined priorities and
- iv. Formulation of appropriate policies to guide and support the implementation of the budget.

According to ugoh and Ukpere, (2009; p837) in Nwankpa and Okeke, (2017; p9) “a budget is a Comprehensive document that outline what economic and non-economic activities a government want to undertake with special focus on policies, objectives and strategies for accomplishment that are sustained with revenue and expenditure projections.”

Principles of Budget

Ugoh and Ukpere, (2009) in Nwankpa and Okeke, (2017) identified the following as fundamental principles of budget that accompany the budget process. This is because of its importance in overall development of a nation. These principles aimed at making the entire process transparent and participatory. They include:

1. **Comprehensiveness:** Budget should be able to contain all financial estimates that government intends to work with. There is always the need to ensure that no other funds or extra budgetary expenditure is entertained;
2. **Clarity:** the documents called budget should be very clear for the people to understand and be able to make input;
3. **Regularity:** regularity should be maintained in budget process it means to present budget at a time suitable to tally with the beginning of every fiscal year and also for a specified period;
4. **Exclusiveness:** budget should be seen as an exclusive financial process and nothing else;
5. **Accuracy:** here there is the need to ensure that revenue and expenditure in budget is correctly estimated. In essence it should be close enough to reality;
6. **Adequacy:** it should represent the need of government and the citizens. It should be able to identify altogether the aspiration and problems of government and economy.

Budget Process at the Local Government

Chapter 3 of the Financial Memoranda has spelt in details the procedures to be adopted in formulating and preparing the budget at the local government. However, the revised Financial Memoranda provide a time frame or time table which is expected to be strictly followed in the preparation of estimate. (F.M. 3.1) this time frame runs from June 1st (of the year immediately preceding the year within which the estimate takes effect). The time frame is important and should be given much attention by the local government functionaries.

The local Government budget process or budget cycle is therefore, presented bellow as provided by the F.M.

1. **The Executive Committee's Call Circular:** the local government executive committee shall issue a circular calling for the preparation of local governments estimate for the ensuing financial year. Such circular shall be issued in such time as to reach each Department to which it is addressed, by 1st June. The circular shall:
 - i. Contain such general guideline to be followed by Departments in the preparation of their annual estimates as reflect the local government's policy and priorities in regard to the discharge of functions and provisions of services at the local level;
 - ii. Stress such procedural and timing matters and matters related to the objectives and content of estimates, as are considered appropriate by the executive committee.

2. **The Treasurer's Call Circular:** immediately on receipt of the executive committee's call circular and later than 10th June, the Treasurer shall issue an estimate call circular to Heads of Departments. This circular shall:

- i. Indicate the last date (10th July) by which departmental estimate proposals must reach the Finance Department;
- ii. Incorporate the content of the circular issued by the Executive committee in accordance with provision of F.M. 3.2.
- iii. Refer to any policy decision reached by the council in regard to the content of the estimates and the priorities to be reflected therein;
- iv. Refer to any direction of the Executive Committee regarding the detailed procedures to be followed in estimate preparation;
- v. In the light of experience in the preparation of estimates for years, incorporate such other procedural matters as appear to the treasurer to be likely to facilitate the preparation and subsequent processing of departmental estimate proposals.

3. **Preparation and submission of Departmental Estimate proposal to the Treasurer:** under the general direction of the appropriate supervisor, the Head of Department shall prepare estimate proposal for each of the service concerned. The estimate proposal shall comprise:

- i. Estimate of the revised revenue and expenditure (recurrent and capital) for the current year;
- ii. Estimate of revenue and expenditure (recurrent and capital) for the following financial year;
- iii. The departmental estimate proposals supported by full explanatory notes shall be forwarded to the Treasurer by 10th July.

