



BAYELSA STATE GOVERNMENT
STATE BUDGET OFFICE
MINISTRY OF BUDGET AND ECONOMIC PLANNING
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EXPLANATORY NOTES

KEY BUDGET ASSUMPTIONS

The following assumptions were made in the 2020 fiscal year original appropriation and as well on the estimated revised COVID Responsive Budget. The table below depicts the comparative result of the revised action:

TABLE (1)

S/N	INDICES	ORIGINAL BUDGET MTEF BASED ASSUMPTIONS	REVISED COVID 19 RESPONSE ASSUMPTIONS	EFFECT ON REVISION
1	CRUDE OIL PRICE	US \$55	US\$20	- US\$35
2	OIL PRODUCTION	1.7 MBPD	1.7MBPD	0.0MBPD
3	GDP GROWTH	3.01%	-4.42%	-4.42%
4	INFLATION RATE	11.02%	14.13%	3.11%
5	EXCHANGE RATE	US\$305	US\$360	US\$55
6	MINERAL RATIO	19.5%	24.5%	5%

EXPLANATORY NOTE I(EN1)

EN1.1: CRUDE OIL PRICE

The original approved budget of oil price was USD \$55. The downward review of oil price to USD \$20 is as a result of the low demand for crude oil products in the global oil market occasioned by the closure of many factories globally as a response to the COVID-19 lockdown measures worldwide. More so, the revised price is also in line with the Federal Government of Nigeria (FGN) Medium Term Expenditure Framework (MTEF) as approved by the National Assembly. A decrease of USD \$35 resulted in the revised budget and this has negatively impacted on the accruable revenues to the State.

EN1.1: OIL PRODUCTION

The original 2020 budget was based on oil production capacity of 1.7 mbpd as in the revised budget. The projected revised budget remains the same at 1.7mbpd. this is consistent with the recommended-on oil output by the SFTAS additional financing guideline 2020 budget revision. The production capacity is expected to remain the same except demand and supply principles acts otherwise.

More so, sabotage and vandalization may likely to increase because of the expected hardship, thus justifying a conservative production estimate.

EN1.1: EXCHANGE RATE

An Exchange rate of USD \$305 was projected in the original 2020 appropriation. However, the State reviewed upward the exchange rate to USD \$360 to reflect current economic realities. This upward review is predicated upon the analysis on actual demand and supply variables for the period January to May, 2020. This upward review gave rise to an exchange difference of USD \$55. The exchange rate of N360: USD \$1 is also consistent with recommended exchange rate by the SFTAS Guideline in line with FGN/MTEF projections submitted to the National Assembly in May 2020.

EN1.1: GDP GROWTH RATE

The GDP Growth rate in the original approved 2020 Budget was 3.01%. The GDP Growth rate for the revised 2020 COVID 19 Responsive Budget is projected at a negative rate of -4.42%. This 7.43% reduction is based on Federal Government of Nigeria (FGN) Medium Term Expenditure Framework (MTEF) which will trigger contraction on other budgetary parameters. There will be a contraction in the economy both globally and nationally and will negatively affect all economic activities. Due to this contraction, the real GDP Growth rate for the State is revised from 3.01% to a negative 4.42%.

EN1.1: INFLATION RATES

In the original appropriation Law, the inflation rate was 11.02 percent. The revised COVID responsive budget estimated inflation rate is projected at 14.13% in line with the Federal Government of Nigeria (FGN) Medium Term Expenditure Framework (MTEF). The effect is higher prices of goods and services with a consequent higher nominal expansion the local economy, but a fall in real

purchasing power of both households and government. This will negatively affect the cost of inputs to the production of goods and services.

EN1.1: MINERAL RATIO

The State initially assumed 19.5 % as mineral ratio in the 2020 approved budget. This ratio was revised to 24.5 % in line with the Federal Government of Nigeria (FGN) Medium Term Expenditure Framework (MTEF) on the COVID responsive budget. A positive variance of 5 % is established, thereby expanding the State's accruable revenue projection. Also, the upward revision of the ratio in the COVID 19 Revised Budget is based on the trend analysis of actual figures for the period from January – April, 2020.

