This Fact Sheet analyses the published data on Kaduna State Government’s (KDSG’s) expenditure between the years 2004 and 2010. The main key findings are:

- Expenditure on education, water and agriculture were significantly boosted in 2010 by large capital projects. Health expenditure declined in 2010 reversing a previous growth trend.
- Increased expenditure on security, water supply, power and the environment has replaced a previous emphasis on roads.
- Growth in recurrent expenditure continues to outstrip recurrent revenue. KDSG’s cost structure has become significantly more risky in recent years.

**Total payments and end of year unspent cash balances, 2004–2010**

Total payments plus the end of the year unspent cash balance mirrors the size of total cash availability, shown in Fact Sheet 02. The components discussed in this fact sheet are (i) recurrent expenditure, (ii) capital expenditure, (iii) loan repayments and (iv) unspent end of year cash balances.

**Recurrent expenditure**

Recurrent expenditure (personnel and overhead costs) has risen from N14.2 to N36.7 billion over the period, an increase of 158%, or 35% in real terms. Within the 35% real terms increase, personnel costs increased by 27%, while overhead costs grew considerably faster by 75%, in real terms.

An increase of 158% over the period.

An increase of 35% over the period.
These large increases in recurrent costs must be compared with the relatively static performance of the recurrent revenue, described in Fact Sheet 02. As can be seen, recurrent expenditure was constant in real terms over the period 2004 to 2006, but increased significantly from 2007 onwards.

A graph of the trends of recurrent revenue and recurrent expenditure from 2006 onwards shows the two converging (Figure 4). The gap between the two lines represents the surplus revenue funds available for capital expenditure and debt repayment. This surplus is falling significantly.

In fact the situation from 2011 onwards is in danger of becoming considerably worse than the trends shown in the graph, because the national ‘minimum wage’ agreement for civil servants is likely to further increase personnel costs by as much as 35%. This represents a significant worsening in the forecast cost structure of KDSG in 2011 and 2012.

Added to an existing position of arrears on contract payments and recent increases in borrowing, this worsening cost structure places KDSG in a position of significantly increased financial risk.

KDSG’s intended response to this will be to cut back on overheads (many of which are discretionary), eliminate personnel cost wastages and take real action to boost IGR. However, KDSG also has plans to increase borrowings, which may worsen the situation.

**Key components of recurrent expenditure**

The largest single sector is education, which accounts for between 24% and 27% of recurrent expenditure and which has grown by 49% in real terms over the period. Recurrent expenditures have grown faster in real terms for the health sector (66%) and for security (110%). Recurrent expenditure on agriculture has declined in real terms.
Loan repayments
Since the KDSG accounting reports lack a rigorous distinction between loan service charges (including interest), which should be a recurrent cost, and loan repayments, these costs have been aggregated as loan repayments for the purposes of this fact sheet.

In 2004, much of the outstanding debt was supplier contract finance. This was all repaid by the end of 2006. Between 2007 and 2009 nearly all loans were for donor-financed projects at favourable rates of interest. In 2010 KDSG issued the N8.5 billion first tranche of the Kaduna State Bond at 12.5% interest to be repaid in 5 years. Monthly deductions are taken from the statutory allocation to be paid into a sinking fund to provide for this repayment. These payments into the sinking fund have been aggregated into the ‘loan repayments’ figures in this fact sheet, resulting in a high figure for 2011.

Capital expenditure
Between 2004 and 2009, capital expenditure consistently accounted for between 40% and 45% of total payments, but in 2010 this figure jumped to 53% of total payments, mainly because of abnormally large grant-funded recorded expenditure from the Education Trust Fund (ETF) (see also Fact Sheet 2).

In aggregate over the years 2004 to 2010, the sectors on which most has been spent are roads (25% of the total capital expenditure), education (16%), administration (16%), water supply (13%), agriculture (9%), and health (7%).
However, in recent years, smaller amounts have been spent on roads, with increasing expenditure on health and education (new classrooms and hospitals). In 2010, agriculture also gained.

Capital expenditure on education increased by 194% (89% in real terms) between 2004 and 2009, and then jumped by 356% in 2010, because of the ETF expenditure. During the period 2004 to 2010, capital expenditure on health increased by 304% (111% in real terms) from a low starting point. Agriculture expenditure was declining till 2009, but rose by 458% in 2010.