4. **Treasurer's Summary of Departmental Estimate Proposals:** the next process is for the Treasure to not later than 31st July; the Treasurer shall consolidate the estimate proposal of departments, including the Finance Department and submit them through the secretary for consideration by the Executive Committee. To accompany the estimate proposal, the Treasurer shall prepare:

- i. In accordance with provision of the F.M. 1.4(2) a report on the general financial implications of the estimate proposals and the effect they will have on the financial situation of the local government;
- ii. A preliminary summary of the financial position on Local Government Treasury Form no 10 (LGT 10) containing the following information:

Transactions for Year of Estimate	#	#
(a) Estimated Recurrent Expenditure	
(b) Estimated Capital Expenditure	
(c) Estimated Capital Revenue	<u>.....</u>	
(d) Estimated Recurrent Expenditure to be met		
From Recurrent Revenue (b - c)	_____

(e) Total Estimate Expenditure to be met from Recurrent Revenue (a + d)
(f) Estimated Recurrent Revenue.....	
(g) Estimated Surplus/Deficit on transaction For year 20.....	<u>=====</u>

Effect of Transaction for the Year of Estimate on Overall Financial position

(h) Estimated Reserves at end of current year 20....
(i) Add Estimate Surplus or Deduct Estimated Deficit as in (g) above
(j) Estimated Reserves and of year of Estimate 20.....	
(k) Working Capital required ...% of Estimated Recurrent Expenditure as in (a) above

5. **Consideration of Departmental Estimate proposals by Executive Committee and the Council:** The next process is the consideration of the estimate proposals, and the report and summary prepared by the Treasurer, by the Executive committee in accordance with the provision of the Financial Memoranda 3.7. the committee shall hold such discussion with Heads of Departments as it considers necessary to clarify provisions made in the estimate proposals Where the summary on form LGT10 shows that the estimated recurrent revenue is not sufficient to meet the total estimated expenditure shown in the summary as to be met from this source, the Executive Committee shall take the following measures i.e. to look at ways of defraying the excess expenditure from other sources other than recurrent revenue, that is from reserves or by raising loans, or by applying for capital grant from state Government.

6. **Approval of Estimate by Local Government Council:** the process is followed by consideration and amendments of the draft estimate as may be appropriate, together with the report of the executive committee by the Council, at a meeting to be held not later than 15th December. After a further review of the measures necessary to achieve a sound financial position and to provide adequate funds for implementing council policies, the Council shall:

- i. Approve the draft estimates as they stand or with such amendments as the Council may think fit;
- ii. Approve such increases in taxes, rates, licenses fees. Rents and charges as the Council considered appropriate.

The estimate then becomes the approved annual estimates of the local government for the appropriate financial year. However, increases in fees or new fees etc, imposed under local government bye-law/ rules may not be collected until the bye-law/ rules have been approved.

7. **Forwarding Approved Estimate to Governor:** the final stage of the budget process following its approval is the forwarding of copies of the approved estimate to the Governor by the Council as indicated in the call circular not later than 31st December.

Approved Heads/Subheads by the Federal Government in the Financial Memoranda

For better formulation, control and implementation of estimate at the local government level, the financial Memoranda 2.2 – 5; p18-19 has provided an elaborate coding, budget classification system for the various financial transactions covering both recurrent and capital transactions. These consist of the following:

Table 1: Recurrent Revenue Heads: The Recurrent Revenue estimates of Local government are prepared under the following heads:

S/N	Approved Recurrent Head	Item of Revenue
1.	1001	Taxes
2.	1002	Rates
3.	1003	Local licenses, fines and fees
4.	1004	Earning from Commercial Undertakings
5.	1005	Rent on government property
6.	1006	Interest Payment and Dividends
7.	1007	Grants
8.	1008	Miscellaneous
9.	1009	Statutory Allocation

Table 2: Recurrent Expenditure Heads: The Recurrent Expenditure estimates of Local government are prepared under the following heads:

S/N	Approved Recurrent Head	Item of Expenditure
1.	2001	Office of the Chairman
2.	2002	Office of secretary to Local Government
3.	2003	The Local Government Council
4.	2004	Personnel Management
5.	2005	Finance department
6.	2006	Education and Social Development Department
7.	2007	Medical & Health Services
8.	2008	Agric & Natural Resources Department
9.	2009	Works, Housing, Land and Survey
10.	2010	Traditional Offices
11.	2011	Miscellaneous Expenses
12.	2012	Contribution to Local Government Funds
13.	2013	Transfer to Reserve funds

