EXPENDITURE CONTROL IN PUBLIC CONSTRUCTIONS OF THE DEPARTMENT OF PUBLIC BUILDING, FEDERAL CAPITAL DEVELOPMENT AUTHORITY, FCDA: A MANAGERIAL APPROACH

BY

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DECLARATION

I here by declare that this project is a product of my research work. All sources of information used for the study are acknowledged by means of references.

MUSA, Hassan Haruna

CERTIFICATION

This thesis titled Expenditure Control in Public Constructions of the Department of Public Building, Federal Capital Development Authority FCDA: A Managerial Approach by Musa Hassan Haruna meets the conditions for the award of the Degree of Master of Business Administration of Ahmadu Bello University, Zaria; and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to Alhaji Umar A. Musa who laid the foundation of my education.

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The responsibility for this work and what may arise as a result of it remains solely mine.

ABSTRACT

The conflict of competing stakes on limited available resources is obviously the greatest challenge confronting the government of developing countries, thus, the quest for effective management of public spending. Nigeria has as a panacea to economic predicaments employed measures and to great extent adopted the World Bank reform tool of Structural Adjustment. Better management of public spending including investment programming are being sought through a process by which programmes are identified, prepared, approved and implemented. Strengthening this process using the management tools of monitoring and evaluation for control should lead to expenditure programmes that are appropriately sized and better attuned to the overall development goals.

As construction works progress, most clients, especially Government Ministries, Parastatals and institutions are compelled either to pay unbudgeted increase in building project costs or abandon such projects.

This research seek to modestly contribute to identification of process of implementation of public building construction programmes of the Department of Public Building, Federal Capital Development Authority. The emphasis will be on management of building construction programmes of the authority to ascertain the effectiveness or otherwise of management of expenditure control.

The key to better management of public spending, including investment

programming, lies in the process by which programmes are identified, prepared, approved and implemented. Strengthening this process should lead to expenditure programmes that are a more appropriate size and are more attuned to overall development goals.

Developing countries including Nigeria have a panacea to economic predicaments employed measures and to greater extent adopted wholesale World Bank reform tools such as Structural Adjustment, Lending Operations, Technical Assistance and Country Economic and Sector Works.

As construction works progress, most clients, especially government ministries, Parastatals and Institutions are compelled to either to pay unbudgeted increases in building projects costs or abandon such projects outrightly.

This research seek to modestly contribute to identification of process of implementation of public construction programme with the sole intent of examining expenditure control. The Direct emphasis will be on effective management of public expenditure in public constructions programmes of the Federal Capital Development Authority by means of Expenditure Control.

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CHAPTER ONE

1.1 BACKGROUND

The construction industry is very vital to the socio-economic development of a nation. The affordability or otherwise of construction informs the confidence or otherwise of existence of citizens in their nation. (Abiola, R.O. 2000) According to Kontz et al (1980), the primary human need is physiological of which the most fundamental is shelter. Others are food, water, light, clothing, sleep and sexual satisfaction. It is therefore necessary that cost of construction remains reasonable and within reach. Thus government and other owners of construction projects, contractors and construction workers in their bid to sustain the construction industry are interested in construction cost.

The declining expected earnings since the 1980s of developing countries occasioned severe fiscal adjustment and thus the need for improved public expenditure management. The collapse of the international oil market in 1981 adversely affected Nigeria's accrued revenue. With oil revenue accounting for about 90 percent of the country's total revenue earnings, the fall has had its effect on virtually all sectors of the economy and quite obviously in the construction industry. The high annual population growth of about 3.3 percent and the negative growth of GDP from 4.0 percent prior to the collapse of the international oil to mere 2.9 per cent afterward have combined to heighten the negative effect.

As a result of dwindling earnings, the government has over the years concentrated efforts on reduction of investment in developmental programmes. This has seen to considerable cut down on number and sizes of projects embarked on by the government. Though the measure resulted in reduction of government expenditure it could not on its own yield the much desired effective utilization of public resources. As Lacey R. M. (1979) wrote, the demand on government institution for effective public expenditure management include the formulation of macro-economic framework, project preparation and investment programming, the link between planning and budgeting, the coverage, preparation and classification of the budget, and budget implementation and expenditure control government is, however, faced with as many institutional and political dimensions as there are technical and economic in controlling public expenditure.

The growing inadequacies of Lagos serving as both the seat of central government and capital of Lagos state necessitated the creation of Federal Capital Territory by Decree No.6 of 1976 as amended by Decree No.12 of 1984 of Federal Capital Development Authority (FCDA) as a government institution charged with the responsibility of providing for physical development and day-to-day administration of the new capital city. Like most government institutions funded by public resources, F.C.D.A and supervisory Ministry of Federal Capital Territory were adversely affected by the state of earnings of the Central government. It also became a victim of regular expenditure cuts and investment reviews (Ari, I.M. 1994), of which the results are obvious - reduced investment in development programmes. The issue of whether there has been effective utilization of funds in projects undertaken and the role of those entrusted with the management of these fund, in particular the line officers is being discussed by experts in public resource management and has remained topical.

1.2 STATEMENT OF PROBLEM

The search for means of effective management of public resources has over the years remained at centre stage of most developing nations. Budgets have so far remained the principal administrative instrument for the transformation of public expenditure programmes into concrete realities (Warren C.B. and Stokes M.T.P.U.P 1985). This is so in view of budget rate as a control in addition to being a plan. There is of recent the need to include institutional capacity of core and line agencies, budgetary process and reform as part of overall institutional restructuring and broadening of the policy based effective management of public expenditure in addition to investment programmes.

As construction works progress, most clients especially

Government Ministries, Parastatals and Institutions are compelled to either pay unbudgeted increases in building project costs or abandon such projects outrightly. According to Giwa (1988), "In Nigeria, one major problem is that most contracts are completed at sums much higher than initial estimate." He also observed that though Nigeria operates similar contract procedures with those of most commonwealth countries especially United Kingdom, the escalation of contract sums is much less than in Nigeria. The application of cost control techniques has contributed greatly towards these low increases in contract sum. It therefore implies that the proper application of cost control techniques might be lacking and is the problem of cost escalation in contract sum.

