

28 December 2023

Rt Hon. Mudashiru Obasa
Speaker, Lagos State House of
Assembly
Alausa, Lagos

Dear Mr Speaker:

COMMENTS ON LASG 2024 PROPOSED BUDGET

I have had the opportunity to review the high-level budget summary estimates recently disclosed by the Governor in his presentation of LASG's 2024 budget, which is currently under review by the Lagos State House of Assembly, preparatory to passage of an Appropriations Bill.

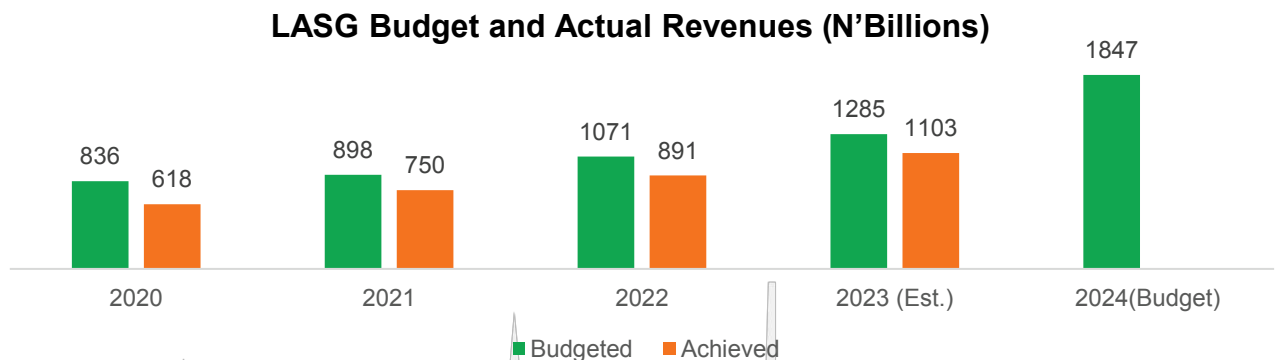
While noting that a detailed breakdown of the proposed budget has not been provided in the public domain, please find below some key observations relating to those public disclosures that have been made, that you may wish to consider in your deliberations.

1. Overall Budget:

At N2.24 trillion the overall 2024 expenditure budget is, in my opinion, too large and beyond the existing capacity of the state to fund on a prudent or sustainable basis. This is explained further below.

2. Revenue Estimates

LASG has based its overall expenditure budget on the assumption that it will have revenues in 2024 of N1.847 trillion, made up of Internally Generated Revenue (IGR) of N1.25 trillion and Federal Allocations of N596 billion. In my opinion, while the State has the potential to achieve such revenues eventually, this is an unrealistic and possibly insincere expectation for 2024. The table below shows the trend of LASG revenues for the past few years:



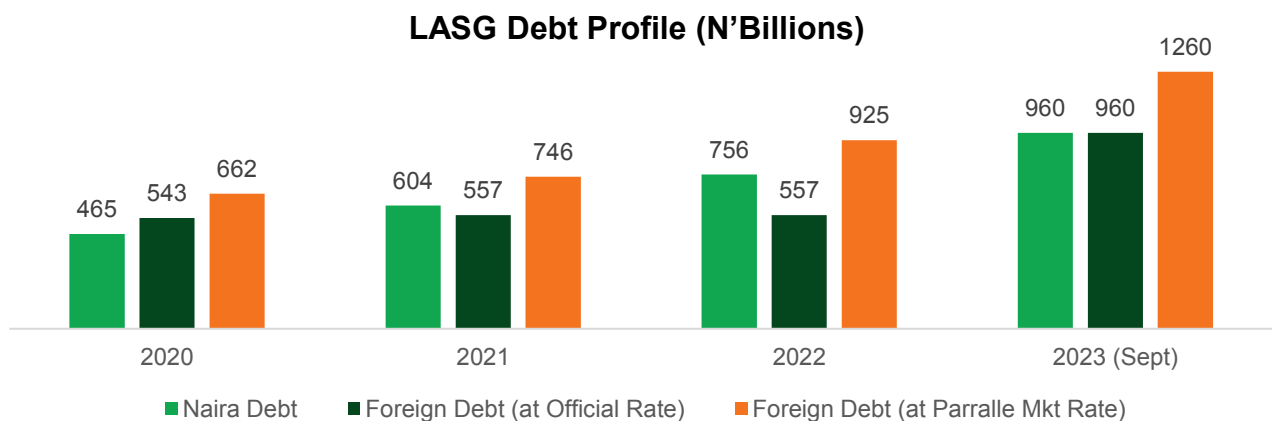
In addition to the observed tendency to over-estimate revenues generally, based on LASG's own audited financial statements, the highest actual (not budgeted) annual revenue the state has ever recorded in the past was approximately N891bn in 2022. For 2023, if the trend so far observed as at September 2023 is sustained, including the recent elevated receipts of Federal

allocations, we should, at best, expect to record revenues for the year of approximately N1.1 trillion. The proposed 2024 budgeted revenue is therefore almost 60-70% higher than what will likely be achieved in 2023.

