

DETAILS OF EXPLANATORY NOTES

OPENING BALANCE, FINANCING GAP AND REVISED BUDGET SIZE

EN-0: Lagos State is yet to adopt the IPSAS Aerial Budgeting System, as such the closing balance for the year ended 2019 was not brought forward. However, efforts are in progress to ensure that the year 2021 Budget is prepared in line with IPSAS and in alignment with the Budget Classification and National Chart of Accounts.

EN-0.1: In the amended Y2020 budget, the State is proposing zero financing gap by ensuring that the budget deficit is fully financed from identified credible financing sources without accumulation of new domestic expenditure arrears (contingents, salaries, pensions, and gratuities).

EN-0.2: The total budget size of the State is **N100,468,509,337.00**

ASSUMPTIONS (EN-1)

EN-1.1: The weakening of oil demand and the effects of covid-19 on the global economy plunged oil price below \$37 per barrel that was initially used by FGN in the originally approved 2020-2022 MTFR/FPF. With the reality of the market situation FGN revised the oil benchmark price to \$20 per barrel while NGR, in its advisory capacity, suggested a benchmark price of \$20 per barrel. Lagos, being partly significantly dependent on revenues from oil decided to be conservative by using \$20 per barrel to reduce the risk of revenue shocks should the price of crude oil stay below the \$25 benchmark of the Federal Government in relation to the uncertainties in the current market realities.

EN-1.2: Given the potential uncertainty disruption of global supply/output chains, weakening global demand for crude and the possibility of disturbances to crude production activities in Nigeria, the State decided to be conservative by using 1.7 tubpet instead of 1.5 tubpet used by the Federal Government. The conservative benchmark of 1.7 tubpet would afford the State some level of comfort should the production level fall below the Federal Government estimate of 1.9 tubpet.

EN-1.3: As a result of the drastic drop in crude oil prices and global disruption in economic activities occasioned by covid-19, which affected Nigeria foreign exchange earnings and increased pressure on foreign reserves, Central Bank of Nigeria depreciated naira exchange rate from N305.8 to N340/\$. This revised budget is adopting the new exchange rate.

EN-1.4: **GDP Growth rate is projected to reduce as a result of shocks to Growth components, thereby the growth rate is expected to decline from initial forecast value of 4.13% to -0.75%. This is the position used in this revised Y2020 budget of Lagos State.**

EN-1.5: An inflation rate of 14.5% was adopted as against the earlier projected inflation rate of 10.99% as a result of low economic activities caused by closure of factories across the globe and movement across borders, Nigerian industries leading to scarcity of goods which results in persistent increase in prices across board.

STATUTORY ALLOCATION, VAT AND IGR (EN 2.1)

EN-2.1.1: Given the assumptions enumerated in Explanatory Note 1 (EN-1), the projected revenue through F.A.C is reduced drastically by 30% from **N66,594 (million) to N44,215 (million)**, thereby equaling the upper hand of the FG's Provisions for States in the Revised MTFR.

EN-2.1.2: With the drastic crash of crude prices witnessed early in the year and the potential for recurrence no provision is made for revenue through the excess crude oil account. Besides, LASAC is none of the plan for reduction of excess crude account from where the appropriation to States are made.

EN-2.1.3: An ultra-conservative provision of N70m was made as Revenue from Derivation. This represents a 30% reduction in provision compared to the original provision of N100m made for the same purpose. This well below the NGR's Provision and it is expected to create a buffer for other unexpected expenditures.

EN-2.1.4: Provision for Other F.A.C transfers (exchange rate gain, augmentation, others) was equally reduced by 30% to accommodate forecasted downturn in exchange income linked to reduced crude revenue and reserves. The provision is now reduced to **N7,000 million from N10,000million**. The justification for the reduction is that although there is expected to be exchange rate gain owing to the imminent depreciation of Naira, the projected low production capacity, shrinking crude market will create the gains that would have made on absolute terms.

