

Budgeting at Local Government Level: Preparation, Problems and Prospects

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Abstract

Budgeting process is central to any administration be it local, state or federal public or private because control of the purse is perhaps the most effective tool of coordination. The scope and nature of the entire governmental operations is determined by the allocation of appropriation to the various programmes. In fact human nature is never evident than when men are struggling to gain a larger share of funds from common purse. This paper examined budgeting at the local government level, its preparation, problems and prospects. The study discovered that there is a wide gap between budget plan and its implementation which results in unfulfillment of political promises and non-satisfaction of heightened expectation of the people. The wide spread dissatisfaction of the masses against local government has greatly contributed to low rate of development of local communities. The paper made some recommendations that will reduce incidence of deficit budget in local Government to a vanishing point.

Introduction

The politics of local government budgeting in Nigeria center on the human desires or preferences that underline the preparation, approval and executions of the budget. As Wildasky (1964:5) observed.

Human nature is never more evident than when men are struggling to gain a larger share of funds or to apportion what they have along with their myriad claimants. Budgeting deals with the purposes of men. In other words how can they be moved to cooperate? How can they find ways of dealing effectively with recalcitrant rank problem? Serving diverse purposes, a budget can be many thing; a political act, a plan of work, a prediction, a source of enlightenment, a means of obfuscation, a mechanism of control, an escape from restrictions, a means of action, a brake on progress, even a prayer that the powers that be will deal gently with the best aspirations of fallible men.

The budgeting process in local government emphasizes the human and behavioral aspects of the estimates. It specifically concerns answering the question of “who gets what, how, when and why of the local government financial resources. It is in view of that, which this paper has set as its main task, a

critical examination of budgeting at the local government level with a view of explaining the preparation, the problems involved and highlighting the prospects.

Meaning of budget

In the view of Onah (1980), a budget is an annual comprehensive report of the state of the nation's economy. It reviews old economic and social problem and anticipates new ones. It surveys the future prospects of the economy and translates problems into goods or objectives. Monetary and fiscal policy instrument, direct economic intervention measures institutional changes are then chosen and trimmed to match the desired objectives so that a country's internal and external equilibrium may be restored.

Oshisamic (1992), sees a budget as a plan expressed in quantitative and usually monetary terms, covering a specified period of time. Normally, the period covered is one year and this makes it a short-term plan. Practically, all large organizations, both in the private and public sectors prepare annual budgets. To many, the term connotes a restraining influence on action, hence many people either as individuals or members of organizations seem to develop a negative attitude to budgeting. Since resources available are not always sufficient to service the needs or opportunities which the organizations will, like, to serve, budgeting remains the most tactical instrument for both decision-making as well as allocation of resources.

The Webster's New World Dictionary, 3rd college edition (DN) defines budget as a plan or schedule adjusting expenses during a certain period to the estimated or fixed income for that period. The word adjust (ing) as used in the definition may covalently be substituted for allocation.

A local government budget is a comprehensive financial plan of its income and expenditure within a specified period of time which serves as the basis for government operations during the period. It is a systematically designed plan of proposed financial allocations to various services and programmes with detailed and carefully calculated projections of income from all its revenue sources. The local government budget is generally for a period of twelve months, hence it is commonly known as Annual Estimate. An annual budget is both financial plan as well as a political document. In fact, it is argued that a budget is more of a political document as both the budget objective and its allocations are embroidered with politics and governed by political considerations. Accordingly George Berkeley (1967) declared. "Budgets are not just political documents in addition to bring other things as well; budgets are political documents before they are other thing as well". He further observed that "politics is often veiled" and to "the untrained eye, a budget often conceals much more than it reveals" in any case, budget serve both financial and political purposes.

Purposes of a budget

The budget provides an effective strategy for an efficient financial management. As a systematic plan of projected income and expenditure, with inbuilt checks, the budget serves as a powerful instrument of control. Hence Due and Friedlander (1967) in Ogunna (1996) conceive budget as a “financial plan that serves as the basis for expenditure decision making and subsequent control of expenditure” p285. Institutionalized and statutory measures are provided to ensure that financial appropriations are spent for the purposes they are voted for and in accordance with the law and regulations. It, therefore, checks waste of public funds. It also ensures that available public funds are spread out over various essential services and programmes, promotes economy in the operations of government and in consequence ensures efficient and effective administration. A budget is designed to facilitate determination of governmental activities in the light of the preferences of society by ensuring the comparison of conflicting programmes and methods in the attainment of the organizational goals”. In this vein a budget is considered to involve much more than “a device for securing money from a legislature” as defined by Jesse Burkhead (1963). According to Pfiffner and Presthus (1967) “it is also a fiscal plan of an agency's operations, a way of coordinating work throughout the entire organization and an inducement to better administrative practices. Moreover, budgetary system ensures prioritization of human needs and the allocation of adequate funds for the accomplishment of the priorities.

