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BUDGETING PRACTICES AND SERVICE DELIVERY OF COUNTY GOVERNMENTS IN NAIROBI METROPOLITAN AREA, KENYA

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Abstract

Financial management in county governments plays a crucial role in promoting good governance. From the past studies, there are mixed findings in the literature on relationship between budgeting practices and service delivery in Nairobi Metropolitan Area, Kenya. Budget theory served as the foundational frameworks for this research. These theory guided the formulation of conceptual framework, informed the study design and methodology, and aided in the interpretation of findings. A cross sectional correlation research design grounded in the philosophy of positivism was employed in this study. Primary data was collected using structured questionnaire. The study's target population was 163 directors from Counties in Nairobi Metropolitan Area, Kenya. Purposive sampling approach was employed to get a sample of 116 respondents. The validity of the research instrument was tested using construct, content and face validity while the reliability was assessed using Cronbach's Alpha coefficient. A pilot study was done in Muranga County. The data was analyzed using descriptive and inferential statistics. The study found that budgeting practices had a significant positive relationship with *service delivery, as evidenced by a correlation coefficient (r) of 0.587, a beta coefficient (β) of 0.593 (p<0.05). The study concludes that effective budgeting practices are crucial for enhancing service delivery in the County Governments of the Nairobi Metropolitan Area. This study therefore recommends that, to ensure service delivery, public institutions should focus on effective budgeting practices. This study makes important contribution to knowledge as it provides evidence on the role of budgeting practices and service delivery.*

Keywords: Budgeting practices, Service delivery, County Governments, Nairobi Metropolitan Area

INTRODUCTION

Budgeting practices refers to the systematic processes and techniques utilized by individuals, organizations, or governments to plan, allocate, monitor, and control financial resources (Langabeer & Helton 2019).Globally, effective budgeting practices are considered essential for efficient public service delivery. The International Monetary Fund (IMF) emphasizes the importance of budget transparency and accountability in ensuring that public funds are used effectively (Cangiano, Curristine, & Lazare, 2013).In Africa, many countries have adopted program-based budgeting to enhance the linkage between budget allocations and service delivery outcomes. Countries like Uganda and Tanzania have reported improvements in service delivery through the adoption of these budgeting practices (Mugyenyi & Ainebyona, 2017). According to Nyamita (2019), the Kenya Public Finance Management Act, 2012, mandates county governments to adopt performance-based budgeting. However, challenges such as inadequate capacity and political interference continue to affect the effectiveness of budgeting practices in promoting service delivery.

Statement of the Problem

In Kenya, devolution is allocated finances for developments and provision of recurrent activities with an aim of improving services to the residents. Notwithstanding the huge resources received by these counties every year, 53.0% of them are classified as very poor, 36.1% fall below the national poverty rate and that 34% fall below the national hardcore poverty line. In addition to this, residents continue to complain of poor service delivery as evidenced through lack of medical equipment in hospitals, lack of social amenities, high poverty rate, and lack of inclusivity and astronomical level of corruption. The Kenya County Budget Transparency Survey 2022 showed that there is low budget implementation at the county level. In addition to this, Controller of Budget noted a variance between the budgets estimates and the actual spent amount. These challenges may be associated with poorly implemented public finance management practices coupled with lack of proper capacity development thus impacting negatively on service delivery. Past studies have portrayed varying results in relation to capacity development over service delivery by different county government. This therefore created a need to establish the impact of capacity development with respect to PFM practices on service delivery by the county governments. If the issue is not addressed, counties will continue to perform below expectations which in turn lead to poor service delivery, thus resulting in stunted economic growth and development. This study therefore aimed at determining the relationship between public finance management practices, capacity development and service delivery of county Governments in Nairobi Metropolitan Area, Kenya.