Given the principal sources and composition of its revenues, by this budget, LASG is basically saying that it expects to grow taxes, fines, fees and levies by 60-70% or more in the span of less than a single year. The consequences of pursuing such a questionable objective in a year in which most individuals and businesses will likely continue to face unprecedented tough economic conditions, business closures etc., may be dire.

3. LASG Debt Profile and Debt Sustainability

LASG's pattern of borrowing over the years has resulted in a debt profile that now threatens the financial stability of the state. It has long been widely known that Lagos State is by far the most indebted state reflecting, probably, its greater actual and potential revenue and debt capacity. Of great concern however, is the fact that LASG has borrowed very substantially in foreign currency. As I cautioned in earlier communications, this situation is very precarious for a sub-national entity like Lagos whose principal revenue source is a local currency tax base, and that does not control either monetary policy or exchange rate policy. The chart below highlights the evolution of LASG's debt obligations:



Alarming Mr Speaker, debt service expenditure as provided in the LASG 2024 budget that is now under your consideration is approximately N542bn, comprising interest of N175bn and repayments of N367bn. This represents a debt service ratio, measured in relation to estimated 2023 revenues, of approximately 50%. This is well outside acknowledged prudential, sustainability limits, especially for a sub-national, considering that a substantial part of the debt in question is foreign currency loans. This situation can only be remediated if substantially higher revenues are achieved in 2024. This pressure may partly account for the unduly aggressive revenue estimates on which the proposed budget is premised. In these circumstances Mr. Speaker, LASG should temper its optimism, while acknowledging and guarding against potentially inappropriate, predatory behavior by Government agencies.

4. Efficiency of Government Spending

The efficiency, effectiveness and integrity of government operations and expenditure must be improved, rather than seeking to spend ever larger amounts inefficiently. Recent work we have done, (and openly shared with LASG), examining the published records of the Public Procurement Agency, leads one to believe that much can be done in this area. This is true for Revenues as well as Capital and Recurrent Expenditure.

Permit me to highlight a few focus areas, all of which are achievable by a committed and resolute Government acting within the existing legal and operational framework and without need for passage of any new laws:

- a. Effective monitoring, extending the use of technology, at source, to plug leakages or opportunities for diversion of State Revenues into private hands.
- b. Effective monitoring systems and technology to ensure procurement discipline and good practice across the board while diligently enforcing conflict of interest provisions for serving public officers.
- c. Insisting on appropriate consequences for infractions including diligent investigation and prosecution in accordance with the law.
- d. Improving transparency in Government Expenditure. For example, in the 2023 budget, an amount of approximately N212bn or 12% of the entire LASG expenditure budget was listed as “Special Duties Expenses” across MDAs. This should be avoided in 2024.
- e. Scrutinizing instances where large-scale projects (such as IPPs etc), that were originally conceived and billed to be implemented in partnership and through private sector funding arrangements, are instead funded directly by LASG with implications for the State’s debt profile.

5. Assessing Performance

Finally, Mr. Speaker, there appears to be an established practice of reporting and defining budget “performance” in terms of how much of the voted amounts were expended, without reference to outcomes achieved. As you have yourself observed, Government’s actions must impact people’s lives. There is the need to transition to outcome-based approaches to assessing performance as measured by development and quality-of-life indicators. There have been colossal capital and recurrent expenditures by LASG over the years, that have resulted in the current substantial, and likely inter-generational debt burden on present and future Lagosians. Despite these, the actual quality-of-life outcomes we see today must be adjudged disappointing both in absolute terms, as well as in comparison to peer cities internationally, using globally recognized indices and benchmarks.

Please accept my best wishes for a healthy, happy and productive new year in service to the people of our great State.

Yours faithfully,



Funso Doherty

CC: His Excellency, Babajide Sanwoolu, Governor, Lagos State..

