

FACTORS AFFECTING BUDGET UTILIZATION KERICHO COUNTY GOVERNMENT IN KENYA

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Abstract

The annual amount of funds not utilized by Kenyan Government Counties returned to treasury has been a cause of concern to all stakeholders in the public management field. This study sought to investigate factors that affect budget utilization in County Governments by selecting on the case for Kericho County in Kenya. The respondents consisted of 33 accounts, finance and County Executives in the County. A descriptive research design was adopted where questionnaire were employed to collect primary data. The findings indicated that there existed a positive and statistically significant relationship between tax compliance and budget utilization ($r=0.358$; $p<0.05$), a weak negative correlation was observed between VAT policy and budget utilization ($r=-0.492$; $p<0.01$). Government policy and inflation were also found to affect budget utilization negatively at ($r=-0.560$; $p<0.05$) and ($r=-0.552$; $p<0.01$) respectively. These findings led to a conclusion that the complexity of the tax systems in Kericho County Government affected budget utilization thus likely to retard economic development. The study recommends that tax compliance should be tightened and observed at all level in county governments while inflation should be addressed by the government in order to safeguard unplanned budgeting at the county level.

Keywords: Budget, Utilization, County Government, Kenya, Public administration

INTRODUCTION

A budget is defined as an itemized summary of estimated expenditure for a given period along with proposals for financing them (Mitchell, 2005). In the public service in Kenya, The main county source of finances include transfers from nationally collected revenues, borrowing which is subject to condition like borrowing only to finance the development while short term borrowing that must not exceed 5% of the latest audited revenues receipts and its use restricted to management of cash flows. County own revenues from source such as local sources from County taxes and fees on service rendered. The monies raised are then applied in main county government expenditure sectors such as: agriculture and rural development, trade and tourism industry, environment, water and sanitation, early childhood education and development, and any other devolved county functions. The main expenditure areas mentioned arise from the general classifications expenditure areas in the medium term expenditure framework (MTEF) according to what the ministries do.

MTEFs are tools for translating policies and plans into public expenditure programs within a coherent medium term macroeconomic and fiscal framework, a credible budget system requires an effective mechanism to decide on and fund priorities i.e. having to use the budget as a tool to deliver the national agenda. This is what MTEF budgeting seeks to address and is mainly achieved through a consultative process that involves all stakeholders in decision making at all stages of budgeting. This ensures that there is ownership of the proposed funds utilization and greater participation by the sector players in the budget implementation. Stakeholder consultation further involves putting in place a clear mechanism for political engagement in the budget process especially parliament and (World Bank Report, 2008) and now the new system of government county assembly.

MTEF budgeting is based on expenditure estimates over three consecutive years which ensures that there is predictable and consistent national policy and budget framework, within which line ministries are assured of the budgetary resources which will be made available to them over a three-year period and fully informed of the policy goals to be achieved with those resource. This in turn informs the planning process of the line Ministries, Department and Agencies that strengthens continuity between overlapping years (the budget year and the two forward year) by ensuring that ongoing project/activities are considered while projecting expenditures for the overlapping years (sach,2008). The sectorial approach to budgeting ensures that focus shifts from line item or a single ministry level to comprehensive analysis of policy priorities. This helps in effectively prioritizing expenditure on the basis of the government's socio-economic program by enhancing inter intra-sectorial allocation of resources.

MTEF budgeting therefore seeks to strengthen the link between Governments policy priorities and public expenditure resulting in efficient use of public funds and accountability.

In Kenyan public sector, the budget implementation period or the financial years run from 1st July to 31st June. During this period a laid down medium term expenditure framework budget cycle is followed in the preparation and implementation of national budget. The Ministries undertake the Ministerial Expenditure Review to analyze the ministerial past expenditure against the ministry's priorities as outlined in the Kenya's Vision 2030 or corresponding medium term plan. The analysis of the review sets the bench marks for the subsequent budget year and the other two forward years' activities and the resources required to successfully undertaking the planned activities.

The end results of this process highlights the lessons learnt, good practice, challenges and how to mitigate them in the implementations of the annual budget. The review keeps all the line ministries expenditures and activities in check as they must be aligned to a guiding policy document and the budget thereby ascertaining the integrity of performance.