LITERATURE REVIEW

Langabeer & Helton (2019) describe budgeting practices as the systematic processes and techniques used by individuals, organizations, or governments to plan, allocate, monitor, and control financial resources. These practices involve creating budgets that project revenues and expenditures over a specified period. Budgeting practices are essential for setting financial goals, prioritizing spending, determining resource allocation, and ensuring financial stability. Budgeting practices entails; Budget formulation which is the process of creating a budget, including setting financial goals, estimating revenues and expenditures, and determining resource allocation priorities; Budget monitoring and control which involves ongoing tracking, reviewing, and evaluation of budgetary performance to ensure adherence to the established budget plan. This includes monitoring actual expenditures, comparing them to budgeted amounts, identifying variances, and implementing corrective actions as needed; Budget participation and involvement which refers to the extent to which relevant stakeholders, such as managers, department heads, or employees, are engaged in the budgeting process. It examines their level of participation, influence, and input in budgetary decisions; Budget transparency and accountability which emphasizes the disclosure of budgetary information and the level of accountability associated with budget implementation. It assesses the extent to which budgetary decisions and financial transactions are transparent, accessible, and subject to scrutiny; Budget communication which focuses on the effective dissemination of budgetary information to relevant stakeholders. It examines the clarity, timeliness, and comprehensibility of communication channels used to convey budget-related information. It also involves budgetary appraisal which compares the budget estimates and the utilization and this may consider the absorption rates.

A study conducted by Cabannes (2015) investigated the impact of participatory budgeting on basic services and found that participatory budgeting significantly improved service provision and management. This improvement was attributed to community involvement, which led to enhanced oversight and close control of services. The study was carried out in 20 selected cities, providing valuable insights into the benefits of participatory budgeting. However, the findings may not be generalizable across all cities due to variations in project policies and differences in the economic status of the countries involved.

Scott & Enu-Kwesi, (2018), conducted a study to establish the role of budgeting practices in service delivery. The study was done in Ghana in 2018. The study used mixed method research design. Multi stage sampling was used to select respondents and with the help of a questionnaire, it collected both qualitatative and quantitative data. From the data collected, budgeting practices was found to have a positive and significant influence on service delivery. This study failed to measure budgetary planning, control and appraisal in relation to service delivery. In addition to this, the study was done in Ghana and it may not present similar results in other countries.

Atuilik, Peregrino-Brimah, Salia, & Adafula (2019), did a study on the budgetary and budget control in the health sector. The study used qualitative data that was collected from interviewees and documents reviewed to draw conclusions. The study made conclusion that adopting budgeting practices could help address challenges of service delivery in the health service. The study was done in Ghana a different country economically compared to Kenya and focus was on the health service.

Yussuf & Abdul (2022) studied the effect of public finance management practices in Mandera County Government's on financial performance. Three theories namely; systems theory, new public management theory and allocative efficiency theory were used. Cross-sectional research survey was adopted. Data was collected from 95 officers from revenue department. The findings indicated a positive significant effect of budgeting process, resource management, financial policies and internal auditing on revenue collection. Adoption of public financial management practices was recommended. The study was done in one county and results may not be generalized to other counties.

Kingi & Ibrahim (2019) sought to determine the effect of public financial management practices on the financial performance of Mombasa County Government. The research design was descriptive and collected data from 173 officers from the department of finance and economic planning and analyzed using multiple linear regression analysis. Agency theory and stewardship theory guided the study. Financial planning was found to have a positive influence on the financial performance. From the study, it was recommended that county officers in charge of planning should ensure that the preparation of planning documents at the County is consultative and that stakeholder's priorities at planning level are put into consideration. Besides, the County leadership to put proper measures for prevention or detection of revenue leakages and revenue collection targets are attained and strategies are put in place to improve on revenue collection. In addition, citizens and the civil society organizations should take an active role in providing oversight role by monitoring county government implementation of budgets. The current study used cross sectional correlational research design with more than one county.

Cheruiyot, Namusonge & Sakwa (2018) studied how financial planning and budgeting practices influence performance of county governments in Kenya with regards to management of public resources and service delivery. The study targeted selected officers 10 best performing counties from the 2016/2017Annual Budget Implementation Report. The study used agency theory, institutional theory, theory of optimal taxation and stewardship theory. The findings reveal that counties utilize County Integrated Development Plan (CIDP) as its planning tool and established significant relationship between variables under study as indicated by coefficient. The study recommends timely disbursement and resource allocation for improved county governments' performance. The study targeted best performing counties and this may result to biasness in the findings because of well-established financial management practices and for this reason the results may not be similar in underperforming counties, this study targeted directors across all the ministries in county governments.

