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## **CONTENTS**

**INNOVATIONS IN INFORMATION TECHNOLOGY AND SMARTCARD IN  
NIGERIAN BANKING INDUSTRY: AN EMPIRICAL STUDY**

**AWODUN, M.O & OTOKITI, S.O. Ph. D. [1 -13]**

**STRATEGIC APPROACH TO POLICY & PROGRAMME IMPLEMENTATION**

**DR. S. O. OTOKITI [14 -28]**

**THE PRODUCTION MANAGEMENT STRATEGIES OF NIGERIAN  
COMPANIES**

**LINUS OSUAGWU, Ph. D [29 - 50]**

**BUSINESS RE-ENGINEERING FOR GLOBAL COMPETITIVENESS:  
A SURVEY OF THE BANKING INDUSTRY**

**AWODUN, M. O. [51 -69]**

**THE MARKET STRUCTURE, CONDUCT & PERFORMANCE PARADIGM:  
THE CASE OF NIGERIAN BANKING INDUSTRY**

**DR. M. O. NYONG [70 - 92]**

**THE BUDGET PROCESS IN NIGERIAN LOCAL GOVERNMENT:  
WHERE ARE THE COUNCILORS?**

**DR BANJI FAJONYOMI [93 - 105]**

**EQUITY MARKET PERFORMANCE IN NIGERIA**

**ADETILEWA ADEBAJO [106 - 115]**

**PRIVATISATION IN NIGERIA: PROSPECTS AND CHALLENGES**

**AJONBADI, H. A. [116 - 140]**

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# THE BUDGETARY PROCESS IN NIGERIA LOCAL GOVERNMENT:

## WHERE ARE THE COUNCILLORS?

DR. BANJI FAJONYOMI\*

### ABSTRACT

*This article presents an overview of the diminishing role of councillors in the budgetary process of local governments in Nigeria. It examines first of all the decision-making structure as provided for by the 1976 local government reform. Then the nature of local government finance is examined. The control of local government over their finances is limited because of problems associated with their sources of revenue and the expected direction of expenditure. Consequently, the level of maneuver available to councillors in budgetary decision is too slim. Finally, the article describes the budgetary procedure as it is the practice in most local governments. The short time given to local governments to submit their proposals to relevant state authorities does not give room to adequate councilor participation in the process. One major problem from this is that of accountability and representative democracy. Who is to account for non-performance of local governments? Is it the officer or the councilor? This issue must be addressed as more and more people are getting interested in how their affairs are managed.*

### 1.0 Introduction

There is hardly any institution that is not affected by the prolonged period of military rule in Nigeria. Even when democratic institutions were put in place by military regimes, as tests in the process of democratic transitions, as we had at various times during Babangida and Abacha regimes, the laws governing these institutions are pushed aside, as operators of the system exploit leakages for personal benefits. The just concluded transition to civilian rule in the country requires that an analysis of past behaviour be carried out as means of setting the future right. The contending argument in this paper is that over the years, councillors in Nigeria have lost their influence in the decision making process of their councils (Fajonyomi, 1992); 1995). Unbelievable as it may sound, this is even more evident in the budgetary process, which has always been considered as an important

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\* Dr. Fajonyomi is a Senior Lecturer in the Dept. of Public Administration. Lagos State University, Ojo.

act of governance. The budgetary process is a fundamental act in management. This is because it has to do with not only authoritative allocation of values, to use the Eastonian definition of politics, but also with who gets what, where, how and when.

Over the years however, local officers seem to have hijacked this important process from the actual representatives of the people. A lot of reasons could be advanced for this skewed relationship. Principal among which are one, incursion of the military into the national politics and political instability that ensued. This has prevented the creation of local councillors that are vast in the working of local governments. The second reason is even the nature of local government finance itself. With the exception of a few urban local governments, most local governments could not boast of autonomous sources of revenue that could guarantee their control over both their revenue and expenditure.