EN-2.1.5: With the assumption, especially of GDP Growth, VAT collections across the Country are expected to fall. Therefore Lagos State share of VAT is equally expected to drop significantly, being the State that generates the highest amount of VAT for the Federation Account. **Consequently, the expected revenue from VAT is reduced from N111,384 million to N78,204.24 million.**

EN-2.1.6: The ability of government to generate Independent Revenue (or IGR) has been seriously hampered by the long period of lockdown which prevented businesses and offers from effective operations, and naira inter-state movement restriction and international movement restrictions. As a measure of relief to such the damage to the economy by COVID-19 pandemic and the need to recover, the State Government is also expected to give tax holidays to SMEs in the State. Therefore, the projected IGR is reduced from **N63,708.5million to N44,176.4million**. The justification is based on the fact that LASG major revenue source/MDA, i.e. LIRS has its budget reduced from **N5000 to N3500s**, which accounts for over 78% of the total original IGR. The remaining 22% reduction amounting to **N420million** was stripped from other IGR sources.

CAPITAL RECEIPTS (FOREIGN AND DOMESTIC GRANTS) (EN2.2)

EN-2.2.1: The projected Foreign (External) grants from donors was reduced from **N36,055.94million to N34,020.50million** due to extensive efforts of the State government in exploring all available opportunities to augment the regular sources of income which have become dwindling due to COVID-19 pandemic shocks. This total grant is realistic and the details of each of the sources are highlighted in the next sub-section titled Grant Details.

EN-2.2.2: The State recently established a Grant Coordinating Committee and Projects Management Offices that are comprised of nominees from MDAs with Grants Intervention supports. The State is also working towards developing local intervention partnership to augment shortfalls in budget revenues.

However, one **N140million** was received for Covid-19 response as at 31 June 2020. This comprise of both the cash and in-kind given to the State during the lockdown as a measure to help in the control of COVID-19 pandemic. The details are available on the State website: <https://lagosstate.gov.ng/2020/05/01/sameo-sho-releases-names-of-lagos-covid-19-response-donors/> (The State contains the amounts received and their sources). *Hard copies shall also be provided during APA Visits.*

OTHER CAPITAL RECEIPTS (EN-2.3)

EN-2.3.1: Other Capital Receipts are Assets Reclassification that supports other Capital Developments (contra items). These comprise of capital assets (i.e. lands, New Town Developments for Sale, building set set aside for sale to recover lock down cash. The provision for Other Capital Receipts was revised downwards from **N21,234.4million to N12,218.4million**. This reflects the impact of the COVID 19 pandemic on cash availability in the business community that could have been applied to buying the property.

EXPENDITURE (EN-3)

EN-3.1: There is no viable downward review in the Provision for Personnel Cost. The State considers the issue of personnel as very sensitive and genuine to socio-economic sustainability, especially under the current circumstances as elicited by the pandemic. Therefore, there is no plan to lay off any staff, neither is there any plan to curtail any of the State's workforce. This accounts for one of the major steps taken by the State to mitigate its workforce and its dependants from the adverse effect of the pandemic. Therefore the total projected Personnel Cost was slightly reduced to **N165.14 billion** from **N167.560 billion**, which accounts for less than 1% of the original provision. The provision is also made to provide allowances and aid the administration in the recruitment of Health Workers. Kindly note, that this apparent non-reduction in the provision for staff cost without prejudice to other allowances set aside to motivate the current workforce on the front line of the COVID pandemic.

EN-3.1.1: A total of **N106.30 million** was set aside as hazard allowances for the Lagos and Civil Defence Officers, who shall be assigned to complement the other law enforcement officers on the frontline to enforce the laid down COVID Rules and Non-Medical Procedure.

CONSOLIDATED REVENUE CHARGES (EN-3.2)

EN-3.2: The Consolidated Revenue Charges (C) comprise of debt charges on Loans (Internal & External) and coupons on Bonds. The total provision for the revised budget amounts to **N13,671.40 million**. While External and Internal Charges accounts for **N6,119 million** and **N5,052 million** respectively, while charges on Bond amounts to **N2,500million** only. **However, in accordance with the Laws, emolument to Judiciary and SHoA are first line charges to the CRE.**

PUBLIC DEBT CHARGES (EN-3.3)

EN-3.3: Public Debt Charges comprise of Principal Repayments on External and Internal Loans amounting to **N13,077 million** and **N9,363 million** respectively. In addition, included in the Public Debt Charges are provisions set aside for Consolidated Debt Service Accounts - Sinking Fund (CDSA) amounting to **64,565 million** only. **In total, the sum of N86.980million** has been provided as Public Debt Charges in the revised Budget. **This represents about 82% reduction from the original provision of about N485.980million** made for principal repayments on Loans. **Efforts are ongoing to renegotiate the repayment terms in view of the strains on government revenue due to the ongoing pandemic.**

OVERHEAD COSTS (EN-3.4)

EN-3.4.1: Extensive Public Enlightenment is essential in the fight against the ongoing COVID pandemic. Provisions are made for advertisements, prints, media briefing etc. The enlightenment is also very vital in the area of contact tracing and management of isolation centres. Therefore, the sum of **N369,094,891** is provided and tagged COVID-19 response.