Another important purpose of a budget is public accountability. Pfiffner and Presthus rightly observed that the most important value of the budgetary system is accountability which is accomplished by a system of internal checks based on record-keeping. The budgetary system facilitates accountability by public officials of the public funds entrusted in their hands.

The fragmentation of duties at both the levels of formulation and implementation results in the specialization which promote efficient administration. Coordination is also provided by the budget to reconcile the various services and programmes competing for funds. The coordination in the milieu of keen competition results in fair and equitable allocation of resources to where they are most needed.

A budget is equally an authority for public officers to collect taxes, fees, charges and fines. It is also an authorization for the official to spend public revenue as provided in the approved allocations and in accordance with the Financial Memorandum. The authorization by the legislature promotes the principle of popular sovereignty exercised through the principle of mandate. It also serve as an essential device for relating total expenditure to total revenue which creates a challenge in order to meet the requirement of the estimated revenue. A budget is a scientific means of qualification and measurement of services in terms of expenditure within a given period. According to Ogunna

(1996) government budget can be seen as an instrument for job-creation. Through budgeting, job opportunities are created by providing for capital development projects. It is, therefore, a means for the reduction of the high rate of unemployment in our society and thereby checking rural-urban drift.

The critical elements of a budget

A local government budget should contain the following six elements. The first is the objectives. The objectives govern the entire contents of the budget and guide the official's behaviour during its implementation. The second is brief review of the previous year's budget performance. This should include the summary of actual revenue and expenditure in relation to their estimates. The third is a detailed estimate of revenue (recurrent and capital). The revenue estimates should provide details of expected receipts from all sources and arranged in Heads and sub-Heads. The Chief Executive's recommendations on revenue measures which are needed to finance the projected expenditure should be embodied. The fourth is detailed estimates of expenditure. The proposed financial allocations to services and programmes are categorized under Heads and sub-Heads. Capital Expenditure estimates are made on sectorial (departmental) basis. Comparison between the past and current years expenditure should be made. Fifth, the budget should also contain detailed information about the proposed level of expenditure with precise explanation which seeks to justify the deviation from previous levels of expenditure of past annual budgets. Sixth, a well planned budget should contain an Appendix containing supplementary schedules designed to facilitate quick and proper understanding of the inter-relationships of the various components of the estimates.

A good budget should possess four major qualities, namely, comprehensiveness as to its provision; flexibility in the sense that a reasonable degree of administrative discretion should be provided; reliability which implies that the whole data on which the formulation and enactment of the budget are made should be sufficient in quantity, accurate and relevant in quality; integrity which means that the entire budget provisions should be formulated and enacted in a manner that fiscal programmes should be executed substantially in a way and manner and for the purpose they are provided

The Objectives of Local Government budget

The main objectives of local government estimates are:-

- A. To provide a financial plan of action. The budget spells out in financial terms the objectives which the local government is set to achieve. It is required that as the action plan of the council; therefore, all activities must be geared towards the realization of the objectives. It should be noted at this point that no variations are permissible as soon as the budget is prepared and approved.

- B. To provide legal authority for incurring expenditure. Since the financial operations of a local government are subjected to the provisions of the local government guidelines or edict, the guidelines, therefore, provide the legal backing for incurring expenditure. Any expenditure not provided for in the approved budget thus, becomes illegal.
- C. To provide mechanism for ensuring that adequate controls are maintained over expenditure and revenue. The financial memoranda provide for a uniform, classification of revenue and expenditure to be adopted by all local government councils throughout the country. This ensures that the budget cannot in anyway be manipulated. Expenditure incurred from time to time must be recorded to avoid over expenditure
- D. To be able to establish the financial position of the local government council. It should be noted that the expenditure and revenue figure taken together from the basis of the annual financial statement must reveal the financial position of the local government at the beginning and the end of a particular year. This position of local government council must be guarded or known from time to time (see financial memoranda of 1991 chapter 2:1-4

Approaches to budgeting in the local government

Several approaches exist in budgeting. They are as follows:

- i. Open-end budgeting;
- ii. Alternative budgeting;
- iii. Fixed-ceiling budgeting;
- iv. Work measurement and unit costing;
- v. Priority listing budgeting;
- vi. Zero base budgeting;

These methods are mutually exclusive, but some are used in budget estimates and others in budget control.