In FCDA, like most government agencies, little has been achieved through structural reforms - a recipe of the World Bank - in evolving an effective means of managing public expenditure. This has raised certain questions in view of experience particularly in the Ministry of Federal Capital Territory (MFCT) viz:

i) How relevant is the structural reform to the construction programmes in Nigeria?

ii) Do practical execution of construction programmes bear much relationship with plans.

iii) Is the planning agency (line) technically equipped and capable of evaluating the ongoing planned construction programmes.

iv) How informed technically and otherwise are the officers charged with the responsibility of executing the authority's construction programmes?

1.3 PURPOSE OF THE STUDY

This research work seek to review the existing practice on the management of public expenditure in the context of expenditure controls as it relate to building construction projects of the Federal Capital Development Authority. The effort would be to determine it workability and import on the much desired effective utilization of public resources.

Attempt will be made to evolve, if possible, to bridge the gap between theory and practice of "Plan and actual implementation such that proper coordination between "estimate' and `final cost' would be achieved through sufficient institutional back ups for evaluation. The nature and capability of the human and material resources use for evaluation purposes will be determined to assess the inadequacies and suggest ways of effective supervision and evaluation of investment programmes.

The emphasis of this study is on management as a means of effective expenditure control in Public Construction with particular reference to the Department of Public Building, Federal Capital Development Authority.

1.4 SIGNIFICANCE OF THE STUDY

This research work seeks to modestly contribute to the understanding of significance of cost control in efficient utilization of public resources. Recent experiences has shown shift from structural reform to control of expenditure in quest for effective and efficient utilization of public resources. Most core and line agencies are on experimental test leaving much room for comparison of performance and the need for indepth related literature.

Furthermore, this study if successfully undertaken could assist national economic planners and managers of public construction programmes in the attainment of realistic achievements.

1.5 SCOPE AND LIMITATION AND OF THE STUDY

The study is limited to management approach to expenditure control in public construction. The emphasis will be on the use of evaluation and coordination as management tools for control to achieve effective utilization of public resources. The research shall be limited to construction projects of the Department of Public Building, Federal Capital Development Authority.

Information hoarding is a problem that this work has to do with. Most of the people in position to give information are reluctant to do so. This is worsen by the government employees' pledge of secrecy.

The much time required to undertake a research of this magnitude is not readily available especially that one is willing within a dateline. FCDA has been in existence since late 1970s and sizeable amount of documents have accumulated.

CHAPTER TWO
LITERATURE REVIEW

2.1 INTRODUCTION

The role of finance is crucial to the continuity and growth of an organization. It is said to be the circulatory system of an enterprise making possible the needed cooperation between diverse units of activity. (Mohsiu M. 1980).

Broadly speaking, finance serves two important functions. First, it is a means of assembling the funds necessary to initiate a new activity. Second, and much more important, it provides the basis for continued operation - furnishing additional capital, covering the costs of operation and generally synchronizing the various factors of a going business. Underlying these two functions is the formulation of policy, which provides a sense of direction and actual plan of operation (Walker E. W. and Banghnen, W. 1964).

According to Mohsin M. (1980); finance involves three important functions: (1) Planning (ii) controlling, and (iii) coordinating.

i) Coordinating

The core of Financial Management centres on planning the complex nature of organization demands that management should place greater emphasis upon financial planning to secure and employ resources in the amount and proportion necessary to increase the efficiency of remaining operation. Financial planning helps management to avoid waste by furnishing policies and procedures which make possible a closer coordination between the various functions of the organization.

The second step in financial planning is the determination of policies that act as guides to the organization in achieving its primary objective. In this connection the following policies are relevant

a) Determination of capital expenditure,
b) Evaluation of capital expenditure,
c) Composition of capital structure, and
d) Sources and uses of funds.

ii) **Financial Control**

Planning must, however, be complimented by control. The result must be measured concurrently against projections. Control is the finance management function which must be exercised by executive personnel if the organization is to achieve the goals established by the planning functions. The control function is composed of five distinct phases;

1. The evaluation and control of capital expenditure;
2. Determination of operational standards;
3. Evaluation of the organization's progress in relation to predetermined standards;
4. Investigation of corrective action in the event deviation exist, and

5. Follow-up action by executive personnel to ascertain whether the corrective action is effective.

iii) **Coordination**

Since finance touches almost every aspect of organization function, an important function of the financial management is the coordination of the various decisions taken within an organization so that they are mentally consistent, having regard for financial aims and constraints. The exercise of this function is perhaps most clearly seen in formulating financial plan which involves the merging of estimates of each department into a budget for a whole organization.

As summarized by Weston J.F. and Brigham I.F. (1978), The main function of finance are to acquire and utilize funds to make maximum contribution to the efficient operation of an organization. This in addition to requiring knowledge of source of fund requires knowledge of how to make sound investment decisions and to stimulate efficient operations in the organization. A large number of alternative sources and uses of fund will have to be considered. There are always alternative choices involved in financial decisions. The choices include the use of internal versus external fund, long-term projects, long-term fund sources versus short-term fund sources, a higher rate of growth versus a lower rate of growth etc.

2.2 CONTROLLING EXPENDITURE

Control is an integral part of expenditure programme. Planning occurs at regular intervals, and control is a continuous process. Expenditure control aims at attainment of the target within the time and resources constraints or to bring to light variation for corrective action. The two ingredients of expenditure control are

i) Treasury functions, and

ii) Controllership functions.

While the former relate to procurement and management of funds, the later refers to budgetary planning and control.

i) Treasury Functions

The main treasury function is to control the sources and uses of funds. When expenditure proposals has sanctioned, it is necessary to control the use of funds. To this the three major functions are:

a) authorization

b) recording of expenditure, and

c) progress report.

a) **Authorization:** Approval of projects by proper authority may mean that funds can be committed, or merely that the projects will be included in a planning budget and subject to another close review before funds are made available. A project is included in the expenditure budget only when it is approved. But budgetary approval is not usually the authority to spend.

The final review takes place at the time a request for authority to spend is approved. For this, it is necessary to see (i) whether funds are available as expected; (ii) whether the need and expectation of the project are still as strong as when it was budgeted, and (iii) whether or not better uses of funds have arises since budget approval. Properly used, this review opportunity can give expenditure budgets desirable flexibility without reducing their effectiveness.

b) **Recording and Control of Expenditure:** the second stage of expenditure control is the recording of transactions. After final screening, the sanctioned authority informs the appropriate division of the approval. The financial officer who is responsible for capital expenditure takes the necessary action. The accountant is expected to submit details on such matters as the cash position for the period in question and other project which have already been sanctioned for the same period.

c) **Progress Report:** Periodic progress reports provide the basis for timely decision-making at all levels of authority. These progress reports include both financial data showing expenditure to date and technical information covering progress towards completion.

