SPARC Technical Note – November 2015

Guidance for Recurrent Revenue and Expenditure Estimation for State Development Plans (SDP)

Overview

This guidance note and associated MS Excel tool (SDP Financing – Recurrent Account tool) accompany the SPARC produced briefing note "Guidance on the Preparation of Financing section in State Development Plans" developed in November 2015. The MS Excel tool is intended to allow states to calculate their recurrent revenue and expenditure as well as local government resources in a similar way to the figures presented in the aforementioned paper (Federation Account transfers, and the full recurrent revenues and expenditure as per the Wazobia example), for the period 2016-2020.

The aim of this guidance note is to allow states to easily use the MS Excel template using their own macroeconomic and crude oil assumptions.

The MS Excel template covers:

1. Macro-economic assumptions (national Real GDP growth and inflation, Crude Oil price and production benchmarks and NGN:USD exchange rate);
2. Recurrent Revenues (Statutory Allocation, Net Derivation, VAT, IGR and Excess Crude);
3. Recurrent Expenditures (CRF charges, Personnel and Overhead Expenditure); and
4. Local Government Federation Account distributions.

Unlike the EFU-FSP-BPS (GREAT) tools developed by SPARC (available at www.sparc-nigeria.com/GREAT), this simplified tool covers a longer time period (five years: 2016-202) but also is restrictive in terms of the forecasting methods available. Specifically, the following forecasting methods are used:

- Statutory Allocation (both State and Local Government) – elasticity based forecasting using historical data for 2009-2014 and 2015 full year estimates based on latest performance data) and the forwards looking macroeconomic and crude oil benchmarks, and the Mineral ratio to determine the level of crude oil sales revenue that remitted to the federation account;
- Net Derivation – uses the Mineral ratio to determine the level of crude oil sales revenue that remitted to the federation account;
- VAT (both State and Local Government) – elasticity based forecasting using historical data for 2009-2014 and 2015 full year estimates based latest performance data, and macroeconomic data (national real GDP growth and inflation);
- IGR – incremental (based on 2015 full year estimates and annual percentage growth rates entered in the model for 2016-2020);
- Excess Crude – no forecasting method is used. An estimate can be entered although given the current crude oil price outlook and the balances in the excess crude account, it is strongly advised that states do not anticipate Excess Crude distributions; and
- Recurrent Expenditure Items - incremental (based on 2015 full year estimates and annual percentage growth rates entered in the model for 2016-2020).

More information on macro-fiscal forecasting including the methods specified above (mineral ratio, elasticity, incremental forecasting) can be found in the SPARC EFU-FSP-BPS User Manual, available at www.sparic-nigeria.com/GREAT.

Using the Model

The MS Excel template has three sheets – two of which are background calculations:

Calculations – this holds the forecasting for aggregate Mineral (Crude Oil as basis for Statutory Allocation and Net Derivation), Non-Mineral Revenues (Companies Income Tax and Customs and Excise for Statutory Allocation) and VAT – all based on elasticity forecasting.

FAAC shares as at August 2015 – in order to estimate for each of the 36 states (including LG resources from FAAC), the model needs the latest sharing ratios to divide the aggregate revenue estimations using the ratios. These are provided for Statutory Allocation (States and total LG by State), Net Derivation (States) and VAT (States and total LG by State). These are based on the August 2015 FAAC breakdown provided by the Office of the Accountant General of the Federation (www.oagf.gov.ng).

Recurrent Account Analysis – this is the main sheet to be used by states. As with other MS Excel tools developed by SPARC, the sheet has the following key features:

- The worksheet is protected (as are the other two worksheets described above) so that only cells where data needs to be entered are editable. This is to stop users accidentally deleting formulas from cells. If a state wishes to modify the content, the worksheet can be unprotected with the password: SPARC.
- Cells where information is needed are highlighted blue.
- Areas of the worksheet that are not required (for example, if the state does not want to include local government resources) should be hidden (by unprotecting the worksheet and hiding rows and/or columns).

The main steps to using the model are to enter data / information in five areas (see below screen shot and linkage of the five steps to the range(s) of cells in the worksheet):

1. Insert macro-economic assumptions (national Real GDP growth and inflation, Crude Oil price and production benchmarks and NGN:USD exchange rate) for the period 2016-2020 (or a short period if desired) – see the briefing note "Guidance on the Preparation of Financing section in State Development Plans" for suggestions on the figures to use;
2. If desired, enter estimates for Excess Crude distributions (this should include all Federation Account distributions above and beyond Statutory Allocation, Net Derivation and VAT);
3. Enter the name of the state using the drop-down list;
4. Enter 2015 data for IGR and the three recurrent expenditure items (CRF charges, Personnel Expenditure and Overhead Expenditure) – although full year figures (accounts) will not be available until early 2016, estimates can be derived from performance data year-to-date; and
5. Enter annual percentage increments for the four items mentioned in step 4 above (IGR, recurrent expenditure items) based on desires of state and realistic IGR outlook.

The required figures (from rows 1-25) can then be pasted into the state development plan. They can also be used as the basis for sector envelopes (after adding capital receipts if desired).

Figure 1: MS Excel Recurrent Account Analysis Sheet and Steps to using the Tool

	A	B	C	D	E	F	G
1	**Item**	**2016**	**2017**	**2018**	**2019**	**2020**	
2	**Macroeconomic Framework**						
3	National Inflation Rate						
4	National Real GDP Growth						
5	Crude Oil Price Benchmark						
6	Crude Oil Production Benchmark (MBPD)						
7	NGN:USD Exchange Rate						
8	**Fiscal Framework**						
9	Statutory Allocation	0	0	0	0	0	
10	Net Derivation	0	0	0	0	0	
11	VAT	0	0	0	0	0	
12	IGR	0	0	0	0	0	
13	Excess Crude						
14	**Total Recurrent Revenue**	**0**	**0**	**0**	**0**	**0**	
15	CRF Charges	0	0	0	0	0	
16	Personnel Expenditure	0	0	0	0	0	
17	Overhead Expenditure	0	0	0	0	0	
18	**Total Recurrent Expenditure**	**0**	**0**	**0**	**0**	**0**	
19	**Transfer to Capital Development Fund**	**0**	**0**	**0**	**0**	**0**	
20							
21	**Local Government FAAC Resources**						
22	Statutory Allocation	0	0	0	0	0	
23	VAT	0	0	0	0	0	
24	**Total LG FAAC Revenues**	**0**	**0**	**0**	**0**	**0**	
25							
26	**Share of State FAAC Distribution from Latest FAAC Pack**		**LG Shares from FAAC**				
27	State						
28	State Share of Statutory Allocation	0.000000%	0.000000%				
29	State Share of Net Derivation	0.000000%	Not Applicable				
30	State Share of VAT	0.000000%	0.000000%				
31							
32	**2015 Base Year Figures for State**	**2015**					
33	Base Figure for IGR						
34	Base Figure for CRF						
35	Base Figure for Personnel						
36	Base Figure for Overheads						
37							
38	**Growth Rate Assumptions**	**2016**	**2017**	**2018**	**2019**	**2020**	
39	Base Figure for IGR						
40	Base Figure for CRF						
41	Base Figure for Personnel						
42	Base Figure for Overheads						
43							
44							
45	**Password Protected: SPARC**						
46							
47							

Step 1

Step 2

Step 3

Step 4

Step 5