EN1.7: OPENING BALANCE

The original budget did not report any opening balance as the audit was still in progress. We have now incorporated the opening bank balance of N13,620,271,322.00 which was the closing balance from 2019 financial year.

EN1 REVENUE AND GRANTS

The original approved budget had a total revenue and grant as N202,504,791,202.00, while the COVID 19 Responsive Budget estimate stood at N164,035,301,096.57.

EN1.2: GROSS STATUTORY ALLOCATION

The Gross Statutory Allocation of the original budget was N41,159,986,414.00, while the COVID Responsive Revised Gross Statutory Allocation is projected at N25,735,000,000.00 resulting in a drop of N15,424,986,414.00. The drop in the estimation is as a result of expected reduction in oil price and which is projected at USD \$20. This is due to the significant reduction in demand arising from the COVID 19 pandemic. Details of actual receipts for period January to June, 2020 are as follows:

GROSS STATUTORY ALLOCATION

TABLE (1).

S/N	MONTH	AMOUNT (N)
1	JANUARY	3,211,567,158.37
2	FEBRUARY	2,880,140,765.98
3	MARCH	2,543,520,566.55
4	APRIL	2,577,339,483.81
5	MAY	2,009,952,153.63
6	JUNE	2,267,356,960.11
	TOTAL	15,489,877,088.45

EN1.3: 13% DERIVATION

The 13% Derivation Revenue in the original budget was projected at N90,543,560,279.00 against the COVID19 response revised estimate of N64,751,647,582.95, with a drop of N25,791,912,696.05. The new revised figure reflects actual derivation revenue receipt for the five months up to May 2020 plus the projection using the reduced oil price of US 20\$ on the 1.7mbpd. As earlier stated, the reduction in price is as a result of the very low demand arising from the COVID 19 lockdown globally. Details of actual receipts for period January to June, 2020 are as follows:

13% DERIVATIONS

TABLE (2)

S/N	MONTH	AMOUNT (N)
1	JANUARY	9,931,614,316.60
2	FEBRUARY	9,438,655,367.32
3	MARCH	8,297,783,235.41
4	APRIL	6,371,376,239.74
5	MAY	6,314,453,733.73
6	JUNE	6,060,440,344.30
	TOTAL	46,414,323,237.10

EN1.4: OTHER FAAC TRANSFERS

The State expects a total sum of N5,194,067,316.22 from other FAAC receipts. These are known revenue lines accruable to the State. The other FAAC transfers are

Forex Equalization, Exchange Gain Arrears, Budget Augmentation and Excess crude. The projection is made based on actual receipt for the period January – April, 2020. The breakdown is as follow:

OTHER FAAC TRANSFERS

TABLE (5)

S/N	ITEM	NOTE	AMOUNT
1	Budget Augmentation	16	1,744,464,150.46
2	Excess Crude	17	684,191,051.24
3	Forex Equalization	18	434,245,657.27
4	Exchange Gain Arrears	19	2,331,166,457.25
			5,194,067,316.22

EN1.4: VALUE ADDED TAX

The revenue projection on VAT revenue in the original budget was N10,624,244,509.00. However, the amount was reviewed downward to N9,796,403,415.00. The projection was reduced by N827,841,094:00 in response to COVID- 19 pandemic, which has impacted negatively on business activities, service delivery, consumption and construction works nationwide, in spite of increase in the rate of Value Added Tax. The projections reflect the actual receipts within the first four months plus extrapolation for the rest eight months based on the first four months performance.

EN1.5: INTERNALLY GENERATED REVENUE

The original budget projected IGR as N16,000,000,000.00 whereas the Revised Responsive Budget projected IGR as N10,000,000,000.00. This resulted in a reduction of N6,000,000,000.00. The downward review of Internally Generated Revenue estimate is majorly due to the exeat of expatriate workers in the oil industry which account for most of the PAYE inflow as well as the expected decrease in business activities nationwide due to the economic lockdown measures occasioned by the COVID-19 pandemic. A drop is also expected in other revenue heads as well as other revenue generating MDAs.

The projection was based on extrapolation of the actual performance of the period January – May, 2020.