The sector working groups (SWG) prepare and submit initial sector reports to the treasury for consideration. These sector reports are prepared from inputs that arise from line ministries MPERs and input submissions from districts (old system) or Counties (new systems) to the relevant Ministry headquarters.

Treasury then convenes sector hearings for the harmonization of sector expenditure projections and advice on the way forward for the preparation of final reports on the MTEF estimates. The line ministries then finalize on the ministerial itemized and program based budgets in line with the guidelines arising from the SWG and directives of the macro working group.

This program based budget is prepared based on the guidelines as set by respective circular from the treasury and other guiding policy documents i.e the Kenya vision 2030 or the medium term plan. Programmers highlighted in these documents are prioritized in the funding and clear timelines given to accomplish the program. The budget is then reviewed by the treasury and the respective line ministry. The treasury then submits the estimates to the cabinet for approval publish the approved estimates and submit the budget to the parliament for presentation. Upon presentation departments can then start appropriating the funds as per the budget.

Budget implementation is the actual execution of the budget and application of funds to the planned activities. During the financial year, however, not all funds are expended as per the proposed plan. These could be cases where the approved funds may not be enough to fully

accomplish the intended goal. In other instances, the amount allocated to a project may be more than what the project can consume.

The disparities between the budgeted funds and actual expenditure arise due to multiplicity of factors and improper costing of County functions. The budget cycle needs to be tracked and at every stage the factors that could be affecting the utilization of the budget analyzed.

Statement of the problem

The budgetary process in Kenya has evolved over the last 45 years on an incremental basis with no radical transformations. However, the Country has consistently attempted to reform its systems in line with changes and requirements for good public finance management. All this leading to adoption of MTEF budgeting. The Kenyan Government has also been facing the challenges of providing increased services to the citizens while embracing stakeholder participation, organizational accountability and effectiveness as per the new constitutional and public finance acts requirement. Budgeting has succeeded in many countries including New Zealand, Australia, Singapore, Netherlands, Norway, Sweden, USA, Canada, Mauritius, Rwanda and South Africa but also failed in others like Sri Lanka and Thailand (Sach, 2008). In Canada for example, even where there is strong leadership and clear accountability, full implementation resulting in a real change in management culture requires seven to ten years (GOK, 2006). Kenya's budgeting was first introduced in 2006 with the first indicative budgeting being published in December 2008 for the 2008/2009 budget. The 2009/10 budget was presented in line item as is tradition and to date no budgeting has been published. However, the budgeting process in the Government Ministries has not been without challenges. In the year 2011/2012 budget, over KShs.100 Billion was returned back to the Treasury having not been utilized. Such amount of funds returned affects project implementation process as well as realization of goals. Further, the Government has the intention of implementing budgeting fully in the 2013/2014 budget, (GOK, 2014). Counties returned to treasury a lot of unspent fund may be due to poor timeliness or allocation. It is with this in mind that the researcher seeks to analyze The factors that are likely to affect the utilization of budgeting by county government in Kenya due to the fact that the budgeting in County is at its infancy stage because it is new concept.

Objective of the study

- i. To assess how tax compliance affects budget utilization in County Department in Kericho County.

- ii. To determine how VAT policy affects budget utilization in the County Department in Kericho County
- iii. To investigate how Government policy affects budget utilization in the County Department in Kericho County.
- iv. To assess how inflation affects budget utilization in the County Department in Kericho County

Justification of study

It was anticipated that the study was to inform those charged with budgeting in the County Government Department of finance in the factors affecting budget utilization in Kenya. Scholar, authors and other researchers in the field will find its study as a reliable point of reference. In practice, finding and the suggested recommendation will enable the relevant stakeholders in County Government to formulate strategies which if and when implemented will enable them to mitigate budgeting challenges that could otherwise comprise the operation in the counties.

LITERATURE REVIEW

Theoretical review

Institutional theory

Institutional theory has its origin from the work of theorists thousands of years ago. Economist and Social theorist Max Weber focused on the ways bureaucracy and institutions were coming to dominate our society with his notion of the iron cage that rampant institutionalization created. However, the integrated perspective came from the work of Scott (1995), where he stated that “the institution provides stability and meaning to a firm’s social behavior.” Institutional theory focuses on the deeper and more resilient determinants of economic actors’ behavior. It considers the processes by which structures, including schemes; rules, norms and routines, become established as authoritative guidelines for social behavior and extend to explain economic interaction between several economic analyses. Different components of institutional theory explain how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. In budgeting it provides a symbolic value of accounting ,resource negotiating and bargaining, concealing and mobilizing power, environmental change, organizational change (covalleski et al, 2003).