The information furnished through progress reports point out funds position, errors in estimate at time when plan might be changed advantageously. Also additional requirements for fund become apparent before the actual need arises. Without effective use of progress reports for projects whose accomplishment extend over a period of time, errors may be hidden or even compounded until it is too late to do anything about these. The expenditure budget complied with adequate reporting, provide the major tool of control after the projects are approved.

2.3.1 Budget Implementation and Control of Expenditure

In the formulation of investment programmes and budgets, of greater importance are the problems of budget execution and programme implementation. The World Bank approaches this from the standpoint of two objectives: "First, the timeliness and adequacy of the flow of budgeted funds to executing agencies and, second, the effectiveness of treasury control over public expenditure and enforcement of spending limits (Lacy R.M 1989).

Delays in the release of funds have been found to be a major factor affecting project implementation, more often than not resulting in underspending of budgeted amounts. Systematic monitoring of expenditure was rare and budgets were seldom revised during the course of the year and this is not always due to the treasury's delayed release of budgeted funds. Sometimes, budgets themselves are unrealistically formulated in terms of real resources availability.

Lacey R.M. (1989) wrote; "IN absence of carefully implemented institutional and procedural reforms, sever financial constraints will always militate against orderly project implementation. Of course, in principle once budget allocations are properly approached and made, the responsibility for implementing the budget, along with requisite freedom to do so, should rest with spending agency. However for this to be compatible with stringent and strictly applied spending limits, it would be necessary for these agencies to be equipped with adequate financial management capability.

She continues; ensuring a funding flow of funds for specific programme and project implementation is however, only of the aspects of expenditure control. An equally important requirement is the reinforcement of the core ministries' ability to exercise control over public expenditure as a whole; indeed, in the short run, given the severe financial constraints...., the greater attention must be focused on the core agencies. In other to minimize the damage to development objectives caused by revenue shortfalls and general financial austerity, it is important that the capacity of control of expenditure be extended beyond the ability to enforce global spending limits to that of influencing the composition of expenditure in accordance with development priorities.

2.3 REVIEW OF PUBLIC EXPENDITURE

In public/government/finance most of the major decisions are made in the political sphere, but the consequences of these decisions are also economic in character. Economists examine the issues that arise out of economic effect of fiscal operations and policies (Anderson H.W. 1973).

Equity, efficiency and effectiveness are important concepts of principles and issues in public finance and financial management in public sector. Virtually all issues in this field whether relating to government to government budgetary policy and expenditure tax policies and expenditure, miscellaneous revenue generation and allocation policies (and measures), or in the allocation of the numerious instruments of macro-economic policy tend to be viewed and appraised from the perspective of their equity content and efficiency considerations.

The concepts of equity and efficiency, in particular, occupy a central place in the analysis of public policy issues. This is for a number of reasons prominent among which includes the fact that the agenda of economics and policies have always featured policies whose effects on economic inequality and/or efficiency in resource allocation (and distribution) are hopelessly intertwined" (Tobin J. 1976). As a result, society at many points along the way "confronts choices that offer somewhat more quality (equity) at the expense of efficiency or somewhat more efficient at the expense of equality (Authur Okun 1975). The society at every step faces trade off between dominantly moral, socio-ethical and political consideration of equity and the largely technical and economic question of efficient.

Equity

The notion of equity; social or distributive justice, fair play or whichever of the numerous nomenclature if pleases one to call it, is perhaps the most widely applied criteria in discussing the relative merits and demerits of public policies. And it is also the most contentious. As a concept, the notion of equity has the obvious advantage of being accepted by virtually everyone, an acceptance which Carl Shoup, a leading economists, calls the consensus criteria." As the Brownings aptly pointed out, "although everyone approves of equity very few people interpret the term in the same way (Edger by Jacqueline Browning). Nonetheless, equity remains for many, the fundamental principle of public finance.

According to popularly flaunted definition, equity implies equal treatment of equals and unequal treatment of unequal as long as the differences in treatment is deemed fair. This definition is grossly inadequate for policy makers. For even when we can determine who are equal in a particular conte,t the question still remains as to what constitute equal treatment. Thus operationalizing equity posses more serious problem than defining it.

Much of the widespread acceptance of the equity principle seem to have derived from what a social philosopher John Rawls sees as a form of social contract which embodies a set of rules (often unspoken and unwritten) covering the fundamental principles upon which social relations are built and sustained. The contract is essentially an embodiment of these principles and the procedure of the contract theories, is a general analytic method for the comparative study of a conception of social justice or equity.

Efficiency

Efficiency in the application of available resources in goal which decision-makers in all sectors agree should be pursued. There is however a qualitative difference between the type of efficiency objectives routinely pursued by the business sector and those that the public sector in constrained to pursue. The former pursues goals of macro-efficiency while the later is concerned with micro-efficiency. This difference in perception derives, of course from the difference in the overall goals of policy between the two sectors.

Macro-efficiency or Pareto efficiency, named after Vilfred Pareto the Italian political economist who first proposed the concept of a macro-economic efficiency as a universal criterion for determining efficiency allocation combination in the application and use of society's stock of resources. According to thesis, a given economic arrangement can be said to be efficient when change in the pattern of resources allocation increases or improves with one person's (or community's) welfare without any adverse effects on other's welfare. Or when it is impossible through changes in the pattern of resource allocation to make one person better off without making someone worse off. An inefficient allocation occurs when society's resources are not being used to maximize collective welfare. This principle is noticeably silent on the distributional aspects of efficiency. This in effect represents the major shortcomings of Pareto's principle.

Hugh Dalton (1961) held the view that the principle of maxim social advantage lies at the heart of public finance. This was clearly expressed in his contention that the best system of public finance is "that which secures maximum social advantage from the operations which it conducts." This principal condition which must be met to satisfy the principle include a general improvement in production (allocation) and improvement in the distribution of what is produced. Dalton did conceded to the fact that "the practical application (of this concept) is often difficult. Nevertheless he insisted that the difficulty in operationalizing the concept is inherent in the subject (of public finance) and can therefore not legitimately be avoided by substituting a wrong principle for a right one in order to arrive more easily at practical conclusion."