EN1.6 INTERNAL GRANTS

The State initially appropriated N8,177,000,000.00 as internal grants. However, the amount was reduced to N5,200,000,000.00 in the COVID 19 Revised Budget Estimate resulting in a shortfall of N2,404,582,782.40. The decision to review grants downward became necessary as we had doubts that some of the sources earlier earmarked may not be able to provide the grants due to the challenges of the COVID 19. Below is a schedule outlining the sources and the corresponding amounts of the internal grants:

INTERNAL GRANTS

TABLE (3)

S/N	ITEMS	AMOUNT
1	SUBEB	3,600,000,000.00
2	SDGS	1,600,000,000.00
		5,200,000,000.00

EN1.6: EXTERNAL GRANTS

This component of the grant was not initially budget for. However, the additional financing opportunity arose as the World Bank under the State's Fiscal Transparency, Accountability and Sustainability (SFTAS) programme has promised to provide funding to States. The SEEFOR also renewed its commitment of refinancing its existing programme. The sum of N4,680,000,000.00 is estimated to be derivable from this source as follows:

EXTERNAL GRANTS

TABLE (4)

S/N	ITEMS	AMOUNT
1	SFTAS	2,180,000,000.00
2	SEEFOR	2,500,000,000.00
		4,680,000,000.00

EN1.6.1: DONATIONS

Donations was not provided for in the original Budget. However, the consideration of this revenue line into the revised budget is primarily due to the scourge of COVID

19 Pandemic and the unabated daily growth in the numbers of the affected persons. As a result of the emergence of the pandemics and the resultant continual enlightenment and awareness campaign, friends of the state and concerned citizens are expected to voluntarily make both cash and kind donations. The inclusion is made based on the actual receipt of the sum of N273,600,000.00 as at April, 2020.

EN1.6.2: REIMBURSEMENTS FROM FEDERAL GOVERNMENT

Reimbursement from Federal Government were initially projected at N36,000,000,000:00 due the uncertainty of the receipt of the full value and the absence of approval. The projection and reinstatement of the actual value of N38,404,582,783.40 was based on the Federal Executive Council's approval on June, 3rd 2020 for reimbursement to the State for works executed on Federal Government road projects in the State. The Debt Management Office has commenced processing the disbursement of the N38,404,582,783.40.

EN2: EXPENDITURES

The original approved budget had a total expenditure of N242,187,101,952.00, while the COVID 19 Responsive Revised Budget Estimate is N164,035,301,096.57.

EN2: RECURRENT EXPENDITURES

The total recurrent expenditures in original approved budget was N194,213,384,116.00, while the COVID 19 Responsive Revised Budget Estimate is N148,371,325,809.16.

EN2.2: PERSONNEL COST

The budgeted amount of N51,646,082,751.00 for personnel cost for both the initial budget and the COVID 19 Responsive Revised Budget remained the same. This is as a result of the State Government's consideration of its employees as an asset and the concern for them. Based on the foregoing, the State government will continue to pay serious attention on the payment of salaries and pension to its workers despite the decline of revenues.

EN2.1,2.2 & 2.3 OVERHEAD COSTS

TABLE (6)

S/NO	ORIGINAL BUDGET	REVISED BUDGET	DIFERENCE	COVID RESPONSE	COVID RESPONSE %
1	64,444,149,281.00	30,071,327,222.14	34,372,822,058.86	2,550,000,000.00	1.38

The above table refers. The overhead cost was initially budgeted as N64,444,149,281.00. The amount has been reduced in the proposed COVID 19 Responsive Revised Budget Estimates to N30,071,327,222.14, with a reduction of N34,372,822,058.86. The decrease is primarily caused by the expected drop in revenue accruable to the State and the avoidance of non-essential expenditures. The decline is systematic; however, a positive adjustment is made on COVID-19 response protocols as regards to compliance monitoring, palliatives, enlightenment campaign, sanitary items and personal protective equipment, etc. and the establishment of mobile court for the trial of violators of COVID-19 protocols. The sum of N2,550,000,000.00 is provided on specific expenditure lines in response to the COVID 19 compliance conventions.