Agency theory

The Principal-Agent (Agency) theory also supports development of budgeting. The classic agency theory concept was developed by Berle and Means in 1932. The theory explains why

conflicts exist between principals (shareholders/owners) and their agents (managers) leading to agency costs. It aims at reducing information asymmetry so that both the principal and agent read from the same script through the threat of sanctions and the possibility of incentives. Agency theory is developed around the concept of contractual relationships between two groups with conflicting objectives, i.e. principles and agents. The objective in agency theory is to structure the contractual relationship between these groups so that agents take actions to maximize the welfare of principals. This is based on standard principal-agent models involving supervision (Kofman & Lawaree, 1993 & 1996; Khalil & lawaree, 2006). The Ministry Of Finance (MOF) has control of line ministries and is supposed to represent the public interest. County departments can be seen as agents of the MOF (he principal) because they are required to produce a certain level of public output including the quality of this output-in exchange for their budget appropriation. An emerging (the past 3-5 years) representative of the public interests in the budget making process has been embodied through civic groups' and the legislature's involvement in the budget making process in most developing countries (Krafchik ,2003). This trend has been associated with three important international developments i.e. democratization, devolution and public expenditure management reforms. The pair "expenditure program-budget appropriation 'can be interpreted as the two components of the contract between the MOF and the line ministries. The objective of MOF is to induce the line ministries into implementing their expenditure programs, while the line ministries pursue their on objectives. That relationship entails both hidden actions (e.g. the productive "effort "of the civil servants, possible perquisite consumption, or corruption) and hidden information (e.g. the exogenous productivity of that particular sector of the economy), with the agents having the informational advantage over the principal. It is important at this point to point out that currently, the information asymmetry between the principals and agents in counties are being addressed by increased recognition of the role of county assemblies and civic budget groups in the budget formulation process e.g. the formally recognized annual civic society meeting convened by the Institute for Economic Affairs to influence the set of the underlying budget policy choices-agent model is to specify an observable that will be main element of contract (Dirk-Jan Kraan, 2007).

Stewardship Theory

Stewardship theory has its roots in psychology and sociology and was designed for researchers to examine situations in which executive as stewards are motivated to act in the best interest of their principals (Donaldson & Davis, 1989 and 1991). It is a very new concept that only dates from the 80s. Stewardship and public service begins with a critique of market based reforms that have profoundly reshaped the public service world-wide during the past two decades. While

it is maintained that these reforms were necessary and have resulted in many positive outcomes, the central argument is that the market theory upon which they are built is not robust enough to embrace the full range of public sector activities such as governance and guarding public interest. Stewardship is presented as an alternative model that bridges market approaches, primarily applicable to transactional services, and broader public sector responsibilities. Stewardship is a very old idea that is being rediscovered in many quarters. Stewardship is not a technique or strategy that can be immediately applied, nor is it a remedy for all ailments, Rather it is a way of doing things that provides a compass rather than prescribes a route. Like the market approach, stewardship can address efficiency issues. However, it goes beyond self-interest, and more importantly, provides the conditions for governance stability over a long period; something that the market model does not do .In other words, stewards provides a synthesis for the conflict between market efficiency and the cumbersome and costly task of maintaining the stability essential to public interest systems of governance (Armstrong & Associates (1997).

Empirical Review

In this part, empirical studies that have hitherto been conducted in respect of budget utilization in Government are reviewed. The review adopts a funnel approach where global, regional, and local studies are reviewed.

Balanced score card

The balanced Scored card (BSC) is a performance management tool for measuring whether the smaller-scale operational activities of an organization are aligned with its larger-scale objectives in terms of vision and strategy. It was publicized by Robert S.Kaplan and David P.Norton in 1992 through a series of journal articles and finally published in a book in 1996.It integrates financial and non-financial measures of performance and identifies key performance measures that link measurement to strategy, (Drury, 2008).It is a recent contribution to strategic management that seeks to encourage behavior that is consistent with the organizations strategy. It comprises of an integrated framework of performance measurements that in to clarify communication and manage strategy implementation. By focusing not only on financial outcomes but also on the operational, marketing and development inputs to these, the balanced Score card helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long-term interest. This tool is also being used to address response to climate change and greenhouse gas emissions. The underlying rationale is that the use of financial measures alone to inform the strategic control of the firm in unwise.