Mutya & Akumu (2018) studied effects of financial management on financial performance of Tororo Municipal Council (TMC) Local Government, Uganda. The study specifically looked at the benefits of budgetary management and role of financial planning on financial performance. Data was collected from 30 finance staff of TMC. Budgetary management and financial planning was found to have a positive relationship with financial performance as indicated by coefficients. The study was done in Uganda and the findings may not be similar here in Kenya because of operation policies and GDP difference between the two countries.

Mbogo, Olando, & Macharia, (2021) investigated the effect of budgeting practices on financial performance of manufacturing small and medium enterprises in Nairobi County, Kenya. The study was guided by contingency theory. The study sampled 156 manufacturing SMEs in Nairobi city. Questionnaire was used as an instrument to collect data. Data was analyzed using structural equation modelling. The study found out that budgeting practices have an influence on financial performance of SMEs. Strategic action in budgeting practices was found to enhance the financial performance of manufacturing SMEs. While this research focuses on SMEs, it is essential to extend the examination of these practices to the context of county governments' service delivery.

Cheruiyot (2018) examined public financial management practices and performance of county governments in Kenya. The study was guided by Participative Budgeting and Agency theories.Mixed research design was used. The sampling method used for the study was purposive sampling technique. The respondents for the study were selected employees at the county treasuries. The study found a positive relationship between budgeting practice and performance of county government. The study was done in ten counties with the target population being the chief officers, the county assembly and county public service boards. However, further research utilizing alternative research designs and employing random sampling techniques is necessary to validate and confirm these results.

Budget Theory

Budget theory, with Aaron Wildavsky as one of its proponents, forms the foundation for comprehending the political and social motivations underlying government and civil society budgeting practices. As a specialized branch of public policy, budget theory delves into the intricacies of budget formulation, implementation, and management by governments. Its primary objective is to gain insights into the dynamics of public budgeting, including an examination of the decision-making processes that shape budget allocations and priorities (Wildavsky, 1964).

Budget theory underpins the political and social motivations behind government and civil society budgeting. Budget theory is a branch of public policy that examines how governments formulate, implement, and manage their budgets. This theory is focused on understanding the dynamics of public budgeting, as well as the decision-making processes involved in this process. Budget theory is a subfield of public finance that considers the economic, political, and social aspects of government budgeting (Broughel, 2022).

At its core, budget theory studies the relationship between fiscal policy and economic performance. It looks at how governments use fiscal policy to affect economic growth, employment, inflation, and other macroeconomic indicators. Budget theory also examines how governments use fiscal policy to manage debt levels and deficits. In addition, budget theory examines how governments prioritize spending and how they allocate resources among different sectors (Scott& Enu-Kwesi, 2021). This theory is also concerned with how governments use budgeting to achieve their political objectives and how they manage their budgeting process.

At the same time, budget theory looks at how the public sector interacts with the private sector. This includes how taxes and public spending affect private investment, consumer spending, and economic growth. Budget theory also considers how governments use fiscal policy to address poverty, inequality, and other social issues. Budget theory looks at how governments can use budgeting to achieve their long-term goals. This includes setting targets for budget deficit and debt levels, as well as using fiscal policy to achieve economic stability (Pidchosa, Lyutyy&Pidchosa, 2019).

Budgeting can have a significant effect on public sector service delivery. When done properly, budgetary processes can help ensure that government departments and agencies have the resources necessary to meet their goals and objectives. This can lead to more efficient and effective service delivery, as well as improved accountability and transparency. Budgeting can also help to reduce costs by having a clear understanding of the costs associated with delivering services, departments can better allocate resources and prioritize activities to meet their goals. In addition, budgeting can help to identify areas where services can be improved or where new services can be introduced to better meet the needs of citizens (Mubashar& Tariq, 2019).