Overhead cost was reduced by 53.34% from N64,444,149,281.00 to N30,071,327,222.14, resulting in reduction of N34,372,822,058.86.

The COVID Response activities are covered in both the overhead and capital expenditures in the COVID 19 Responsive Revised Budget Estimate. COVID 19 response activities are expenditures relating to emergency response or mitigation measures/programs for crisis and recovery phases of the economy as well as measures to tackle the COVID 19 pandemic impact on health, food security, social safety programs, support for MSMEs, livelihood programs and other related activities.

A sum total of N29,483,758,000.00 which is 16.10 % of the entire Revised Budget is dedicated for COVID response activities. Of this amount, the overhead component consumed N2,550,000,000.00, which represents 1.39% of the COVID Response Revised Budget Estimate. The Administrative Sector is allocated with N1,400,000,000.00. In order to enforce COVID response protocols, N400,000,000.00 is provided for compliance monitoring activities on policies guidelines.

In order to cushion the effect of COVID 19 pandemic, vulnerable category of people in the State will be provided with both cash and food stuff. The sum of N500,000,000.00 is provided to reduce the immediate effect on the citizenry.

It is worthy to note that enlightenment campaign is a prerequisite on the curtailment of the spread of the plague. Based on this, the sum of N500,000,000.00 is dedicated for radio jingles, documentaries and other forms of information dissemination.

In the Economic Sector of the overhead expenditure, the sum of N500,000,000.00 is provided for SMEs intervention in order to bring our teeming youths population to a gainful self-employment. The sum provided will be expended on the provision of starter packs and cash donations to beneficiaries.

And finally, the Social Sector of the overhead of the COVID 19 response expenditures will consume the sum of N650,000,000.00 only. Out of this amount, N250,000,000.00 will be spent on drugs, personal protection equipment and other medical supplies, while the balance of N400,000,000.00 will be expended on decontamination activities of public places.

Administrative Sector

TABLE (8)

S/N	MDA	PURPOSE	AMOUNT
1	SA Security	Compliance monitory on COVID protocols	400,000,000.00
2	General services (SSG Office)	Palliatives (Food stuff, cash distribution)	500,000,000.00
3	Ministry of Information	Public enlightenment (Radio jingles, documentaries on Television and Radio)	500,000,000.00
	TOTAL		1,400,000,000.00

Economic Sector

TABLE (9)

S/N	MDA	PURPOSE	AMOUNT
1	Ministry of Finance	SMES interventions (starter packs and cash donation)	100,000,000.00
2	Ministry of Budget	SMES interventions (starter packs and cash donation)	200,000,000.00

3	Board of Internal Revenue	SMES interventions (starter packs and cash donation)	200,000,000.00
	TOTAL		500,000,000.00

Social Sector

TABLE (10)

S/N	MDA	PURPOSE	AMOUNT
1	Ministry of Health	Drugs, Laboratory and Medical supplies.	250,000,000.00
2	Ministry of Environment	Cleaning, Fumigation and decontamination of hospitals and other public offices and places eg market, parks, clearing and cleaning of dump sites.	400,000,000.00
	TOTAL		650,000,000.00

OVERHEAD EXPENDITURES SUMMARY TABLE

TABLE (11)

S/N	SECTOR	AMOUNT
1	ADMINISTRATION	1,400,000,000.00
2	ECONOMIC	500,000,000.00
3	SOCIAL	650,000,000.00
	TOTAL	2,550,000,000.00

EN2.4PUBLIC DEBT CHARGES

The sum of N42,180,128,248.00 was budgeted for servicing and repayment of public debt in the original budget. However, the projection for Public Debt charges is reduced to N31,653,915,836.00 in the COVID 19 Responsive Revised Budget with a reduction of N10,526,212,412.00. This is done as a result of twelve months' moratorium relief granted by the Federal Government on some facilities advanced to the State. Also, the State Government anticipate to negotiate with other creditors for restructuring of loans for a better repayment period and with a moratorium to ease the repayments. Consequently, the State Government will have more cash at its disposal to address essential expenditures.