Table 3: Recurrent Capital Receipts (Revenue) the capital receipt estimates of Local government are prepared under the following heads:

S/N	Approved Recurrent Capital Receipt Head	Item of Capital Receipt Heads
1.	3001	Internal Sources
2.	3002	External Sources
3.	3003	Grants
4.	3004	Miscellaneous

Capital Expenditure Head: It is divided into four sectors i.e. Economics, social Services, Area Development and administration which will be presented bellow:

Table 4: Economic Sector: The Economic Sector estimates of Local government are prepared under the following heads:

S/N	Approved Expenditure Head	Item of Expenditure
1.	4002	Agric and Rural Development
2.	4003	Livestock
3.	4004	Forestry
4.	4005	Manufacturing & craft
5.	4006	Rural Electrification
6.	4007	Commerce, finance, cooperatives and Supply
7.	4008	Transport (Roads and Bridges)

Table 5: Social Services Sector Heads: The Social Service Sector estimates of Local government are prepared under the following heads:

S/N	Approved Expenditure Head	Item of Expenditure
1.	5001	Education
2.	5002	Health
3.	5003	Information
4.	5004	Social Development, Sports and Culture

Table 6: Area Development Sector Heads: The Area Development Sector estimates of Local government are prepared under the following heads:

S/N	Approved Expenditure Head	Item of Expenditure
1.	6001	Water Resources and Water Supply
2.	6002	Environment, Sewage and Drainage
3.	6003	Town and Country Planning
4.	6004	Community Development

Table 7: Administration Sector: the Administration Sector estimates of Local government are prepared under the following heads:

S/N	Approved Expenditure Head	Item of Expenditure
1.	7001	General Administration (Office Building)
2.	7002	Staff Housing
3.	7003	Workshop/Development

Table 8: Repayment of Capital Loan Sector: The Repayment of capital Loan Sector estimates of Local government are prepared under the following heads:

S/N	Approved Repayment of Capital loan Head	Item of Expenditure
1.	8001	Repayment of Loan and Interest

Problems of Local Government Budget

According to Ugoh and Ukpere, (2009) “many problems have bedevils the Local Government Budget in Nigeria. As such they have not been able to meet with their statutory obligations of bringing the gains of democracy closer to citizens.” Some of these problems include:

1. Corruption and mismanagement: corruption is one of the major problems facing local government. In fact, a mere myth propagated by the council is that the council is always short of funds. No doubt the heavy funding that runs into billions of Naira as seen from tables of allocations may not be enough because of high level of corruption in the councils. It has also been observed that most local government council does not accord adequate regard to the budget process. The fall out of this situation is the indiscriminate and unplanned execution of projects. The state governments which would serve as a check are not free from this cankerworm; in addition also divert some of the funds meant for the local government to other means. Evidently, there is contract scams in all the local government councils in Nigeria. These contracts are inflated and worst still they are not executed and thereby defeating the essence of budget;

2. Skilled manpower: majority of local governments today are manned by officials who do not possess the requisite leadership and management skills to deliver the gains of democracy to the people. Though in my opinion this has reduced drastically, but personnel of local government are not receiving adequate training through seminars and workshop to update their skills and knowledge;

3. Central /state government interference: the 1999 constitution confers powers that relegated the local governments to both the federal and state governments. Evidently, this has created friction leading to neglect of local bodies. The councils are not given the necessary independence as practice in true feral structure. In addition elections into councils in most states have not taken place after they were dissolved. It shows that democracy today in Nigeria is not practiced at the local government level. However, in

my opinion this issue of election could only resolved if INEC will take over all local government election and the time table of election and tenure of the councils should be the same with that of presidential and governorship election.