The Dalton `Principle' have had a remarkable influence on the search for an appropriate `modus operandi' for organizing the finance of government in serving the goal of "the greatest happiness for the greatest number." The "principle of maximum social gain" of Robert Haveman full in this category. Haverman states that "the public sector, in undertaking any activity should choose that alternative for which the gains to society exceed the cost by the greatest amount and should refrain form any activity if its benefit do not exceed the costs."

The Haveman principle calls for two considerations. Firstly, for any public policy to be efficient it must pass the test that requires that the proposed public undertaking demonstrate prospective benefits which exceed anticipated costs before approval. Secondly, the decision maker must undertake a complete search of alternatives of accomplishing a given objective and choose that alternative which maximizes the excess of social gain over social cost. To do this, Haveman contends that allocative (or expenditure) decisions by public sector should be "pushed in each area and in total until the marginal social value of the next dollar of expenditure equals the marginal social costs."

Effectiveness

Public Policies should not only be viewed from the perspectives of equity and efficiency but also from the point of view of effectiveness.

When expenditures are involved, the policy maker should be able to determine the cost-effectiveness of such expenditure outlay. In the same vein, when government applies any or a combination, of the numerious policy instruments available to it, concern should also be placed on the level or degree of effectiveness of that instrument in attaining policy goals and targets. The question of effectiveness of government spending and policy infact becomes crucial when we consider the fact that financial resources are, at any point in time, limited (often severely), but the tasks which government must perform are numerious. In recent time, considerable attention is being focused on how to make government expenditure programme not only functional but effective in addressing these crucial tasks.

Although the notion of effectiveness has all along been an inherent or implied element in the appraisal of public policies to see it within the context of efficiency: merely as one form in which organizational efficiency is manifested. The difficulty in appraising certain forms of government expenditure programmes has however imposed the need to search for a more appropriate criteria.

Public expenditure in ares like health, education and social welfare (i.e. housing) for instance,cannot effectiveness be appraised from the point of view of the efficiency yardstick. Thus the reliance on the effectiveness criteria to measure performance in government. Although both (criteria) are used as yardsticks in measuring organizational performance in resource mobilization and allocation as well as in the provision of basic welfare services, the effectiveness criteria differs from the efficiency criteria. According to Ekonge E.E. (1980), "while efficiency could be calculated to a considerable extent in an organization in terms of output, input and cost factors, effectiveness can only be inferred when all things bearing on organizational goals are taken into consideration..."

2.4 BRIEF HISTORY, POLICIES AND OBJECTIVES

The quest for a new capital city for the Federal Republic of Nigeria became worthy of official consideration by the then 11-day-old government of General Murtala Ramat Muhammad who, like many other Nigerian, observed that Lagos was beset by intractable problems unbefitting a capital city. Among these problems are poor topography, continuous loss of man hours and mental distress caused by congested traffic, housing, environmental pollution, pressure of being a state and federal capital of the same time and, of course, being the nation's number one entry point for international trade. All stretched Lagos which was negligibly responding to the enormous Petro-Naira spent to reinvigorate it, to near breaking point.

To examine and advise on this national predicament, the Federal Government on August 9, 1975, constituted a seven-man committee under the headship of Dr. Timothy Akinola Aguda. The committee has the following terms of reference.

- to examine the dual role of Lagos as the Federal and State Capital, and advise on the desirability or otherwise of Lagos retaining that role;

- in the event of the committee finding that Lagos is unsuitable for such a role, to recommend which of the two Governments (Federal or State) should move to a new capital;

- in the event of the committee finding that the Federal Capital should more out of Lagos, to recommend suitable alternative locations having regard to the need for easy accessibility to and from every part of the Federation;

- to examine all other relevant factors which will assist the Federal Military Government in arriving at the right decision and;

- to submit its recommendations to the Federal Military Government not later than 31st of December, 1975.

Eleven days before the expiration of the deadline, the committee was ready with its report. It was the view of the committee that the problems of Lagos would continue to defy solutions, it retained its multiple status of a State and Federal Administrative, commercial and industrial capital. The committee anchored its selection criteria on thirteen factors. These are as follows in order of priority: centrality 22%; health and climate 12%; land availability, and use 10%; water supply 10%; multi-access possibilities 7%; security 6%; existence of local building materials 6%; low population density 6%; drainage 5%; soil 5%; physical planning convenience 4% and ethnic accord 3%. Out of over thirty three sites considered, a territory carved out of Niger, old Kwara and old Plateau states was designated the new Federal Capital Territory (FCT).

A broadcast to the nation on February 3, 1976 announced the acceptance of the recommendation by the Supreme Military Council (SMC), the then highest ruling body. On February 5, 1976 the Federal Capital Territory Decree No.6 of 1976 was promulgated giving the new Federal Capital Territory legal backing. The decree also established a Federal Capital Development Authority (FCDA) with the responsibility to plan, design and develop the territory. The policy and objectives of the authority (FCDA) are as contained in the functions of the authority ins charged with by the decree

a) the choice of site for the location of the capital city within the capital territory.

b) the preparation of a master-plan for the capital city and land use with respect to town and country planning within the rest of the capital territory.

c) the provision of municipal services in accordance with the master plan referred to above;

e) the coordination of the activities of all ministries, departments and agencies of the government of the Federation within the Federal Capital Territory.

2.4.2 Budgetary Organization and Decision Making Process

The focus here is on the authorities of three departments of the authority, i.e. Departments of Public Building; Planning Research and Statistics; and Finance and Economic Development on identification of construction programme by the government the Department of Public Building through its vast knowledge of construction ascertain the target cost. Thereafter, the target is communicated to Department of Planning Research and Statistics who in conjunction the Department of Finance and Economic Development determine vote to be charged here there is provision in the budget and where three is none is included for budgeting.

2.4.3 Budget Implementation and Expenditure Control

The coordination that prevails during budgetary is extended to implementation of construction programmes. The Department of Public Building undertakes the preparation and gathering of all contract documents, i.e. detailed drawings, specifications and bill of quantities and issues them to tender on request from the Department of Planning Research and Statistics. The Department of Planning, Research and Statistics undertakes the placement of contract base on tender analysis report of the Department of Public Building.