EN-3.4.2: The total sum of **N2,772,090,000** was set aside as Global Training Vote for the statewide workforce. By diversifying/disruption of public service delivery, the COVID-19 pandemic touched all cardinal principle of public service, i.e. continuous of government. The Administration in its wisdom therefore set aside a Global Training fund, dominated by the Ministry of Establishment, Personnel and Training, with a mandate to re-tool the workforce, such that public servants will quickly adapt and re-adjust the way in which services are delivered in order to minimize the negative impact of the pandemic on the communities. Teachers have to learn how to provide learning solutions via online platforms and e-materials, medical practitioners have to be taught how to deploy telemedicine, and individuals to provide non-emergency medical services. Courts are to adopt hearing and judging cases through video conferencing etc. **The analysis of items on the Global Training Vote shall be provided during the APA visit.**

EN-3.4.3: The sum of **N12,066,368** was provided to Lagos State Emergency Management Agency (LASEMA) to augment its working capital in its effort to combat any emergencies that may occur as a result of the ongoing pandemic.

EN-3.4.4: A total sum of **N44,202,224** is set aside as buffer to any shortfall in security spend that may arise as a result of an unexpected breach of the existing security apparatus and capacity.

EN-3.4.6: The Administration made a provision of **N405,866,028.58** for the **Capacity Building of all existing/new Law Enforcement Officers**. The objective is to fill-up the officers on the capabilities of enforcing citizens' required compliance with COVID-19 Guidelines.

EN-3.4.7: This is Lagos State contribution to the maintenance of the fleet of Helicopters numbering three (3) and are domiciled in each of the 3 Senatorial districts of the State. Beyond provision of aerial support for security reconnaissance, the state also deploy them for airlifting of casualties, patients etc. The total amount provided for this course is **N1,296,617,779**.

EN-3.4.9: The sum of **N604,083,797** was provided to assist the LASTMA and LAG-Ferry Officials as stipends and hazard allowances to keep them on the roads and waterways beyond the normal closing hours during the pandemic period.

EN-3.4.10: The sum of **N16,406,266,377** was provided as running costs to augment the working capital of LAG/SC Enforcement Officers in keeping the environment safe, especially the duration of the pandemic and beyond. Every motor/bus and social park across the over 340 wards in the State MUST be dis-infected as directed by the NCDC.

EN-3.4.11: COVID-19 strain of viral infection has made the training and re-training of medical personnel imperative. **To this end, the sum of N1,535,344,524 has been provided** to support the capacity building capacity of the health workers through the Health Service Commission. This is notwithstanding the supports to be received from Non-governmental-organisation in the same focus.

EN-3.4.12: An aggregate sum of **N2,183,759,078** is provided to support parents with WAEC/NECO Fees, in addition to building the capacity of the teachers to administer lessons via telehealth and teach remotely. The administration is aware of the enormous pressure of fees on the purse of dependants, hence the supports being provided amongst other initiatives.

CAPITAL (EN3.5)

The Capital Expenditure was reduced by 43.92% from N263.300million in the original budget to N142.071 in the revised budget. The Economic Segment suffered the biggest attrition amounting to **N59,049**, which represents 17% of the initial Budget. The Social Sector suffered an attrition of **N36.210million** representing 27%, while Law & Justice suffered a **N1.800million** reduction, representing 22% of an original **CAPEx** provision. Finally, Administration sector suffered 19% attrition, representing **N7.200million**.

EN-3.5.1: A total sum of **N1,355,044,000** has been provided for the commencement of the laying of Fibre Optical Cables Statewide. The imperative of this initiative is to stimulate economic growth, support SMEs, mitigate vulnerable start-up/firms the shocks elicited by the pandemic and ultimately enhance the Ease-of-Doing-Business.