The article thus provides an analysis of the budgetary process in Nigeria local governments with the ultimate aim of demonstrating the minimal role of councillors in the process. In the first part, the decision making structure is described. The essence of this is to decipher the statutory rule governing councillor participation in decision-making. Later, the characteristics of local government finance are explained to bring out the inadequacies in the financial structure of local governments. The last part discusses the process involved in budget formulation. In the concluding remarks, we try to envision what may result from the current practice under the new democratic transition, if changes are not effected.

### **The decision-making structure of local government**

The decision-making structure operating at the local government level has its roots in the national reforms of 1976. The reform started in 1975 with the coming into power of a new military regime headed by General Murtala Mohammed. This reform was part of a comprehensive program of the regime to returning the country to civil and constitutional rule. What distinguished this reform from others was first of all, its national character. Unlike in the previous years when Regional/State governments initiated reforms, the 1976 reform was initiated and executed by the federal constitutional function of the states. But it considered the reform necessary to stimulate local development by giving local governments more financial and human resources (see *Guidelines for Local Government Reform*, Foreword).

One of the most important landmarks of the reform was the creation of a decision-making structure all over the country. It abolished all the pre 1976 multi-tier systems and replaced them with a single-tier structure.



Local government was also given formal recognition as the third tier of government in the federal architecture of the country, with clearly defined boundaries and established functions. Section 30 of the Guidelines stipulates that:

*Political control of Local Government departments by Councils should be exercised through a small number of Councillors (not normally exceeding four) each of whom will be chairman of a single department such as in the case of education. These chairmen will be political heads of the departments or groups of departments and will automatically be members of the Finance and General Purposes Committee which will in effect be the 'cabinet' of the Local Government Council. These committee chairmen as envisaged in this Reform will be responsible for policy issues and will not individually have executive functions. They will undertake political responsibilities for the day-to-day functioning of departments and will represent the council in these departments and be its eyes and ears. They will give orders to execute heads of local government departments on policy issues only, but not on the internal management of the departments. Executive heads in this matter shall be responsible to the Secretary to the Local Government and will be accountable to the Finance and General Purposes Committee*

One important aspect of this reform is the determination of the federal government to separate political from administrative functions at the local level. The committee system established by the reform, despite its resemblance to that of the 1950s, barred all intervention of councillors in administration. Under the new dispensation, supervisory councillor works full time unlike before when their job was on part-time basis. This was to give them control over local government policy making. In addition, the *Guidelines* eliminated the practice of proliferation of committee by limiting the number of committees a council can have to at least two: Finance and General Purposes Committee and Education Committee. However, councils may have others, not more than four, depending on local needs. The number of committees varies from one state to the other. In the former Bendel State, for example, local governments were allowed up to eight committees (Otiri, 1988:34), while former Anambra State allowed only four (Anambra State Government, 1976). Usually, most local governments function with the following committees: Finance and General Purposes,

Education, Works, Health and Police. The head of department of the concerned department acts as secretary to the committee.

Although certain structural and institutional innovations were brought into the system especially during the Babangida regime (Oyediran, 1997), they were later jettisoned by the following administration of General Abacha which reverted to the old order. The most remarkable of this innovation was the introduction of presidentialism at the local government level. Through Decree No. 23 of 1991, the principle of separation of powers was introduced at the local government level. The basic feature of the system was the separation of powers between the executive and the legislature through the creation of a cabinet (comprising of the Chairman, supervisors, and secretary) independent of the legislative council. The decree provided for similar powers and functions for both the local government cabinet and the council as we have for the State cabinet and the state legislative house.

### **Characteristics of Local Government Finance Sources of Revenue**

Local government revenue comes principally from two sources. The first one is statutory allocation. This is the major source and may constitute up to 100% of the revenue of some local governments. The second source is the internally generated revenue from functions/or responsibilities performed by local governments. The almost total dependence of local governments on statutory allocations as their major source of revenue started during the oil boom era in the 1970s. During this period, bathing in the oil wealth, some state governments even rescinded certain local government taxes like community and cattle tax, without introducing alternative sources of revenue to replace them (Ihinmodu, 1988, pp. 175-95). In the early eighties, local government paid almost no attention to their traditional sources of revenue. Let us look at the situation in Ondo State. In 1979, there were local governments who generated more than 50% of their revenue internally. This was the situation in Idanre/Ifedore 53.87%, Ondo 55.91% and Owo 53.26%. From 1981, one could notice a net regression. The internally generated revenue of Idanre/Ifedore fell to 6.16%. Ondo and Owo generated 10.93% and 9.9% respectively.