- i. Open-end-budgeting:-** This is an approach which permits officials to recommend a single estimate for the year in question. For instance the chairman of a local government may opt for this type of approval. In this case, he makes a list of all the projects as possible, as no restrictions are placed on his listings.
- ii. Alternative budgeting system: -** This is a method by which another budget estimate supplement is prepared as alternative to the main budget. For instance, if the budget estimates are made item by item, an alternative amount is set side by side and that amount acts as alternative expenditure guide. Alternative budgeting assists in making less authoritative and final budgets.
- iii. Fixed ceiling budgeting:-** Under this plan, a fixed ceiling is established in advance which the subordinate budget estimates cannot exceed. In this case a chairman of the local government may give each department specific instructions regarding the total ceiling figures of which a

department must not exceed in making budget estimate. The problem encountered in fixed ceiling method is the problem of setting a program either too high or too low. However, fixed ceiling budgeting acts as a guide for subordinates in preparing their budget estimates.

- iv. Work load measurement and unit costing:-** This is a method of determining units of work or project with its unit cost. By this method, it is possible to determine how much it costs to perform each unit work. This is to say that if it cost N100 to grade 1km of road, it will therefore cost N1000 to grade 10km roads. This approach is useful in budgeting for it provides quantitative measures for economic calculations and it assists policy makers in deciding the feasibility and non-feasibility of any program. The problem experienced in this approach is lack of information. In-as-much as the work load measurement and unit costing can assist the decision maker to compute the number of projects that are being done, it cannot show how many projects that should be done nor their economic, social and political under tones.
- v. Increase-decrease budgeting:-** This is an approach by which the budget estimates identify item by item increases or decreases as compared to the previous year's budget. Special explanations are required for the increases. The basic fault with this approach is the fact that it does not require the comparison relative values of the old and new.
- vi. Priority listing:-** This approach requires the budget estimator to indicate priorities of items included in the budget requests. This approach assists the decision maker to determine possible areas where cutbacks or item scraping can be made.
- vii. Zero base budgeting:-** This approach includes objective setting of program, evaluating, and reviewing all programs systematically in terms of output and cost; to emphasize management decision making. Zero base budgeting involves the following processes;
 - a) Identify decision units;
 - b) Analyze each decision packages;
 - c) Evaluate and rank all decision packages to develop appropriations request; and
 - d) Prepare the detailed operating budgets reflecting those packages approved in the budget appropriation. This decision package is the building block of the zero base approach. It is an approach that identifies and describes each decision unit in such a manner that management can evaluate it and ranks it against other decision units competing for fund that make decisions either to approve or disapprove it.

The pragmatic approach to zero base budgeting offers local government authorities a flexible tool to utilize in rethinking and reducing programs to ensure

performance output and cost reduction. They can also use this approach to reduce or eliminate low priority programs; improve program effectiveness by constant review and adjustment and shift more funds to high impact programs.

However, this approach is too demanding for the management capacity of many local governments. It requires effective administration, good communications, and specialized training. Local authorities who are to use this approach must be skillful in identifying approach decision units, this approach must be skilled in identifying appropriate decision units developing adequate data to produce an effective analysis determining the minimum level of efforts, and ranking similar and dissimilar programs as well as handling large volume of data.

Budget preparation in the local government

The local government council, finds it more convenient to prepare its budget on line-item budgeting.

Under this approach, homogenous (like) activities are grouped together into a programme each of which has the following objectives:

- a. To become the cost centre for collecting details during the preparation of annual budget.
- b. To control centre during the implementation of the approved annual budget for the financial accounting purposes.
- c. To become reference point during revision of that annual budget and for the purpose of audit of financial transactions.

During the budget period, usually in the third quarter of the current year it is the responsibility of the local government Treasurer, as the Chief Budget Officer of the council, to send call circular letter to the various Departments requesting for their coming year's budget proposals.