EN2.4: PENSION AND GRATUITY (CRFC)

The only expenditures charged to Consolidated Revenue Fund Charges as per IPSAS requirement is Pension and Gratuity. Pension and Gratuity in the appropriated budget was N35,943,023,836.00. In the COVID 19 Responsive Revised Budget Estimate, it is reduced to N35,000,000,000.00. The N943,023,836.00 difference is part of a provision for contributory pension scheme. While the pension element remained the same and untouched based on the promise of the Government to continually pay the senior citizens of the State monthly. However, the N943,023,836.00 provision was specifically meant for phase implementation of contributory pension scheme. Based on the weakening revenue base and further hardship workers may face in the course of making them contribute, government has decided to suspend the commencement of the scheme hence no provision of N943,023,836.00.

EN2.1,2.2 &2.3CAPITAL EXPENDITURES

In order for the state to protect its citizens, the Government will construct more roads and rehabilitate existing roads infrastructures to enable citizens to have access to health facilities both in the rural areas and the urban cities. More so, existing health facilities will be rehabilitated and new hospitals will be built primarily to improve the health care infrastructure architecture in-order to increase the access to better health care. In furtherance to this, the state government will invest on agricultures to make food available and affordable, especially in the COVID-19 period.

Capital expenditure was reduced by 27.49% from N47,973,717,836.00 in the original budget to N34,784,246,602.57 in the COVID 19 Responsive Revised Budget Estimate leading to a reduction of N13,189,471,233.43. Details of capital expenditures on sectoral basis is provided below:

CAPITAL EXPENDITURES

TABLE (7)

S/N	SECTOR	NOTE	ORIGINAL BUDGET	REVISED BUDGET	DIFFERENCE	COVID RESPONSE
1	Economic	25	25,400,937,836.00	27,886,804,448.44	2,485,866,612.44	12.30%
2	Social	26	7,930,000,000.00	3,412,795,973.50	4,517,204,026.50	2.14%
3	Law and Justice	27	2,900,000,000.00	695,738,954.27	2,204,261,045.73	0.0%
4	Administrative	28	11,742,780,000.00	2,788,907,226.36	8,953,872,773.64	0.16%
			47,973,717,836.00	34,784,246,602.57		

CAPITAL EXPENDITURES

A sum total of N29,483,758,000.00 is provided for COVID 19 response activities for the entire revised budget estimate. Out of it, the sum of N26,933,758,000.00 is provided for COVID response activities in the capital expenditures, which represents 14.6% of the COVID 19 dedicated expenditures.

The sum of N300,000,000.00 is provided in the Administrative Sector of the capital expenditures for upgrading of health infrastructures and provision of personnel protective equipment and other related relevant items in response to COVID 19.

In the same manner, the sum of N22,683,758,000.00 is earmarked in the Economic Sector. Of this amount, N3,000,000,000.00 is dedicated for food security in the agricultural sector on cassava production, rice farms and fish production. While the balance of N19,683,758,000.00 of the vote is planned to be expended on construction and rehabilitation of road infrastructures to access health facilities both in the urban and rural communities.

Finally, the sum of N3,950,000,000.00 is provided for COVID 19 activities in the Social Sector. Of the provided amount, N2,450,000,000.00 is devoted for provision and upgrading of health facilities and the balance of the N1,500,000,000.00 is to be invested on health infrastructures and provision of PPE, sanitary equipment face masks and other related apparatus.

The tables below give summary explanations of the COVID 19 response expenditures of both overhead and capital.

CAPITAL EXPENDITURE

Administrative Sector

TABLE (12)

S/N	MDA	PURPOSE	AMOUNT
1	Ministry of Special Project	Provision of Infrastructure (upgrading of health facilities, provision of PPE, sanitary equipment and face masks)	300,000,000.00
			300,000,000.00

Economic Sector

TABLE (13)

S/N	MDA	PURPOSE	AMOUNT
1	Ministry of Agriculture	Agricultural Facilities (Acquisition of land, purchase of agricultural equipment, cassava farms, fish farms and rice farm)	3,000,000,000.00
2	Ministry of Works	Construction and rehabilitation of access roads to health facilities	19,683,758,000.00
			22,683,758,000.00