Organizations should instead also measure those areas where direct management intervention is possible.

Program Based Budgets

In a sense, certain elements of program based budgeting are as old as civilization. To a greater or lesser degree, every rational person makes plans for allocation of his limited resources, has certain goals or objectives, and considers alternative means of achieving these. The concepts and methods of program based budgeting as is currently understood and practiced today are, however, of relatively recent origin (Novick, 1968). These are two roots of these concepts and methods: the first in the federal government where program budgeting was introduced as part of the war time control system by the War Production Board in 1942. They used program budgeting to assist "allies –to-be" in their war efforts. To do this, variety of new or expanded production efforts and a number of new construction projects were undertaken. The second root, a longer and older one, is in industry where it was believed that the private sector industries had budgeting in place way before the government (Novick, 1968.)

Kraan (2007), in his article; program budgeting in OECD countries, sought to explore ways in which countries can reform their budget classification to focus more on results. He observed that in the last two decades number of OECD countries have reclassified their central government budget for the purpose authorization. These exercise were generally inspired by the desire to move toward a more results-oriented decision making process. Trade-offs between government activities can be better assessed and the budget can be better steered towards political objectives if the line-item classification is based on outputs: services produced, cash transfers delivered and regulations executed. This implies that the budget has to be classified according to output areas or programs. He concluded that programmatic line items are characterized by related objectives ("outcome 'targets) or even a single ultimate objectives of all outputs financed by the line item. A programmatic classification is considered to be more supportive of the a locative (priority-setting) function of the budget than a classification of the budget than a classification which is largely based on inputs .Australia ,France, The Netherlands, Sweden and the united kingdom offer good examples of re-classified budgets based on mainly programmatic criteria.

Boudreaux (2008), in her paper; the problem with programs: multiple perspectives on program structures in program-Based performance-Oriented Budgets observed that currently ,budgeting is being influenced by ideas surrounding performance-based budgeting ,a reform that focuses both on performance measures or outcomes and on managerial entrepreneurialism. She concluded that the theory behind performance-based budgeting has

become interlinked with program budgeting because of the intuitive idea that programs are level at which managers should be given flexibility to achieve results. Florida actually refers to its reform as “performance –based program budgeting”.

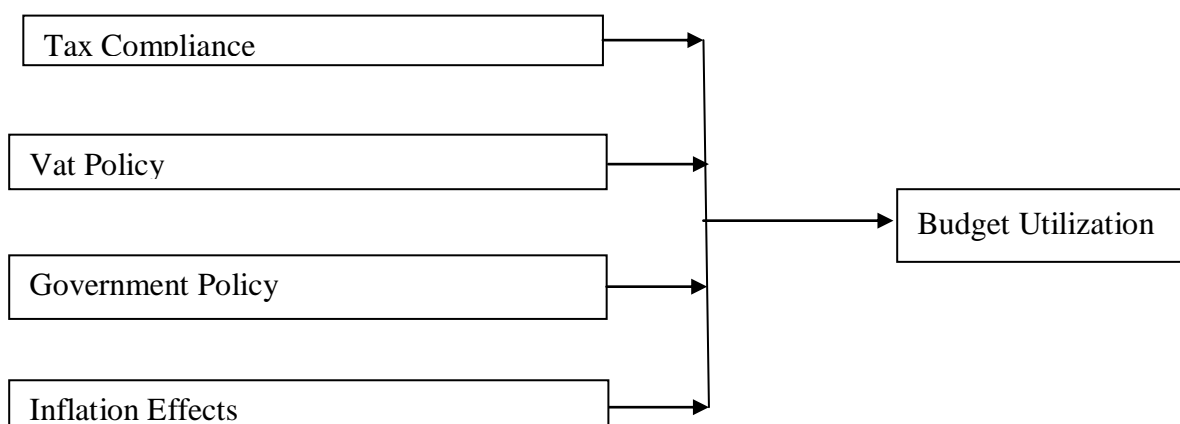
According to Blundell and Kim(2006), trade-offs between government activities can be better assessed and budget can be better steered towards political objectives if the-item classification is based on outputs; services produced, cash transfers delivered and regulations executed. This implies that the budget has to be classified according to output areas or programs. They conclude that a program based classification will improve the macroeconomic function of the budget, in particular the steering total of expenditures and the maintenance of budget discipline. More-budgetary steering requires that future problems diagnosed and addressed in a timely manner. Bellamy & Kluvers R.(1995), in their study on Australia local government started that many government are still experimenting on programmer budgets.