The circular letter should indicate council's priorities and also give detailed guidelines on how the budget proposal should be prepared.

The preparation of local government budget must be in accordance with the financial memoranda which provide for a uniform classification of revenue and expenditure to be adopted by all local government councils throughout the country. The uniform estimates classification will also apply to the accounts of all local government councils. This will enable comparison to be made at anytime, throughout the year between the provision under the heads and sub-heads in the estimates and the same heads and sub-heads in the accounting record. The budgets or Estimates are usually prepared in four sections viz:-

- a. Recurrent Revenue
- b. Recurrent Expenditure including personnel emoluments and allowances.
- c. Capital Receipts
- d. Capital Expenditure.

When the various estimate proposals have been submitted by the Departments, the treasurer invites them to come and defend their proposals before the finance and General purpose committee of the council. That committee has the responsibilities to receive and consider the annual estimate proposals of all spending committees and departments as collected by the treasurer and to direct the treasurer in the preparation of the draft annual estimates of revenue and expenditure proposals which are inconsistent or at variance with the policy are eliminated. When necessary adjustments have been made, the Treasurer then prepares a consolidated estimate proposals for the council. The consolidated Budget proposals are then presented to the council members for consolidation of a draft Budget is approval.

The preparation of a draft Budget is summarized as follows:

- i. Circulation of call letter by the Treasurer to Departments for budget proposals.
- ii. Preparation of budget proposals by Departments and submission to finance and general purpose committee through the treasurer.
- iii. Defence of proposal by Department before the Finance and General purpose committee.
- iv. Preparation of consolidated draft Budget by the treasurer.
- v. Submission of the consolidated draft Budget by the treasurer to the council, when approved, the budget becomes the approved draft of the council.

Final budget approval and implication

This is the last stage in the budgetary process. After the draft budget has been approved by the council members, it is forwarded to the state government through the bureau of local government affairs and chieftaincy matters. That office goes through the council's draft budget with council chairman and his top executives to make sure that nothing in the budget is at variance with federal or state government policy and also that the budget complies with the guide lines. After this, the draft budget is forwarded to the governor's office for final approval. When approved, the budget becomes the approval budget of the council for the year. All operations of the council must be in line with the approved budget unless varied through virement or a supplementary approval Budget as prescribed in Financial Memoranda 2005 section 4.1 : and 4.12.

Problems Associated With Budgeting At The Local Government.

1. Finance

The general lack of financial resources, unpredictability of fund flow, especially for highly unviable local government poses serious problem of budgeting at the local government. The local government budget planning is based on the possible expected revenue while its implementation depends on the

availability of the projected plan with very weak financial foundation while, on the other hand, the projected revenue is never actualized.

2. Low executive capacity

Low executive capacity is a serious factor which militates against effective budget formulation and implementation in the local government as Ogunna (1996) correctly noted, local governments have low quality of staff in their key areas of operations. These key officers include areas treasurer, planning and budgeting officers chief account officer, professional heads of department (Agriculture, Health, works, budgeting). The success or failure of budget planning and implementation depends on the professional and technical competence of those key officers. Unfortunately, there is a great dearth of well qualified and experienced officers in these key areas.

3. Non participation by management staff

Budget preparation is often seen as a responsibility of only the treasurer and his staff. Other senior officials including the chairman and Heads of Departments hardly participate in any active sense in the preparation of annual estimates. This makes the entire exercise lack the serious decision-making inputs of the management staff. The result is often that the budget process becomes routinized and the outcome is often updating the previous year's estimates.

4. Absence planning and budget officers

Budgetary planning is the business of the planning and budget officers. However, it is observed that most local governments have no planning and budget officer. Ogunna (1996) noted that local governments have no planning and budgetary organization or specialized budgetary unit responsible for budget research and planning. The ultimate result is ineffectiveness in budget planning and execution.

5. Non adherence to provisions of financial memoranda

The model financial memoranda are guides for a thorough work on budgeting. But apparently because the guides are detailed, many officers do not adhere to them, preferring to skip most of the steps.

6. Lack of Community Involvement

Local governments lack viable machinery for the involvement of community leaderships in budget formulation through which these leaders could help in the identification and ordering of the priority of the people, evolving strategies for full implementation of the local resources and mobilization of the people for participation in fund raising and project execution.