The trend noticed in Ondo State represents the national inclination in the 1980s. A study carried out in 1984 justified that direction. Despite the efforts of the federal government to increase the financial autonomy of local governments, one cannot say that this has been successful. Guyer



(1992) discovered that 80% of the revenue of Ibarapa local government in 1988 came from statutory allocations. The same inclination was noticed in Ekiti West. In 1990, the local government had a budget of N12,800,000 out of which N500,000 (3.91%) was to come from internal sources. The remaining 96.09% were from statutory allocations made by federal (92.97%) and state (3.12%) governments. In the same year, Asa local government made 12.83% or N1,719,400 of its 1990 budget internally. 87% of the total sum, N13,394,509, came from statutory allocation. The financial situation of Ikeja local government, though better than the other two was not so impressive. In 1990, it had a budget of N26,572,000, twice that of Asa N8,680,000 (32.67%) of the money was generated internally. Federal allocation stood at N13,500,000 (50.81%) and the state government gave the local government N4,312,000 (16.22%).

Internally generated revenue of local governments is from different sources. Each source yields differently according to the location of the local government and how they manage their investments (Olowu and Stoke, 1992). The first source is local taxes. Before any local government can impose and collect any form of tax, it must seek the approval of the state government. It means that local governments do not have the liberty to decide the amount. This may come as personal, community, development or cattle tax in some local governments. Some urban local governments, like Ikeja, rely heavily on tenement rates. There are also fines & fees. Fines are paid by those who run foul of local government by laws. Fees are paid to obtain licences and permits. Local governments also collect rents on market stalls and motor parks. Many local governments invest in short and long term commercial ventures. Some of these yield very well while others yield just a little or not at all.

In spite of all the avenues opened to local governments to increase their finances, they are always in difficulties when statutory allocations are late in coming. Even when these allocations are received they could hardly pay the monthly salaries of workers (*Sunday Vanguard*, 1999). This is why most of the time they are obliged to follow federal and state directives when it comes to policy formulation. Three reasons can be adduced for the dwindling financial capacity of local governments. The first one is the role of state governments in determining, imposing, and revoking local taxes on their behalf (Werlin, 1995, p. 123). Another reason is the problem of fraud. Local government rate collectors, in collusion with their superior

officers, divert the money realized. Lastly the rate of evasion is very high. Many taxable adults do not see any reason to pay, since they benefit nothing, according to them, from the council.

### **Nature of Expenditure**

The expenditure of local governments are mostly directed to recurrent expenses like personnel and overhead costs. These consume more than 50% of the expenditure of many local governments. For example, it represented 81.90% of expenditure in Ikeja, 51.58% in Asa and 56.56% in Ekiti-West local governments in 1990. One remark that comes to mind concerning these figures is the significant proportion of recurrent to capital expenditures. This makes the execution of major capital projects by local governments very difficult. Consequently, local governments are known to execute petty low cost projects, usually distributed among the different communities. This policy of trying to satisfy everybody under the name of rural development is neither profitable to the communities concerned nor the local government. Most of these projects are eventually abandoned when funds are no longer forthcoming. Nevertheless, there are local governments who control enormous resources because of their locations and can undertake gigantic projects on their own. Typical examples are Mainland and Island local governments in Lagos state who generate up to 50% of their total revenues locally while the average for all local governments in the country is 4-5% (Olowu, 1992:19).

### **Preparation of local government budgets**

Before 1986, there was no uniform local government budgetary system in Nigeria. In the 1970s, local government officers decided in one of their meetings to introduce a uniform system of local government budgeting. This method was reversed with the coming of the civilians to power in 1979. The military government, since 1986, then imposed a uniform style of budget preparation. This decision followed the recommendation of Dasuki Committee. Local government officers had complained to the committee, during its sitting, about unwarranted delay in the authorization of the Ministry of Local Government. This delay, according to them, disrupts the local government planning system. It is based on these complaints that the committee recommended that the Ministry of Local Government should send budget guidelines to local governments three months before the deadline for submission to the state



government. The guidelines should contain important background information like the various percentages to be accorded to each expenditure item.