EN-3.5.2: A total sum of **N1,770,085,605** has been set aside for the upgrade of the current enterprise resource planning system of the State. (Oracle ERP). Efforts are under way to reconfigure the current version to Empower to be able to accommodate the reconfiguration of the current Chart of Accounts from 7 Segments, 27 Digits to 6 Segments, 52 Digits in line with the National Chart of Accounts and Budget Classification (NCA & BC). As over 80% of the workload have been directed to work from home in the administration's effort to help flatten the coronavirus curve, the imperative of fully adopting an enhanced enterprise resource planning (ERP) system that will enable remote-work ecosystem cannot be over-emphasized. Never in the history of the State, Public Service has there been massive pressure on the existing ERP (Oracle), as such the need to embark on the upgrade to enable the system cope with increase transactions has become eminent.

EN-3.5.3: A total sum of **N1,794,643,214** has been provided to support the enrolment of Lagos State Residents under the LASRA Framework. The aim is to adequately enrol and capture the poor and vulnerable in the State's Database, in addition to assisting the State have a robust and reliable database for effective planning purposes. The domestication of the N-Care P10Rk is also a catalyst for the State to get its enrollment right. Principally, the amount is for acquisition of State of the Art Equipment that will be deployed to capture the biometric data of residents amongst other uses.

EN-3.5.4: It is common knowledge that crime rates rises in tandem with loss of livelihood. A significant number (about 80%) of Lagosians are subsistent by profession. They can daily bring a cash a disruption to their livelihood normally leads to increase in crime rate. While it is not the wish of the administration to curtail the liberty of its citizens, enforcement of laws guiding the safety of lives and properties of the law abiding citizens has made it imperative for the government to support the Nigeria Correctional Services with Prison facilities. As such, a total of **N209,955,396** has been provided to construct additional correctional centres across the State.

EN-3.5.5: **N773,771,380** has been provided in the Revised Budget to equip and furnish Phase 2 of the DNA Forensic Centre. The justification of this provision is akin to the same reasons adduced in EN-3.5.4 as the objectives of both provisions are complementary in nature.

EN-3.5.6: The sum of **N294,661,539** was provided to establish a New Police Command in **Ikotodu**, owing to the upsurge in crime cases in the area and the worsening effect of the pandemic on the youths living in the area. The administration deems it expedient to expeditiously complete the facility in order to attract additional deployment of police officers to contain any breakout of law and order. Again, this provision is complementary to EN-3.5.4 and EN-3.5.5.

EN-3.5.7: **Construction of Commercial Court House in Tapa Lagos at a cost of N961,171,072.** This provision was made to achieve two cardinal purposes: generate employment and to curtail disposition of commercial disputes. It is the believe of the administration that a number of businesses would be forced into avoidable disputes owing to their inability to fulfill part of their obligations owing to the adverse effect of the pandemic on their businesses. A number of such have already stand requesting for halouts from the government, as such it is safe that structures be put in place to assist in amicable settlement of disputes and minimize losses.

EN-3.5.8: The role of Agriculture in ensuring Food Security and Stimulating Job Creation cannot be over-emphasised. These two factors are considered germane by the administration in the fight against the negative impact of the pandemic on the citizens of Lagos State and its environs. An aggregate sum of **N9,662,404,589** has been provided to complete the complete the Imota Rice Mill and commission the Coastal and Agro-Supply Chain Development Authority. This is a huge step in stemming the tide of worsening food security in the State.

EN-3.5.9: Further to EN-3.4.8 above, specific provisions amounting to over **N18,795,750,800** have been provided for infrastructural development and upgrade of existing facilities. The projected job creation and attendant impact on dependant have been forecasted to cover a significant number of households.

EN-3.5.10: An aggregate sum of **N17,553,542,594** has been provided to complete ongoing projects and development new ones in the Public Transportation Sector. Some of these projects include, but are not limited to the completion of the Oshodi MOT Interchange, Bus Corridor across the State, re-designing of Motorways and overhauling of the Inland waterways. The imperative of having an effective and efficient inter-modal transportation system cannot be over-emphasised as a strategy to fight the negative impact of the COVID-19 pandemic on the commuting of majority of Lagosians, whose daily bread is anchored on their ability to be able to move from one point to the other in a well designed manner. Further breakdown can be found on the Omm-Approved Sheet.