According to Andrew and Hill (2003), while most states in the United States are implementing budgeting reforms, few show any evidence of direct change resulting from such reforms-either in terms of the development of, or response to, new performance based incentives, or allocations that are linked to performance. Their explanation is that budgeting is implemented in addition to traditional approaches and argues that it should instead be implemented as a replacement of, not addition to, pre-existing budgetary regimes. They further observe that most states including California, Georgia, Illinois, Louisiana, Mississippi and Texas moved gradually using pilot programs and are still implementing their budgeting since they state that

Conceptual Framework

As outlined in figure 1, the independent variables include while dependent variable in budget utilization in the County Government. It is presumed that the foretasted independent variables affects budget utilization in the county government in Kenya.

Figure 1. Conceptual framework



RESEARCH METHODOLOGY

Research Design

The study adopted a descriptive research design. Descriptive design attempts to answer the “what?” question (Kothari, 2008). In the context of the current study, the research question was derived from the general objective as: what are the factors affecting budget utilization in Kenya? On the other hand, the study is survey since was conducted at a specific point in time, that is, between January and April, 2015.

Study population

The target population comprised of all 33 finance and management staff of County Department in Kericho County. The relatively small size of the target population negated the essence of sampling. Therefore a census was conducted where all members of the target population participated in the study.

Research Instrument

The study employed a questionnaire to collect data from the respondents. The questionnaire according to Mugenda and Mugenda (2009) is a suitable tool for collecting data in survey research. The questionnaire was structured in such a way that it captures respondents’ profile and data pertinent to study objectives. The research instrument was pilot tested prior to the main study. The pilot study involved 10 per cent of the target population. The reliability was tested using the Cronbach alpha whereby for the judgment for instrument to be deemed reliable the constructs must attain alpha equal to or greater than 0.7 ($\alpha \geq 0.7$)

Table 1: shows the results of the reliability test of all study constructs

Variable	Number of items in Test	Cronbach’s Alpha
Tax compliance	4	.762
VAT policy	4	.800
Government policy	3	.857
Inflation effects	2	.857

As illustrated above all the four variables returned alpha value that is greater than 0.7 ($\alpha > 0.7$). This therefore suggested that all the four constructs were reliable. Expert opinion of the University supervisors was sought as a way of determining the instrument employed to collect data for the main study.

Data Collection Procedure

Prior to data collection requisite permission and /or consents was sought from both the school of Human Resource Development of Jomo Kenyatta University of Agriculture and Technology (JKUAT) and the County Government of Kericho from where respondents was drawn. The questionnaire was administered to the respondents through the respective County Departments. The filled questionnaires were collected after approximately five working days.

Data processing and analysis

The collected data was first cleaned and edited as a measure of dealing with extreme outliers. This was followed by coding of the data with the aid of Statistical Package for Social Sciences (SPSS) software version 21. Both descriptive and inferential analyses were done on the various constructs.

EMPIRICAL FINDINGS AND DISCUSSIONS

Descriptive Findings

This section presents the respondents view regarding the various constructs under study. In other words, the study sought the respondents' opinions regarding how tax compliance, VAT policy, government policy and inflation affect budget utilization in Kericho County, Kenya.

Tax compliance

Table 2: Descriptive statistics for Tax compliance

	N	Min	Max	Mean	Std Dev
i) There is much complexity of the tax system in the County Government	30	1	5	3.70	1.29
ii) There is low Level of revenue information services/withholding and information reporting in the County Government	30	1	5	3.67	1.24
iii) There is a Prepared responsibilities and penalties for non-compliance of tax in County Government	30	1	5	3.47	1.38
iv) There is much progressive and actual levels tax rates in the County Government	30	1	5	3.60	1.35

From the data analyzed above, it was clear that there is much Complexity of the tax system in County Government(mean=3.70).In addition, respondents affirmed that low level of revenue information services/withholding and information reporting in the county government, and the

opinion that there is much progressive and actual levels of tax rates in the county government (mean=4.00). However some respondents were not sure whether there is a prepared responsibilities and penalties for non-compliance of tax in County Government(mean=3.00).