4. Finance: This area of concern, most council sources of revenue have been taken over by the state government. Some of these councils also are too small in size and thus have little or no resources from which to generate revenue internally. The internally generated revenue of these councils is too small to pay the salaries and wages of junior staff not to talk of embarking on any meaningful projects. Moreover, the 10% of state internally revenue that is supposed to be given to local government is not forth coming worse still, the federal government statutory allocation does not usually come to the local government regularly and state government at times divert the allocation to satisfy other areas.

Prospect of Local Government Estimates

According to ugoh and Ukpere, (2009) in Nwankpa and Okeke, (2017), stressed that evidently local government cannot overcome its problems, without the support of both the federal and state governments. However, the local government should be allowed to discharge some of its functions without intervention from the higher tiers of government. However, the following measures could improve the prospect of budget process at the local government as well as reducing the challenges facing the exercise.

1. The whole entire process should be the responsibility of the Local Government chairman and assisted by the Local Supervisory councilors as well as the others like the secretary and finance controller, not what has been happening now in which the state government hijack the whole exercise;

2. The period of budget should be fixed it may be between July 15 and September 15 of the current year. The document should be transmitted to the local council not later than October 16. With the much interference by the state government this has become impracticably impossible;

3. In preparation of budget certain requirement must be followed which are like expenditure control i.e. general inflation that influences the total expenditure and specific limitation which mandate local government to fund particular expenditure, what I see, now a days it become very difficult to control the influence of inflation on expenditure, the only measure is speedy preparation, approval and implementation which has become very difficult;

4. The legislative discussion of the budget should be able to commence between October 16 and November 17 of the current year. This would enable the chairman to issue an ordinance on or before the current fiscal year;

5. The budget review should commence immediately after the authorization of the document. The document should be submitted within two weeks, for review by the reviewing office which is Department of budget. The essence is to ensure compliance with the budgetary requirement and consistency with the local government development plan. The review should not last more than 90 days. Once it passes review it goes implementation, which involves release and actual disbursement for funds for specific functions and projects. At this level emphasis is placed on prudent disbursement of funds. Notably it is always better that no cash overdraft is incurred at the end of fiscal year and due process should be adopted in disbursing funds. To me the much control of state governments on local government has rendered all this processes in dismal.

6. The next important issue to note is budget accountability. It involves recording and reporting of actual income and expenditure as well as the evaluation of performance. This has become very difficult for the council because the state government has rendered them helpless in assessing their finances.

7. Finally, is also the need to carry people along during budget preparation and implementation, it could be in form of people organization and Non-Governmental organization within the local council. Leadership at the local government should be oriented to see the importance of involving people in their budget process.

Methodology of the Study

This review study, which has examined Budget Process, Challenges and prospect from the flow of existing literature; In this study, a general search is conducted on Budget in different online data base, from this search a number of journal articles, conference and other work were read to determine which article or work need to be included in the review of this paper. After reading thoroughly most relevant article were collected those were found as the best fit within objectives of present issues about budget as well as local government. The review have examined on the basis of objectives, methods and findings accordingly of all the collected empirical studies

Conclusion

The instrumentalities of effective budgetary process, patriotic budget implementation, spirited monitoring of budget performance and exemplary sanctioning of budget related offences via judicial processes, we will come to realize that local government budget could be deployed as instrument for better development at the local level politically, economically and socially. For better performance of local government councils the entire process of budget should be the responsibility of local government right from formulation, approval, implementation and evaluation of budget performance, not what is obtainable now, in which undue interference of higher government makes the process difficult and counterproductive.

The purpose of budget is to set the program of government revenue and expenditure for a period of one year, any delay in preparation, vetting and approval could affect the implementation and execution of the budget. The present practice in which the state

government has to meddle before the budget is approved; many times delay the approval up July or September of the proposing year which is counterproductive.

Furthermore, budget accountability is essential in reporting income and expenditure as well as evaluating performance; the state government has rendered this to be very difficult to the council, as it makes them helpless in assessing their finances.

Finally, the involvement of all stake holders in the preparation and implementation of budget is paramount to the success of the budget, these stake holders could be people organization and nongovernmental organization within the area of jurisdiction of the local government. The leadership of the local government should be oriented to see the importance of involving people in the budget process.

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