7. Excessive delay by the state government

State governments usually delay in sending out call circular which is the basis for project estimate preparation. If the circulars do not arrive early, the local government will be constrained as they will have very little time to prepare its estimates. At times when the time is too short, the officials will simply dust up previous year's estimates and send them across. This is against the spirit of budgeting. Apart from the above, delay are also experienced when estimate are sent to state governments. This has led to many local governments operating without budget. Of course such situation not only encourages fraud but creates accounting fraud.

8. Line-item budgeting strategy

Another serious constants in local government budgeting is line item budgeting in which the estimates, highly detailed are vaguely prepared without specifying in most cases the exact output desired to be achieved, such as the number of kilometers of road to be constructed or maintained with the amount of money voted, the number of hectares of land to be cultivated and the number of classroom blocks to be constructed.

9. Incremental budgeting approach

Closely associated with lime-item budgeting is incremental budgeting approach which local government use to adopt. This is a serious constraint to budgeting in local government because it is formulation of budget on a non-rational allocation of votes. In incremental budget preparation, officials as a matter of policy and practice, merely make certain percentage increases in the previous year's figures without any quantifiable objective criteria. There is no rational base for arriving at both the revenue and expenditure estimates. More often than not, when the finance and general purposes committee considers the budgets proposals, it applies no objective criteria for increasing or slashing down expenditure proposals for various departments except that it was guided by previous years budget figures and certain particularistic, sectional, political and other subjective considerations. A serious negative effect of incremental budgeting is the syndrome of end of the fiscal year spending spree. By this practice, vote controllers in the last two months of the financial year frantically and hastily spend the remaining balances in their votes through any means, rational and irrational to prevent the votes or allocations from "lapsing" as if the life of government terminates at the end of the fiscal year.

According to Sharkansky (1968) incremental budgeting "tends to lead to static governmental expenditure policies. In fact, the practices of line-item and incremental budgeting tend to perpetuate the status-quo, promote inactivity and can lead to stagnation

10. Lack of accurate and reliable data

Finally, there is lack of data and proper record keeping resulting from poor enumeration of revenue collecting areas and sources. Rational decisions making is dependent on adequate and reliable data. It is observed that local governments are weak in record keeping, data collection and proper documentation which are vital prerequisite for efficient budget formulations and implementation.

Prospects of budgeting in local government.

The prospects of budgeting in local government can be very bright if the following recommendation can be followed;

- a. All planned projects to be included in the budget should be within the resources of the local government. Projects should not start if the sources of funds are uncertain.
- b. Annual estimates (budgets) are the responsibility of all the key functionaries in the local government. It is, therefore, not the responsibility of the Treasurer alone. As a corporate exercise it should be taken seriously by those concerned. Executive time should therefore, be allocated to the exercise.
- c. Budgetary actors should realize that expenditure of public funds entails opportunity cost. In a sense, making prudent choices to ensure that important societal preferences are provided for, while less pressing needs are postponed, for future action. In other words, officials should be sensitive to the peculiar environment of their local Government, and the budget should be adequate in responses to these peculiarities.
- d. The federal Government should make funds available to the Local Government adequately and on time too. If funds are not available, budgeting will be mere theoretical exercise.
- e. The states on the other hand should release call circular in time and also, approve budgets swiftly. By so doing, the states will be in the position to monitor the operations in the local governments.
- f. When annual estimates are approved, State Governments should ensure that Local Government adheres to them to prevent budget indiscipline. The Internal Auditors should be officers of sufficient seniority so that they can help in instituting budget discipline in the local government.
- g. Finally, a local government should establish a planning and budgeting unit headed by well qualified and experienced budget and planning officer who should be charged with the responsibility for budget research and formulation, project studies and budget performance appraisal

Conclusion

The success or failure of any organization depends very much on its budgeting system. Adequate financial resources, prudent management and

economy in the utilization of available funds; availability of a crops of well qualified, technically and professionally competent, highly dedicated and well motivated personnel, well enlightened, experienced and highly dedicated chairman and councilors, and community support and involvement are indispensable factors for efficient budget formulation and implementation at the local government level. As the local government councils embark on their budget preparations, they are advised to take pains to budget preparation and formulation, as well as religiously keep to their approved budget provisions. The identified problems (budget constraints) and the recommendations made in this paper should be strictly attended to in order to make Local Governments attain the desired effectiveness and efficiency in budget formulation and implementation.

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