EN-3.5.11: A total sum of **N122,210,432,353** is provided for Infrastructural Development in Lagos State. The implementation of these projects, which includes Construction and Maintenance of Roads, Flyovers, Drainages, Jetties and other facilities is not limited to the provision of infrastructure, but also to engender direct and indirect jobs creation. As a minimum, Lagos State expects to generate over 2million composite jobs by the time the projects get into full swing. As such, the negative impact of job loss, the attendant depression and crime would have been minimized. Please see the Ommaba for the details of the projects.

EN-3.5.12: An aggregate sum of **N38,046,446,839** was provided to combat environmental challenges and make the State Clean and Secure for Habitation. Some of the proposed spend include, but are not limited to construction and desludging of Primary, Secondary and Tertiary Drainages; provision of Labourer Equipment and Maintenance of Water Works across the State. Please see EN-3.4.10 for the Overheads to support these proposed spends.

EN-3.5.13: An aggregate sum of **N1,495,477,265** has been provided to palliate the impact of education of traders from their current locations to designated and purpose built places. This effort is in addition to developing and upgrading some slum settlements i.e. Oke-baba and Ibe-Iganjan.

EN-3.5.14: Without prejudice to other provisions made by the administration to support the health sector, being the main sector on the frontline of the fight against COVID-19, an aggregate sum of **N7,883,459,786** has been provided to construct, enhance and rehabilitate infrastructures at some selected Health Facilities designated as would be Isolation Centres.

EN-3.5.15: In response to the effect of the pandemic on the education sector, the Administration provided an aggregate sum amounting to **N10,364,009,007** for capital related projects across the education space. The proposed application of these provisions are to construct, renovate and furnish more blocks of classrooms in order to decongest the existing ones in compliance with the NCDC guidelines on COVID-19 management. This efforts shall be sustained and collaboration with development partners is also being considered to achieve this objectives.

FINANCING & FINANCING GAP (EN4)

FINANCING (EN-4.1)

EN-4.1.1: Bond Issuance – The State has a total of **N1000** as balance brought forward of proceeds of the **Bond Issuance Program of 2019**. The State recently paid the first Coupon of N60 to bond holders on the 29th July 2020 and all other accretion had been paid accordingly. Please see the CDSA Analysis Sheet for more details.

EN-4.1.2: Commercial bank loans (Internal Loans) - The State has a total of **N750** as balance brought forward. The State has offer letters already for the commercial loans from zenith bank (BA Union Bank and Access Bank totalling N750 they will disburse as soon as appropriate approvals are secured. The Details of the Approvals shall be made available during the MPA visit.

EN-4.1.3: External Loans - The State has no plan to take any new External Loan, however **N107,283,000** and **N9,385,000,000** has been provided to pay down on the principal of the the existing External and Internal loans respectively. The Details of the External Loans are as provided in the External Loans Analysis Sheet.

EN-4.1.4: Sales of government assets - The Administration intends to open up new satellite towns and make the lands available for conversion to cash up to the tune of **N12,220Billion**.

FINANCING GAP (EN-4.2)

EN-4.2: To avoid accumulation of deficit, the State is not planning to contract any loan to finance the unmet needs.

EN-5: The total covid-19 response expenditure is **N38,111,716,862**. This represent **36.7%** of total expenditure.

RESERVES (EN-6)

CONTINGENCY RESERVES (EN-6.1)

EN-6.1: A sum of **N1,483,700,025** is the provision for any shortfall in any of the projected capital expenditures e.g. essential expenditures i.e. COVID-19 related Expenditures and Others.

STABILIZATION SINKING FUND (EN-6.2)

EN-6.2: The Stabilization Sinking Fund is a Percentage(%) of the total IGR set aside for the purpose of augmenting any shortfall in provisions made for expenses susceptible to shocks and stresses. In the revised Budget, the Administration provided a total of 0.32% of the total IGR, amounting to **N1,499,500,000** as Stabilization Fund to augment specifically, for shortfalls that may arise in any of the COVID-19 related Expenses. The fund of percentage to be set aside as SSF is (0.25 - 1%) of the total IGR and it already going through the process of being legislated into Law.

CONSOLIDATED DEBT SERVICE ACCOUNT - CDSA SINKING FUND (EN-6.3)

EN-6.3: A sum of **N64,565,000,000** is the provision for the State Consolidated Debt Service Account. Please find the details in the sheet titled CDSA.