VAT policy

Table 3: Descriptive statistics for VAT policy

	N	Min	Max	Mean	Std Dev
i) VAT is not payable at a single rate nor it is fully comprehensive in the County Government.	30	1	5	3.60	1.33
ii) VAT policy is likely to affect economic stimulant in the County Government	30	1	5	3.63	1.30
iii) VAT is significant in raising County Government revenue	30	1	5	3.37	1.43
iv) Lack of the top management support hinders VAT policy.	30	1	5	3.70	1.29

With regard to how VAT policy has influenced budget utilization in county government of Kericho, it was found that lack of the top management support hinders VAT policy (mean=3.70). It was followed by the opinion that VAT policy is likely to affect economic stimulant in the County Government and that VAT is not payable at a single rate nor it is fully comprehensive in the County Government with a approximated mean of 4.00. However, some respondents were not sure with the opinion that VAT is significant in raising County Government revenue (mean=3.37).

Inflation

Table 4: Descriptive statistics for inflation

	N	Min	Max	Mean	Std Dev.
i) Inflation leads to the budget errors in the county Government.	30	1	5	3.67	1.24
ii) Inflation decreases the economic growth of the County government	30	1	5	3.57	1.36
iii) Unemployment is caused by higher inflation rates in the County government	30	1	5	3.73	1.26
iv) Increase in prices of VAT added goods affect the real value of money in the county government	30	1	5	3.67	1.24

The study revealed that majority of the respondents agreed that unemployment is caused by higher inflation rates in the County of Kericho (mean=3.73). The study also noted that Inflation leads to the budget errors in the county government (mean=3.67). Similarly, respondents agreed that increase in prices of VAT added goods affect the real value of money in the county government (mean=3.67) which in this case will lead to increased inflation. In general, inflation decreases the economic stride towards its growth (mean=3.57).

Government policy

Table 5: Descriptive Statistics for government policy

	N	Min	Max	Mean	Std Dev.
i) County government have a clearly defined measures of budget operationalisation in the county	30	1	5	3.37	1.43
ii) Business community are in agreement with county policy	30	1	5	3.70	1.29
iii) County policy has created entrepreneurship environment leading to high revenue collection	30	1	5	3.60	1.33
iv) There is a room for business expansion due to affordable licenses in the county	30	1	5	3.67	1.24

The study established that respondents held the opinion that Business community are in agreement with county policy (mean=3.70). These policies include adequate grace period in tax remittance. It was noted from the analyzed data that there is a room for expansion of business due to affordable licenses for different business categories (mean=3.67). However some respondents were not sure whether county government have a clearly defined measures of budget operationalisation in the county (mean=3.37)

Budget utilization

The study linked the four constructs which include: tax compliance, VAT policy government policy and inflation to budget utilization and sought the views of respondents regarding the matter (Table 6).

Table 6: Descriptive statistics for budget utilization

	N	Min	Max	Mean	Std Dev.
i) A tax compliance symbolizes good governance in an era of transparency in the budget utilization in County	30	1	5	3.63	1.35
ii) The VAT policy affects the budget utilization by County government	30	1	5	3.37	1.43
iii) The government policy is very vital in budget utilization by county government in Kenya	30	1	5	3.60	1.33
iv) Inflation is the major factor that influence the budget utilization by county Government	30	1	5	3.63	1.30

The findings showed that the four constructs of the study affect budget utilization in the county. The average response for the three was approximately 4.00. This implies that on average tax compliance, VAT policy, Government policy and inflation to affect budget utilization in Kericho county. On the other hand some respondents were not sure if the government policy is very vital in budget utilization by county government in Kenya (mean=3.37).

Inferential statistics findings

This section seek to document the results of the findings in respect to effect of tax compliance, VAT policy, Government policy and inflation on budget utilization in county department in Kericho County.

How tax compliance affects budget utilization in county department in Kericho County

The study determined how tax compliance affects budget utilization in county department in Kericho County. The results of correlation analysis are shown in table below.