The expenditure control that precede award of contract is carried out largely by the Department of Public Building with actual payments to contractors being effected by the Department of Finance and Economic Development. All data on the execution of building construction contract are collected and processed by the Department of Public Buildings. Information derived from the processed data in thus sent to Finance and Economic Development Department as basis for making payments to contractors. However, information sent for use in making payment is only a fraction of information generated from the project contract implementation. Since some of the projects span beyond a single contract period, monitoring and evaluation becomes critical in insuring continuity. It is to this effect that neglected data as contain in minutes of sole meetings and progress report should be processed into information necessary for management decision making and effective expenditure control by all agencies concerned.

2.5 REVIEW OF CONSTRUCTION FINANCE MANAGEMENT

The construction industry supplies services to three distinct types of client. First, firms in both the public and private sector who need building space as part of their production process. In this case production covers both manufacturing and services and other non-manufacturing processes. Second, investor who demand building space as part of their investment portfolio and consequently do not wish to use the space for the production of any particular good or service other than that of supplying building space itself. Third, individual and families who demand housing as, largely, but not entirely, a consumer good. In general, buildings are investment goods. Housing may be regarded as both a consumer and an investment good. Thus, the demand for building space comes form a diverse set of motivations ranging from the first order primary need for shelter, to higher needs for the production of other goods and services. (Raftery J 1991).

In demand for most buildings is derived demand! that is it depends on the demand for goods and services which can be produced from the building or for the utility offered by the building. Thus, the construction industry exists at the interface between, on the one hand, the supply of existing buildings, each with its own physical and locational characteristics, and on the other hand, the general conditions of demand prevailing in the economy. This distinction is important as construction work is influenced not only by conventional direct demand for production and consumption, but also by demand originating from market making activity in the property industry.

In the words of Hillebrandt (1984) `The construction industry has characteristics that separately are shared by other industries but in combination appear in construction alone. Suffice it to say here that in many developed and developing countries construction output (the nearest proxy for `demand') fluctuates more widely than GDP as a whole (World Bank 1984). At the same time it should be noted that output of the various building sectors fluctuates more widely than construction output as a whole. The pattern is not universal though.

2.6 DEVELOPER'S BUDGET

Money, Time and Investment

If asked, `would you rather be given₦ 10,000 now, or in five years time?' you would almost say `Now' particularly if inflation was rampant, but even if you were living in a time of zero inflation you would still be right to prefer to have the money right away. After all, you might be dead in five years time, or there might be a revolution or world war before you had the opportunity to collect. Alternatively, the person who was going to pay you might have died, or disappeared, or gone bankrupt, or forgotten their promise. Even if you are not going to need the money for five years and were not worried about risks you would still do better to have it now and place in a savings bank where it could accumulate interest.

Ferry, O.J. and Brandon P.S (1991) observed "that a sum of money in the future will always be worth less that the same amount of money today, and the difference will depend upon the length of time involved and the probable interest rate." In doing the calculation one might assume and interest rate that would reflect likely inflation and any special risk, rather than a rate which might actually be obtained at the time.

Just as a future lump sum is worth less than its equivalent today so are future recurrent expenses or receipts (Ferry & Brandon, 1991). If a sum of money is to be put aside to pay somebody ₦ 1,000 for a year for ten years the amount required would be much less than ₦ 10,000.00 because the unexpended balance of the sum would be earning interest each year and in the early years in particular this would be quite a lot of money.

It may be asked, "Do financing charges apply to all development, or only where profit is involved? "Basically they apply to all development, because the money is either being borrowed (and attracting interest charges), or else it is the developer's own money, which being spent on the development is not available for investing elsewhere (and is not accumulating interest).

Strangely enough, although most cost planners are aware of this factor, some clients' accounting systems do not recognize it and so in practice one is not always able to demonstrate any benefit from optimizing payment in relation to time. However, private developers in particular are certainly, aware of the importance of the timing of income and expenditure, and building contractors have always recognized its significance even if they have not always been able to formalize methods of dealing with it. (Ferry & Brandon 1991).

2.5.2 Development Budget

A feature of all cost planning and control procedures is the setting of a budget, and the subsequent budgetary control which is exercised to make sure that the client's financial resources are not overspent. At the root of any budget for a specific design are not overspent. At the root of any budget for a specific design is the allowance made by the developer for the building in the overall costs of the project, which always include such items as the cost land, legal fees, external works, loan charges, interest expended during development, and advertising cost as well as the cost of the building itself.

In commercial development there is a very close relationship between how much the project will produce in revenue and its commercial value, the latter being largely the capitalized value of the former, and total cost of the scheme must not exceed this commercial value. In social development this relationship may be expressed in the cost-benefit terms, by quantifying what are considered to be social benefits, but the issue is never so clear-cut and other criteria may be more important in assessing the amount that can be spent on the scheme.

Cost of Financing the Project

This is the tangible component of total building cost all the things like buying land, paying professional fees, etc, involve paying money to somebody else in exchange for properly or services.

As soon as this tangible expenditure starts, however, the developer will belaying out his money, and there will be nothing to show for it in terms of income (or use) until the building is ready for occupation or can be disposed of. Hence the cost of lending this money to the development for a period of possibly several years becomes part of the cost of the development itself. When interest rates are high, as in the case in Nigeria this financing cost can be considerable, so the project should be planned to avoid unnecessarily early expenditure on any part of it.

2.5.3 Interim Valuation

Interim valuations are a feature of all major forms of contract and the valuations mechanism represents the only source of income to the contractor for that particular project. The importance of chore of producing interim valuation in construction, thus, is clear. Differences exist with different forms of contract as to which of the parties is responsible for preparation of the interim valuations. These interim payments are of such critical importance to a contractor's cash flow that no major contractor would be content to leave an interim valuation to the client's representative even when the undertaking interim of valuations usually at regular intervals of time or progress achieved.

The importance of these valuations are that they control contractors cash flow; and provide financial information.

Obligations

The obligation of the parties to the contract and of the employer's consultants are as follows:

The Employer: As soon as an architect's certificate is issued the employer incurs a debt which must be paid to the contractor within 14 days of the data on which the contractor presents the certificate for payment. If the employer fails to honour an architect's certificate, the contractor is empowered, under clause 26 of FCT, to determine the contract and can start proceeding in the normal way for recovery of the debt except where employer has giving notice of arbitration if he disagrees with the architects certificate.