Consequently, approximately three months to the preparation of local government budgets, each state government issues *Call Circular* to all the local governments. The circular states the objectives to be pursued in the coming year and the limits of each expenditure item. This circular, with all its specifications, imposes serious restrictions on the decisional power of local governments. In 1990, for example, the Lagos State Government Circular No. PPB/15/1990 insisted that as in the previous years, individual local governments would be responsible for the preparation of realistic balanced budget for 1991. In preparing their budgets, local governments should take cognizance of the prevailing economic climate . . . In that connection, the overriding principles should be as follows:

- (i) prudent use and management of limited resources;
- (ii) cost efficiency in executing capital projects;
- (iii) avoidance of wasteful expenditure;
- (iv) improvement of revenue generation and allocation.

The circular, in addition, stated the objectives to be pursued by the budget. The objectives of call circulars are aligned to that of the federal government in a military regime and during civilian regimes, they follow that of the party in power at the state level. During the Babangida regime, for instance, local government were forced to set aside some money in their budget for the Better Life for Rural Women program, the pet program of the First Lady. As for the 1991 objectives in Lagos State, emphasis was placed on rural development, provision of rural infrastructures, training of local government personnel and creation of incentives for non-governmental sectors to participate in rural development program (Ibid.).

Apart from these objectives, the circular set the ceiling for certain expenditure items in proportion to the total revenue; personnel costs, not less than 10%; transfer for capital development fund, not less than 20%.

### ***Formulation of budget proposals***

Local government budgetary process starts in October, that is, three months before the financial year, which starts in January. Despite the minor differences that may exist in some local governments, the budgetary procedure is similar all over the country. The process starts with the arrival of the *Call Circular*. This circular is minuted to the local government treasurer



through the secretary. The latter instructs the former, in writing, to contact the heads of departments and brief them on the major aspects of the circular. In Asa local government, for example, the secretary passed the circular to the treasurer with a cover note that: "Please go over this circular and endorse it to all HOD, asking them to submit their draft estimates by the 31<sup>st</sup> August, 1990".

Establishing a thorough calendar for the budgetary process at the local government level is difficult because the circular gives little time to local governments for the preparation of their budgets. At times, local governments jumped some stages to meet the limit. In the preparation of the 1991 local government budgets in Lagos State, local governments had roughly three weeks to submit their proposals.

The heads of departments prepare their budget proposals in accordance with the guidelines in the Call Circular. In theory, this is supposed to be done with the supervisory Councillors. However, this is usually not the case. In a research that was carried out by this author, it was discovered that the participation of supervisory Councillors is insignificant in the preparation of budgets. The HODs submit their proposals to the treasurer who collates all the estimates. These estimations are reviewed, chapter by chapter by the secretary and the treasurer, in the presence of heads of departments. The proposal, after a thorough perusal by the secretary is sent to the Finance and General Purposes Committee. The FGPC reviews the proposal, and may interview officers when certain issues are not clear.

The last stage of the preparation is supposed to be the general council meeting where the proposal is to be adopted. The councils most times are not constituted, especially during the tenures of management committees. However, previous researches have shown that usually, the council does not alter the decisions of the FGPC (Aliyu and Koehn, 1982:46).

### **Distribution of roles among actors**

#### **Finance department of the local government**

The responsibility for budgetary control and financial administration of local governments rests on this department. It is under the supervision of the treasurer. The caliber of workers in this department, we have found out, depends on how big the local government is. We must state that there are now many chartered accountants in the local

government service. This department educates others on the guidelines to follow in the preparation of their estimates to avoid unnecessary waste of time. This system allows a preventive control of expenditure according to the credits allowed to each department.