Table 7: correlation between tax compliance and budget utilization

		Budget utilization
Tax compliance	Pearson Correlation	.358
	Sig.(2-tailed)	.050
	N	30

It is clear from the analyzed data there exist a positive and statistically significant relationship between tax compliance and budget utilization ($r=0.358$; $p<0.05$). Interpretively, as factors that

lead to an increase in tax compliance increases, budget utilization at the county government will also be enhanced. However, factors such as complexity of taxation systems, low level of revenue information, non-compliance to taxation and general tax rules may hinder effective budgeting at the county level. In this regard, more revenue will be available for budgetary allocation in the county government.

How VAT policy affects budget utilization in the County Department in Kericho County

The study attempted to determine how VAT policy affects budget utilization in the County Department in Kericho County. The results of correlation analysis are shown in table 8 as shown below.

Table 8: correlation between VAT policy and budget utilization

		Budget utilization
VAT Policy	Pearson Correlation	-.492**
	Sig. (2-tailed)	.006
	N	30

** . Correlation is significant at the 0.01 level (2-tailed).

It is evident from the analyzed data there exist a weak negative and statistically significant relationship between VAT policy and budget utilization ($r=0.492$; $p<0.01$). This suggests that the VAT policy currently available to consumers may hinder the budgetary estimates in the county level .Moreover, implementation of VAT policy may not likely to raise county government revenue and therefore influence how budgeting is carried out in county government. In this regard, VAT policy is likely to affect economic stimulant in the county negatively unless its concepts is reviewed.

How government policy affects budget utilization in the County Department in Kericho County

The study was able to find out how government policy affects budget utilization in the County Department in Kericho County. The results of correlation analyses was presented in a table 9 below.

Table 9: Correlation between Government policy and budget utilization

		Budget utilization
Government policy	Pearson Correlation	-.560**
	Sig. (2-tailed)	.001
	N	30

** . Correlation is significant at the 0.01 level (2-tailed).

It is clear from the analyzed data there exist a moderately strong negative relationship between Government policy and budget utilization ($r=-0.560$; $p<0.05$) which is statistically significant at 0.01 level of significance. This implies that as the government policy is operationalised at the county government, budgeting at the county level will be affected negatively. In addition, government policy that guides licensing of businesses may be reviewed so that budget utilization can be realized.

How Inflation affects budget utilization in the County Department in Kericho County

In regard with the fourth objective, the study sought to investigate how inflation affects budget utilization in the County Department in Kericho County. The results of correlation analyses are displayed in table 10 as shown below:

Table 10: correlation between Inflation and budget utilization

		Budget utilization
Inflation	Pearson Correlation	-.552**
	Sig. (2-tailed)	.002
	N	30

** .Correlation is significant at the 0.01 level (2-tailed).

The findings of the analyzed data suggested that there exist a moderately strong Negative and statistically significant relationship between inflation and budget utilization ($r=-0.552$; $p<0.01$). This means that as inflation rates increases budgeting will be reduces at county level. The findings showed as inflation rate increases, budgetary estimation at the county government will decreases. This is because inflation leads to high budget errors and unemployment. Lastly, unexplained increase in price of VAT added goods will affect the real value of money in the county government.

CONCLUSION

The Complexity of the tax system in County Government is likely to retard economic development in Kericho County. In addition revenue information which is scanty in the county government may also hamper budget utilization at the county level. Implementation of VAT policy at the county government requires support by all stakeholders such as county executive on finance and planning otherwise proper budgeting will never be achieved.

It is concluded that for any economic growth to be effective in the county level, there have to be conducive environment for business expansion. A well defined measure of budget operationalisation should be in place. Therefore any policy drawn by the government will ultimately affect budget utilization

Inflation is the major factor that hinders proper budgeting at the county government. It leads to decreased economic growth due to unemployment. Consequently the real value of money in county government will be affected.

RECOMMENDATIONS

- i. Tax compliance should be tightened and observed at all level in county governments
- ii. Specialist should drive implementation of VAT policy synergistically with support by all stakeholders in county governments
- iii. A government policy that is all inclusive should be drawn to assist in budget operationalisation in the county
- iv. Inflation should be addressed by the government in order to safeguard un planned budgeting at the county level

FURTHER STUDIES

The study recommends the following areas for further research;

- i. How organizational behavior can influence budgetary utilization in major devolved governments
- ii. Challenges facing implementation of devolved governance in allocation of devolved funds.

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