This theory guided specific objective number one since budget theory is an important part of public policy that helps governments understand the dynamics of fiscal policy and how it affects economic and social outcomes. It also helps governments make informed decisions about budgeting and fiscal policy. Article 201 of the Constitution of Kenya directs that there shall be openness, accountability, transparency and public participation in financial matters.

Conceptual Framework

Dependent variable is service delivery of county government in Nairobi Metropolitan Area, Kenya while independent variables is budgeting practices

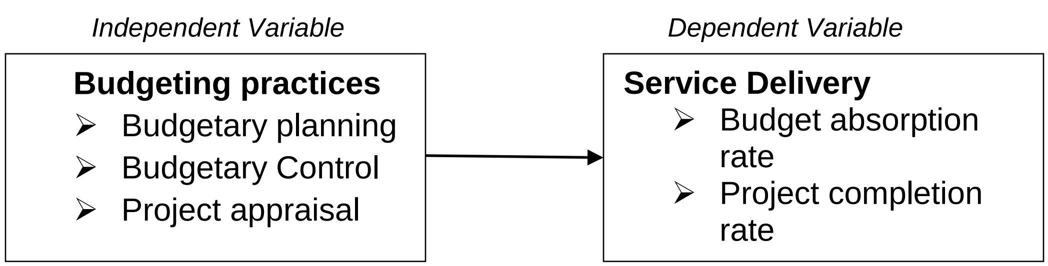

Figure 1: Conceptual framework

METHODOLOGY

For this study, a cross sectional correlational research design was used. This method enabled the researcher to investigate relationships between variables. The design enabled establishment of relationship between budgeting practices, internal control practices.

The study was done in Nairobi Metropolitan Area counties namely Nairobi City, Kiambu, Kajiado, Muranga and Machakos County Governments.

The study's target population was the directors who are managerial staff of the departments in the four counties. It had a total of 163 Directors. The study used a sample of directors in all the counties. Each county has directors in every department who are permanently employed. After determining the sample size of 116 directors, to ensure that each county was proportionately represented, proportionate sampling was applied by selecting 116/163 (approx. 71%) of directors in each county.

The primary data collection instrument that was used in this study was a self-administered structured questionnaire. To ensure validity of the instrument, the instrument was given to the supervisors and scholars in finance field to check on content of the research instrument. Face validity was ascertained through pilot study and specific questions reviewed to reflect the intended objectives. The researcher ensured that all the questions in the instrument were easy to understand. In addition to this, experts in the field of finance were used to validate the questionnaire before administering it to the respondents.

To ensure reliability of the research instrument, first pilot testing was conducted. A small, representative sample with ideally similar conditions to the main study population in terms of characteristics was selected then; the research instrument was administered to this pilot sample of 10 directors from Muranga County under conditions that closely resemble those of the actual study. Results from the pilot study were tested for reliability using Cronbach's Alpha coefficient. This coefficient measures internal consistency in a single scale and measures variance attributable to subjects and interaction among subjects (Kumar, 2018). A Cronbach's alpha of above 0.70 as a minimum level is acceptable (Amirrudin, Nasution &Supahar, 2021). The results gave a value of 0.850 indicating that all the variables were above the minimum acceptable margins of 0.7.

Data was collected by distributing the questionnaire physically to the respective respondents who were located in different departments in different counties within Nairobi metropolitan Area. These questionnaires were picked after the respondents had completed filling them.

RESULTS

Budgeting practice was measured using budgetary planning, budgetary control and project appraisal. The descriptive statistics for this variable is shown in the table below:

Descriptive Statistics on Budgeting Practice

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
Availability of controls	116	1	5	455	3.92	.934
Allocate what was budgeted	116	1	5	447	3.85	1.307
Internal control availability	116	1	5	435	3.75	.986
Complete, realistic and accurate	116	1	5	366	3.16	1.262
N (listwise)	116					

From the responses received, the total respondents were 116 with the maximum score being 5. The mean for availability of controls was 3.92, mean of 3.85 for allocation of funds according to what was budgeted for, for internal controls availability a mean of 3.75, complete, realistic and accurate mean of 3.16. Overall, these findings highlight the perceived effectiveness and challenges within the budgeting practices of the county governments, as reported by the respondents. The generally positive mean scores for availability of controls and allocation practices suggest confidence in these areas, while the more neutral score for the accuracy of budgeting highlights an area that may require further improvement.