### **Stages of Councillors' intervention**

The areas where one expects the interventions of Councillors are in the determination of fiscal policies, increase of taxes or initiation of investment priorities. However, a number of institutional and technical factors limit the authority of Councillors over these things. The first is the decisional structure that limits the powers of Councillors. Local governments cannot determine the amount to be paid as local taxes without the accord of state governments. They are consequently obliged to plan their programs within the limit of this authority. Secondly, the level of their experience is also a determining factor. The average life span of most councils, since 1976, is two years. Although the Constitution provided for three years, councils have been constituted and dissolved at the pleasure of the Head of State. Decree No. 15 of 1989, for example, empowered the president to dissolve any local government if he was not satisfied with its performance or for any reason at all, as he deemed appropriate. This decree was severally used by the military regimes. We have enumerated before some restrictions placed on local government by state governments through the Call Circular. In order not to act contrary to the stipulated guidelines, and formulate a budget that may be rejected at the state level, Councillors put their trust on officers to formulate an acceptable budget based on previous experiences. Lastly, local governments have little time to prepare and submit their proposals to the state government. This situation allows officers to take control of the process. They use state government directives as excuses to exclude Councillors.

The area where the influence of Councillors should be felt is at the FGPC. This influence too is not convincing enough. In one council, a Supervisory Councillor described the budgetary meeting of the FGPC in his local government as follows:

*The secretary invites us and presents the budget proposal. There is also the treasurer who advises and defends what the secretary says. After the intervention of the treasurer, we (Councillors) give our accord.*



What is astonishing is that most of the Councillors we interviewed then found this procedure normal. Our opinion that officers' role in the budgetary process is more significant than that of the Councillor is supported by a circular sent to local government chairman in Ondo State in 1990. It states that:

*In view of the fact that Local Government Budgets for 1991 must be approved by the State Executive Council by December this year, all Chairmen are enjoined to personally supervise the preparation of the draft estimates (Ondo State Government, 1990:3). Emphasis ours.*

The utterance is an indication that chairmen usually leave officers to work on the budget without supervision. This poses the problem of democracy and representation. Whether Councillors are elected or appointed, they are there to represent certain local or community interests. What happened to these interests if they exclude Councillors from vital decisions like budgeting?

### **Concluding Remarks**

The popular belief that local government serves as a training ground for national democracy has always justified its recognition each time there is a change of regime at the national level. However, in the Nigeria context, most reforms have paradoxically led to the shrinking of the democratic space available to local government actors (Fajonyomi, 1997) despite the fact that local democracy provides a better quality of participation than does national government (Smith, 1998). And even within the available space, councillors have been worse off.

Harry Taylor (1999) has given four dimensions to the role of Councillors. The first one concerns their relationship with various stakeholders. The second has to do with their constitutional and legal duties. Thirdly is their technical skills, and lastly their leadership skills. It is the third role that is more relevant to this paper because of its emphasis on financial management. As such, I will like to expantiate more on it. The third role, according to him, include:

- (i) *Strategic analysis, planning and implementation, setting and guiding the policies and overall direction of the authority in line with the manifesto upon which the Councillors were elected, the legal and constitutional status of local government, and the need to serve all the citizens of the authority;*
- (ii) *financial management including the setting of budgets and the monitoring of expenditure, and the oversight of fair revenue allocation;*
- (iii) *the setting up, monitoring and evaluation of development projects and processes at the local level, as required by the Constitution;*
- (iv) *(iv) effective meeting skills – the skills needed to ensure effectiveness as an individual participant and as chair of meeting of combinations of councillors, officers and constituents.*

Looking at the above skills and juxtaposing them with the findings above shows that Nigerian Councillors have been in deficiency. There is the need to inculcate in these councillors a culture of democracy, which makes them accountable to the electors. This accountability may be difficult if they leave appointed officers without democratic mandate to direct, as has been the practice, the budgetary process. This may, if unchecked, lead to the erosion of their legitimacy (Andrew and Goldsmith, 1998), one of the ideals upon which the concept of local government itself is based. The survival of the current crop of councillors may be based on this. More and more civic associations are getting more interested in how local governments are run. It will be foolhardy for an elected representative to push the blames of electoral manifesto fiasco on the secretary or treasurer of a local government.



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