The Sambo administration also placed a new emphasis on water supply, power and environment, sewage and drainage which has been reflected in large expenditure increases as shown in Figure 11.

However, the spending on power has fallen far below the administration’s aspirations as it was intended that much of this would be financed by loans which did not materialise. Youth and Sports was the subject of high expenditure in 2008 and 2009 because of the KADA Games.
Putting together the figures for recurrent and capital expenditure shows that KDSG has spent between 6% and 11% of total expenditure on health. The amount spent on education varied between 15% and 19% until it jumped to 30% in 2010 (again this figure is because of the unusual ETF expenditure).

Unspent end of year cash balances
From 2007 to 2009, the uncertainty caused by the credit crisis and the slump in oil prices resulted in a cautious approach to making discretionary payments, and KDSG started to accumulate cash.

However, KDSG maintained its commitment to an ambitious capital programme, and the award of capital contracts continued. As a result, outstanding contractual commitments at the end of each of the years from 2007 to 2009 were higher than the available unspent cash. This is an illustration of the problems that arise when commitments are not recorded properly in the public financial management system. The SPARC supported Capital Projects Database in the Debt Management Department is beginning to catalogue commitments, and when fully populated, commitment controls can be re-introduced.

### Budgeted expenditure

The actual financial results of KDSG, as presented in the Reports of the Accountant General and Auditor General, provide an extremely useful data-set revealing the government’s expenditure priorities and how these have gradually changed over recent years, allowing increased expenditure in the social sectors while preparing for the development of the new Kaduna city and attempting to generate a higher proportion of the state’s electricity requirements. The data contained within these reports is comprehensive, detailed and relatively accurate, and provides a useful input into any planning exercise.

In contrast, the recent annual budgets of Kaduna State provide inaccurate financial information. Although they reveal planning aspirations which are likely to materialise over a lengthy time horizon, in recent years they have proven financially over-optimistic, as shown by a comparison of the published budgets and actual results.

Figure 13 tracks the progressive deterioration in budget credibility from 2004 to 2010. Hopefully a reverse trend was started in 2011 when the budget was lower than that in 2010.

### Unspent end of year cash balances

From 2007 to 2009, the uncertainty caused by the credit crisis and the slump in oil prices resulted in a cautious approach to making discretionary payments, and KDSG started to accumulate cash.
Composition of budget implementation – recurrent budget
The recurrent expenditure total was usually fairly accurate, except in 2008 and 2010, when it was very over optimistic.

Service delivery sector budgets are increasingly not implemented, as seen by the budgets for health and education.

In contrast, other budget lines are overspent – budgets to pay for donations to organisations, overseas trips and security. The security budget was, however, brought into line in 2008, most likely aligned with the introduction of Operation Yaki.
**Feasibility of the capital budget**

The capital budget has become increasingly over-estimated. The 2009 and 2010 capital budgets were clearly not feasible. Large additions to the capital expenditure budget have been made possible by inserting large loans on the receipts side of the budget. Whereas the Kaduna State Bond has now been drawn down, many other loans have not materialised and so there is a shortfall on proposed capital expenditure.

Some of the potential effects of this are worth noting.

1. Overestimation of *general* loans (N35 billion in the 2009 budget, N42 billion in 2010) allows a total of too many projects into the budget. In turn this has the following effects:
   a. It makes the process of negotiating the budget easier because the budget provides for the aspirations of all stakeholders.
   b. It can allow the selection of projects to be executed outside a planning/budgeting framework.
   c. It can allow signing of contracts and partial execution of projects which suffer from the risk of not being completed.

2. Overestimation of *specific* project loans (another N35 billion in the 2009 budget) allows the inclusion of additional new projects. If a new project is to be financed by a loan which is unlikely to materialise, then either:
   a. The project does not happen.
   b. The project happens, at the expense of other projects – i.e. funds are reassigned.

3. If a project relies on the availability of counterpart state funds to be able to draw down an agreed donor loan, then a state funding shortfall can cause the donor loan to be sacrificed, and again, these projects do not get implemented.

Haven said that, there is evidence in some sectors that loans/grants that are available are not being drawn down because of a lack of capacity to implement the required procedures – a good example is the lack of use of the ETF until 2010.

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**Figure 18: Budget vs. actual capital expenditure by sector 2010 (N billion)**