The Architect: The architect must issue interim certificates at the period stated in the appendix to the conditions of contract and when further amounts become due after he has issued the certificate of practical completion. The conditions states that to arrive at the amount due in interim certificates, the architect may, if he considers them necessary, request the quantity surveyor to prepare interim valuations. This is normal procedure, except where previous stage payments have been agreed. If a quantity surveyor does not for any reason produce an interim certificate, the architect must still under the terms of the contract issue certificate.

The Quantity Surveyor: Interim valuation for the purpose of ascertaining the amount to be stated due in an interim certificate are to be prepared whenever the architect considers these valuations to be necessary. Though never specifically stated, it is customary for the quantity surveyor to prepare the interim valuations.

The Contractor The contractor is under no obligation under the contract to assist in any way in the preparation of interim valuations or certificates. It is the architects responsibility to assess the amount due and to issue interim certificate and it is the employees responsibility to make payment to the contractor within fourteen-day period. In practice however it is customary for the contractor to cooperate with the quantity surveyor in the preparation of certificate valuation and this is clearly sensible and satisfactory procedure.

2.5.4 Cash Flow

Construction industry usually experiences a proportionately greater number of bankruptcies than do other industries. One of the final causes of bankruptcy is inadequate cash resources and failure to convince creditors and possible lenders of money that this inadequacy is only temporary. The need to forecast cash requirements is important in order to make provision for these difficult times before they arrive. In a high interest economy, as in the case in Nigeria, the need for cash flow forecasting is even more important. Sandiland (1975), in his Inflation Accounting Report to British Government, highlighted the need to forecast cash flow in times of inflation and thus avoid an embarrassing cash deficit why replacing old equipment at new inflated costs.

Project planning needs to take into account not just the total lump sum involved but the timing of various payments and receipts. This is the concept of cash flow. Cash flow is the transfer of money into or out of the company;' there is a positive flow when money is received into an organization and a negative flow when money is paid out. This is quite different from profit flow. The timing of cash flow is important. There will be a time lag between the entitlement to receive a cash payment and actually receiving it. There will be a time lag between committed to making payment and actually paying it. This time lag are the credit arrangements that contractors have with their creditors and debtors. it is this credit arrangements, stock levels and depreciation that make cash and profit different. An example highlighting this difference due to credit arrangements as follows.

A company buys goods at₦ 60 and sells for₦ 80 each, there is a need therefore for separate cash flow forecasting

CREDIT ARRANGEMENT	PROFIT	CASH FLOW	
		OUT	IN
Buy 10 for cash Sell 10 for cash	20		20
Buy 10 for credit Sell 10 for cash	20		80
Buy 10 for cash Sell 10 for cash	20	60	

The credit arrangement cause very different cash flows. There is a need therefore for separate cash flow forecasting.

Cash flow is a relevant concept because it enables us to look at the financing of a project in a different light. We shall first look at its uses in connection with the financing of a project by a building contractor because it is here that its influence is most dramatic, although it is equally applicable to the client's finances.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 METHOD OF DATA COLLECTION

In essence, the survey research method adopted is by an extensive use of questionnaires for collection of data. Being a research on management approach to public expenditure control, responses to the questionnaires alone were not all encompassing and as such face to face interviews using structure questionnaires were also administered. Free flow of response was encouraged form respondents who are seasoned administrators and key players in the execution of government construction programmes. Responses from those administered with the questionnaires were found to be interesting and revealing.

The researchers experience as an architect with some ten years standing and in participation in execution of government construction programmes is also brought to bear.

3.2 CRITERIA FOR SAMPLE SELECTION

The Federal Capital Development Authority was established and charged among others with the responsibility `to construct and maintain such amenities as roads, railways sizlings, tramway, bridges, reservoirs, water courses, building, ... (Decree No.6 1976). The Department of Public Building as it is presently known has since the inception of the new Federal Capital Territory undertaken the building construction programme of the authority. The authority also has departments of Finance and Economic Development; and Planning Research and Statistics that together with the Department of public Building handle all aspects of the construction programmes from planning through budgeting to actual execution.

Consideration of the magnitude and scale of government buildings put in place in the Federal Capital Territory and the span of time involve (1977 to date) inform the selection of the authority for this research.

3.3 SOURCES OF DATA

Data for this research work was collected from both the primary and secondary sources. The use of unstructured appended questionnaires and personal interview were employed for the acquisition of the primary data. The secondary data, on the other hand, was obtained from official documents in restrictive manner, library materials published and unpublished, world bank reports, magazines, reports of committees among others.

The questionnaire was administered on a sample of top management staff at the head office and medium management staff at both the head office and sites.

A total of twenty four copies of the questionnaire is administered with four going to top management staff and the remainder twenty going to medium managers. Approximately eighty percent responses were received. The response from the top management staff was hundred per cent sample of the questionnaire administered is attached as appendix.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 INTRODUCTION

The Expenditure Control of Public Construction of the Federal Capital Development Authority contributes much to the national outlook of expenditure control in public construction. Some measures notably the ministerial committee on the causes of Excessive High Cost of Government Contracts in Nigeria (1981) and the adoption of World Bank and International Monetary Fund (IMF) institutional reform of Structural Adjustment Programme (SAP), have been used as instrument for managing public construction expenditure and public expenditure as a whole. However not much has been achieved in terms of efficiency and effectiveness in the face of significant upheaval of our national economy.

In chapter one, attempts have been made to highlight the trend and problems inherent in approach to Expenditure Control in Public Construction in view of experience in the buildings construction projects of the Federal Capital Development Authority.

Chapter three spelt out the method and processes of determining sources, collection and analysis of data for the research into the enumerated problems and of approach to management of expenditure control in public construction. This chapter seeks to present and analyze the data and therefore interpret the results of data analyzed. The chapter is structured viz 4.1 Introduction, 4.2 Development of Public Construction, 4.3 Estimated Total Cost (ETC) and Achievement of Planning Objectives, 4.4 Control Techniques and Achievements, 4.5 Project Management Practice 4.6 Manpower Training and Development.