Inferential Statistics

In order to establish the relationship between budgeting practices and service delivery, a linear regression analysis was carried out between budgeting practice and service delivery.

Relationship between Budgeting practices and Service Delivery

Table 2: Coefficients[a]

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**	
		B	Std. Error	Beta			
1	(Constant)	.579	.290		1.999	.048	
	Budgeting practice	.593	.077	.587	7.750	.000	
	R						.587[a]
	R-Squared						.345
	Adjusted R Squared						.339
	Std Error of Estimate						.736
	F-Sig						0.000

a. Dependent Variable: Service delivery

The results presented in the table above provide significant insights into how budgeting practices impact service delivery outcomes. The statistical findings show that the constant beta is 0.579 with a p-value of 0.048. This indicates that when budgeting practices are not considered, the baseline effect on service delivery is statistically significant. The beta coefficient for budgeting practices is 0.593, with a significance level of 0.000. This suggests that there was up to 0.593 unit increase in service delivery for each unit increase in budgeting practices. This positive and statistically significant beta coefficient suggests that improvements in budgeting practices are associated with enhanced service delivery. The resultant Equation is as follows:

SD = 0.579+0.593BP……………………………………………………………(Eq 1)

Where

SD: = Service Delivery (Dependent Variable)

BP: = Budgeting Practices (Independent Variable)

The correlation coefficient between budgeting practices and service delivery is 0.587, indicating a strong positive relationship. This implies that as budgeting practices improve, service delivery also improves. The R-squared value is 0.345, meaning that approximately 34.5% of the variance in service delivery can be explained by budgeting practices. This demonstrates a moderate but meaningful impact of budgeting practices on service delivery. The adjusted R-squared value is 0.339, which adjusts for the number of predictors in the model. This value is close to the R-squared value, reinforcing the robustness of the model. The overall p-value is 0.000, indicating that the model is statistically significant and that the relationship between budgeting practices and service delivery is not due to random chance.

These findings compares quite aptly with the findings of related studies. For instance, Cabannes' (2015) study found that participatory budgeting led to improvements in service delivery. The current study's findings align with this, reinforcing the idea that effective budgeting practices can enhance service delivery. However, the current study focuses on budgeting practices broadly rather than specifically on participatory budgeting. Scott & Enu-Kwesi (2018) using mixed-methods research in Ghana found a significant positive influence of budgeting practices on service delivery. This is consistent with the current study's findings, which also demonstrate a strong positive relationship between budgeting practices and service delivery. A similar study in Kenya Cheruyot, Namusonge, and Sakwa (2018) examined budgeting practices and their impact on the performance of county governments in Kenya. The positive relationship observed in their study supports the current findings, highlighting the importance of effective budgeting in improving service delivery. Mutya &Akumu's (2018) study in Tororo, Uganda, found similar results, indicating that budgeting practices are crucial for service delivery improvements. The consistency of findings across different contexts (Kenya, Uganda) and methodologies underscores the robustness of the relationship between budgeting practices and service delivery.

CONCLUSION & RECOMMENDATIONS

The study revealed a significant positive relationship between budgeting practices and service delivery. The correlation coefficient (r=0.587) and beta coefficient (β=0.593) indicate that effective budgeting practices contribute substantially to improved service delivery. This underscores the importance of sound budgeting practices in ensuring that resources are allocated efficiently and utilized effectively to meet the service delivery needs of the community.

The conclusion that budgeting practices significantly impacts of service delivery leads to a number of recommendations. First, it is imperative that County governments should prioritize the implementation of comprehensive and participatory budgeting processes. Given the significant positive relationship between budgeting practices and service delivery, it is essential for counties to ensure that budgeting processes are transparent, inclusive, and based on accurate data. This can be achieved through stakeholder engagement, regular budget reviews, and the use of advanced budgeting tools and techniques. Training programs on effective budgeting should be provided to relevant personnel to enhance their skills and knowledge.

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