Social Sector

TABLE (14)

S/N	MDA	PURPOSE	AMOUNT
1	Ministry of Health	Provision and upgrading of health facilities	2,450,000,000.00
2	Ministry of local Govt Chieftaincy and Community	Provision and upgrading of health facilities, PPE, sanitary equipment, face masks in LGAs	1,500,000,000.00
			3,950,000,000.00

CAPITAL EXPENDITURES SUMMARY TABLE

TABLE (15)

S/N	SECTOR	AMOUNT
1	ADMINISTRATION	300,000,000.00
2	ECONOMIC	22,683,758,000.00
3	SOCIAL	3,950,000,000.00
	TOTAL	26,933,758,000.00

SUMMARY TABLE COVID 19 RESPONSIVE EXPENDITURES ON CAPITAL & OVERHEAD COST

TABLE (16)

S/N	CATEGORY	AMOUNT	%
1	OVERHEAD EXPENDITURES	2,550,000,000.00	1.39
2	CAPITAL EXPENDITURES	26,933,758,000.00	14.71
	TOTAL	29,483,758,000.00	16.10

EN2.1,2.2 & 2.3 ECONOMIC

The original approved budget of this sector was N25,400,937,836.00, while the COVID 19 Responsive Budget estimate is N27,886,804,48.44. The revision resulted to a difference of N2,485,866,612.44 and out of the revised budget, 12.30% is provided for COVID 19 response activities.

EN2.1,2.2 & 2.3 SOCIAL

The original approved budget of this sector was N7,930,000,000.00 while the COVID 19 Responsive Budget estimate is N3,412,795,973.50. The sum of N4,517,204,026.50 is the comparative difference of the appropriated and the budget.

EN2.1,2.2 & 2.3 LAW AND JUSTICE

The original approved budget of this sector was N2,900,000,000.00 while the COVID 19 Responsive Budget estimate is N695,738,954.27. The original and revised budget resulted to a difference N2,204,261,045.73 and no amount is allocated to COVID 19 expenditures.

EN2.1,2.2 & 2.3 ADMINISTRATION

The original approved budget of this sector was N11,742,780,000.00 while the COVID 19 Responsive Budget estimate is N2,788,907,226.36. The sum of N8,953,872,773.64 resulted as a difference.

EN3 FINANCING

Both the original and COVID 19 Responsive revised Budget are financed by commercial loans.

EN3.1 COMMERCIAL BANK LOANS

The sum of N39,682,310,750.00 was earmarked for commercial loans in the original budget. This amount is reduced to N5,500,000,000.00 in the COVID 19 Responsive Revised Budget Estimate and eventually cause a difference of N34,182,310,750.00. The downward review is to enable the State Government to concentrate on projects based on current projection of the fiscal year and sources that are realistic, accessible and will not result in accumulation of more liabilities. The State plans financing the budgeting gap through commercial loans amounting to N5,500,000,000.00. This revised estimate is 2.98% of the entire budgetary provision of the financing activities.

The sum of N2,500,000,000.00 will be secured for Health infrastructure Funds through Fidelity Bank on the Central Bank of Nigeria Health Sector Support Scheme facility in response to COVID 19 pandemic. The facility has already been negotiated with the Bank and terms and conditions agreed upon, while waiting for final approval from the Central Bank of Nigeria (CBN). The facility has a twelve months' moratorium with a tenor of ten years.

The balance of N3,000,000,000.00 is from the Accelerated Agricultural Development programme (AADS) which has been secured and approved by the Central Bank of Nigeria. The sum of N1,500,000,000.00 has already been disbursed and the balance is awaiting disbursement. The facility has a twelve months' moratorium and has been partly obtained from Access Bank. It is also a CBN funding scheme.

Funds obtainable through this medium have better repayment period and moratorium.

EN3: FINANCING GAP

The revenues of the COVID 19 Revised Responsive Budget estimated at N177,655,572,411.73, while the expenditures stood at N183,155,572,411.73. The difference between the estimated revenues and expenditures resulted to a deficit of N5,500,000,000.00. This is being financed by the commercial loans of N5,500,000,000.00. This resulted to the zero-financing gap.