4.2 DEVELOPMENT IN PUBLIC CONSTRUCTION

Post independence, the volume of construction activity in Nigeria rose very markedly and came to its peak in the middle seventies and continued unabated through the implementation of stages of the Third National Development Plan 1975 - 1980 until the introduction of Structural Adjustment Programme (SAP) in the mid eighties. The creation of states gave birth to greater demand for development projects and introduced an element of competition among state governments and the Federal Government on the other to develop quickly areas under their jurisdiction. Some of which were for long neglected by previous governments. For instance, whereas the total value of Federal Highway Contracts Awarded in 1973 was under₦ 100 million, the values in 1974, 1975, 1976, 1977 and 1978 were₦ 811.402,₦ 982,073,₦ 847,516,₦ 515.432 and₦ 113.743 million respectively. The underlying temp of economic activities was the phenomenal increase in government revenue consequent on increased oil prices and volume of production.

The creation of new Federal Capital Territory and Federal Capital city Abuja resulted in the explosion in volume of economic activity which took place in the face of inadequate infrastructural facilities, including roads, ports, communications, water supply, electricity, all yawning for development. Also in dire need were buildings to accommodate government functions and functionaries. Government wa sin a hurry to develop facilities that at first will facilitate the movement of seat of Federal Government. Therefore the rate of increase in construction activity far out stripped the rate of production of the skilled local manpower required to successfully accommodate the increased activity. Consequently and in most cases no feasibility studies to establish the aggregate social benefit of schemes marked for development were carried out. The options open to government for achieving a singular objective were not exhausted. Prior to decisions to award contracts. In some cases projects were abandoned because of inexperience or lack of sufficient funding and were later re-awarded at grater costs to the government.

4.3 ESTIMATED TOTAL COST AND ACHIEVEMENT OF PLANNING OBJECTIVES

All respondents, both management and line staff, listed estimate as a tool for determining cost of projects. half of the respondents went ahead to add that estimate excise is preceded by the establishment of current rates after market survey of prices of building materials and labour cost. Some of these half of the respondents added that allowances for change sin price over the anticipated period of execution of the project.

Building construction cost normally include money spent on consultancy and professional services e.g. of Architects, Quantity Surveyor, Structural Engineer, Estate Managers etc as well as cost of the actual execution of the project as designed. The later can be said to be made up of:

a) Direct cost include: (i) cost of materials (ii) cost of labour (iii) Cost of Purchase or hire, running and maintenance of plant and equipment (iv) cost of servicing bank loan (v) cost of moving equipment and men or labour to site (mobilization).

b) Indirect cost could be varied depending on many factors and some of its components include

   (i) uncertainty on method and technology of construction'

   ii) Uncertainty in site condition

   iii) Uncertainty in supply of materials, labour force, equipment and their spare parts.

   iv) Major change sin design during construction

   v) Changes in government economic policies.

In the execution of building construction programme of the authority, there are two distinct periods, pre-fender and contract periods. Pre-tender period is from inception (conception of project) through scheme design to preparations of final drawings, estimate and tender document. Cost planning is one of the technique employed right form inception stage of design production sequence to scheme design stage. Subsequently cost control techniques comes in to replace cost planning as the design sequence enter detail design stage till final account.

Cost planning technique is a system of relating the design of buildings to their cost so that while taking a full account of quality, utility and appearance. The cost is planned to be within the economic limit of the expenditure. To enable cost planning to be undertaken, cost analysis of the scheme i.e. a splitting up of the approximate estimate into subdivisions either of trades and trade sections or of the constructional elements of the building or a combination of these and some other classifications. These subdivisions are then available for comparison with other records. The format adopted is where scheme is divided or sub-divided according to constructional elements with separate bills under such headings as foundation, floor, wall, roof, window etc referred to as `elemental bill' The objective of this cost planning and subsequent cost control is not only to determine probable cost of project but also to align it with target cost and throughout the project, control the design development by closely relating the cost to the design by means of elemental cost planning.

4.4 CONTROL TECHNIQUES AND ACHIEVEMENT

The mode of control in public building construction employed by the Federal Capital Development Authority (FCDA) is standard employed in all construction works except for emphasis. The employment of control techniques usually proceeds the placement of contract and at the point of beginning of preparation of detail drawings and specifications. The initial target cost remained the guide throughout these processes. The bill of quantities, thus, is produced based on the detail drawings and specifications; the summary of which is inclusive of the Total Estimate Cost (ETC) of executing the project. The bill of quantities, through being a final stage of cost plan is in itself arrived at though the process of cost control. The bill together with detail drawings, and specification constitute the contract, as such further cost control exercise are referenced to it.

Two-third of respondents cited progress report while another third cited valuation of actual work done as control techniques employed by the authority valuation of actual work undertaken is carried out when there request for payment to contractor. This is usually prepared to form usable information that is processed to point where payment is made for works to contractors. Progress report on the other is produced in some cases weekly and in other fortnightly. It comprises of data that shows stages of work and progression. Unlike the valuation of work done, progress reports are produced without influence exerted from any quarters. This situation is made possible because it is just an activity of supervisory staff on site to keep record. progress report however rarely goes beyond the mere data that it is. That is to say it is never processed into information that management may act upon despite the overwhelming potential of providing the necessary feedback.

Analysis of selected eight projects whose contract sums are in hundreds of million shows on twenty-five per cent were completed within scheduled contract period. Fifty percent have had it contract terminated or suspended only to resume completion at higher than initial contract sum. All but two have had their contract sum reviewed upward and the two whose contract sums were not reviewed have had their scopes of works reviewed downward. The analysis also discovered that for the fifty percent that the contracts were suspended or determined, the authority was not really aware of progress of work prior to termination of contract. Thus, the authority was in the final analysis compelled to make payments to the contractors after final account.

The study of another group of projects where great emphasis was placed on early completion presents a remarkable experience. Constant visit by the supervising ministers gave him (Minister) first information of progress of work upon which all plans for the successful execution and renumeration to contractors were hinged.

4.5 PROJECT MANAGEMENT PRACTICE

Site management control and efficiency have always been a major factor affecting the level of accuracy of evaluation and reports. However, the much needed direction must be provided by the higher management of the head office. In the management of building construction projects, the department of public building, Federal Capital Development, adopts the use of sole supervisory team. The site supervisory team is charged with the sole responsibility of complete management of execution of construction works on behalf of the authority from inception of contract to completion. The team as a policy consist all discipline required for successful implementation and more often than not is technical equipped to undertake the supervision works with jurisdiction over all activities at the site.

Management tools employed by the site staff include among others, regular joint site meetings with both contractor's and the authority's representatives in attendance, regularly updated site progress reports and valuation of actual work done. While the valuation forms the basis for payments to contractors, minutes and of site meetings and progress if processed serve as feedback to authority at the head office.

4.6 MANPOWER TRAINING AND DEVELOPMENT

The ability of the reforms on public expenditure management to achieve the desired results rest with the policy makers, the planners and as well the executors of expenditure activities.

The sample group was asked to comment on the competence of the department to perform its functions including monitoring and evaluation. Responses received shows that the required technical skills in the practice of building construction is adequate. What is lacking is technical skills in terms of management information system necessary for monitoring and evaluation and government support. Where required equipments such as computer and accompanying software are provided, the manpower needed to make them work are limited. This must have informed the response by the same sample group that there is need for training of seventy-five per cent specifically mentioned training the field of management.

In response to another question on the type of training needs required the response includes the following suggestions;

i) on-the-job training by the more knowledgeable and experience personnel in the department

ii) seminars and workshops on contract procedures and project management;

iii) attendance of organized courses in institutions of higher leanings.

These results shows that a lot more is required on the part of human resource, which will only be obtainable through further training to strengthen supervisors knowledge in project management. Although the departments of planning research and statistics are created newly based on the 1987 Civil Service Reform, emphasis. For successful expenditure control in public building construction, monitoring and evaluation must be given its rightful prominence and personnel in charge must be knowledgeable and technical skilled to effectively and efficiently discharge of their responsibilities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 SUMMARY

This research intends to contribute toward the improvement of management of expenditure control in public building construction of the Federal Capital Development (FCDA).

In chapter two is the review of related literature. Attempt have been made to trace the role of finance in an organization identifying financial planning, financial control and coordination as tools for financial management. Review of literature on controlling expenditure as a potent tool for budget implementation was undertaken. Also reviewed is public finance identifying the concept of equity, efficiency and effectiveness as prevailing principles. Furthermore, this chapter also dealt with the management of public spending as it exist in the Federal Capital Development Authority. Finally was the review of literature on construction finance management tracing construction industry form its role as supplier of services through project finance to cash flow as sustenance of the industry.

The methodology adopted for the research work is the core of chapter three. The methods of data collection, criteria used in selection of sample size; and the source of data were stated in this chapter.

In the subsequent chapter, i.e. chapter four, the Federal Capital Development Authority has been studied and reported with the view of addressing the issues of management of expenditure control in public construction. The findings of the research work reveal proper and adequate planning of the authority's construction programmes. Budget provisions are made and target costs are set. All necessary procedures are employed to achieve the target cost spelling successes in the early stage of cost control. However research findings also reveals inadequacies in the management of post contract activities. Finding is that construction contract of nine and above digit contract sum are executed to completion at higher cost than planned. Those complete at planned cost have their scope of work reduced. Except for the few cases of high priority projects, this trend pervades. The findings that the estimated total cost, as a procedure, provides for probable change sin price during the projected period of execution of construction works thus put the cause of the failure on the management tool of control. The cause of this is found to be the neglect of data generated at the site that should otherwise have be processed into information required for managerial decision making.

5.2 CONCLUSION

The sharp decline in government revenue in the eighties and the attendant fiscal adjustment that follows makes effective management of public expenditure vital to the economy. Unfortunately, however, governments were still faced with the demand for development in all facet of national life and this is not less noticeable in the quest for development of infrastructural facilities such as road, dams, telecommunication, airports, accommodations etc. The need to undertake this task of development led to increase in size and complexity of the public sector, thus, exerting pressure on the use of comprehensive planning as a strategy for development planning. the crux of the matter, in the final analysis, is the ability of governments to cope with the competing stake on the limited fiscal resources available at its disposal.

In reacting to the situation, governments concentrated on selection of development programmes using the concept of equity, desirability and affordability as tool for expenditure control. this was effective only in the short term and is not synonymous with effective management of public expenditure through projects for implementation were streamlined, there was the need for efficient use of fund and effective expenditure control for projects selected for implementation. The near-absence, in some case outright absence, of monitoring and evaluation as tool for expenditure has remained responsible for projects being completed at cost higher than initial envisaged or in some instances abandoned.

Dissatisfied with the level of effectiveness in the management of public expenditure, governments have remained in search for an alternative paradigm.

5.3 RECOMMENDATIONS

The need for effective management of expenditure control in public construction programme is increasingly becoming necessary for development in Nigeria. In order to make this effective, management in expenditure control of the public building construction of the Federal Capital Development Authority, I wish to make recommendations to the Departments of Public Building; Planning, Research and Statistics and finance and Economic Development.

5.3.1 Planning and Control

Planning should be seen as a means of controlling and directing public expenditure, and the success of planning is dependent on effective management feedback of which the required information are obtained through monitoring and evaluation. This implies that all segments involve in the execution of building construction programmes of the authority should be involved in the planning as a measure for appropriate evaluation of achievements and effective control of planned programme.

5.3.2 The Department of Public Building

The department of Public Building should have authority regarding spending in public building construction programmes of the authority to ensure that budgetary expenditures are controlled and funds are utilized for their assigned usage. The monitoring and evaluation of building construction expenditures should be intensified by the department. Data obtained on construction projects should be processed into the information required for managerial decision making.

A system of periodic reviews of plans and programmes in the light changes experienced due to external exigencies and in line with stated objectives and available resources is required for effective control of planned programmes.

A comprehensive training programme for staff of the department is needed to meet the demand for effective expenditure control. The knowledge and skill in project management and information technology will prove for gathering of accurate and adequate data and the interpretation of same for managerial decision making.

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QUESTIONNAIRE

A. PERSONAL DATA

1. ACADEMIC QUALIFICATION ....
2. YEARS IN SERVICE ....
3. DISCIPLINE (AREA OF SPECIALIZATION) ....

B. QUESTIONS

1. Brief describe the process of costing of construction project employed in the Department.

   ....

   ....

2. How will you score the delivery of construction projects of the Department?

   ....

   ....

3. How will you rate the Department's ability (technically) to undertake its construction projects?

   ....

   ....

4. What instruments are employed for evaluation and control of construction projects?

....

....

5. How will you rate the evaluation and control techniques employed and why?

....

....

6. Briefly describe and assess the Department's Management of construction projects?

....

....

7. What solution(s) will you proffer if there are problems?

....

....

8. State if training is required and the nature.

....

....