



**PROGRAM BASED BUDGETING AND FINANCIAL PERFORMANCE OF COUNTY GOVERNMENT OF BUNGOMA,
KENYA**

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ABSTRACT

The study determined the effect of Program based budgeting on financial performance by County Government of Bungoma. The study used a target population of 202 workers and sample size of 134 respondents who were workers in the field of finance. Questionnaires were used to collect data. The study therefore rejected the null hypothesis and concluded that Program Based Budgeting had a statistically significant influence on the financial performance of the County Government of Bungoma.

Keywords: Program Based Budgeting, Budget Reforms, Financial Performance

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INTRODUCTION

Program based Budgeting is a form of budgeting which a government is accountable to its people through outputs and outcomes. The core aim of program budgeting is to improve on activities prioritization and allocating funds to results based programs (Robinson, 2013). Program budgeting differs from the tradition one by distribution of all expenses by programs aligned on state policies goals. The transition to program budget framework in Russian Federation was necessitated by the need

for improvement of financial performance of Government (Mstislav p, 2016).

The program based budgeting presents a set of programs and subprograms with defined policy goals. Each program is measured whether goals are being achieved as per set time lines and targets (Lakin & Magero, 2015). Based Budgeting is improved method of presenting government budgets linked to public policies and objectives in improving the lives of its citizens (James Oundo, 2017). The tying of organizational objectives, programs and budgets together is the main purpose

of adopting Program Based Budgeting by agencies. The costs and revenues of each program are separated and measured by outputs as per strategic objectives of the agency (USAID, 2012).

Financial performance explains how a company uses its properties to produce revenues and spending the scarce resources efficiently and effectively. The company's financial performance is measured and compared for improvement for a specific period (Anderson, 2011).

Effective utilization of resources boosts the shareholders wealth and profitability, which indicates good financial performance (Naz & Ijaz, 2016). It is a one-sided measurement of assets usage from primary business mode to create revenues. Briefly, it looks at the financial wellbeing of the business span of time and can be used in comparing similar entities in similar industry (Renzio et al., 2010).

Statement of the Problem

The County Governments had under performance of own-generated revenue collection of 65.2 per cent compared to annual estimated target, low expenditure on the development programs which represented an consumption rate of 55.6 per cent of the annual development budget and high level of Pending Bills which amounted to Kshs.113.85 billion as of 30th June 2020 (Controller of Budget, 2020) County Governments of Bungoma had under performance of own revenue collection of 70.4% out of 100% recommended. Low expenditure on development budget at 57.7%, high wage bill 45.5% of total expenditure, fiscal policy rate 35% of total revenue and high pending bills. The Controller of Budget concluded that the County Government of Bungoma had weak budgetary controls. (Controller of Budget, 2020).

Objectives of the Study

The general objective was to examine the effect of budget reforms on financial performance of County Government of Bungoma. Specific objective was to determine the effect of Program based budgeting

on financial performance by County Government of Bungoma.

Hypothesis Testing

Ho1: There is no significant effect of Program based budgeting on financial performance of County Government of Bungoma, Kenya.

LITERATURE REVIEW

Equitable Resource Allocation Model and Budget Theories were applied in the study

Equitable Resource Allocation Model

Pecaref and Barney (1967) developed the model and its main aim was to understand how nations, corporations, enterprises and individuals could distribute resources through budgetary process to achieve financial obligations (Zipporah, 2017). The model formula was helpfully since the determination of budget ceiling and allocation of resources to county ministries (Commission on Revenue Allocation, 2019).

Budget Theory

Mabel Walker who specialized in tax and expenditures of municipalities publishes the budget theory in 1930. The critical policymaking process e.g. budgeting process. Budgeting involves extensive interaction among politicians; bureaucrats and citizens over time with the scarce resources within the nation (Elizabeth, 2010). Planning and implementation of development programs by county management use budget as a critical guiding tool (Abdallah, 2018).

Program Based Budgeting

The Program Based Budgeting has elements of describing objectives, enlarging the rating of performance, connecting spending decision to results grounded on results. The objectives are integral part of budgeting process and appropriation which are connected to each sector outcomes (Zinyama & Nhema, 2016). Program based budgeting is allocation of resources to programs and comparing the outcomes against set goals (Alexandru & Tatiana, 2017). National treasury circular explains that the Public Finance

Management Act requires counties to shift to program based budgeting as the Controller of Budget opted to enforce that provision (Lakin & Magero, 2015).

The researcher Bayu Bawono studied on the role of program Based Budgeting on Indonesian public sector. The objective was historical examination of program based budgeting as part of fiscal reforms in the public sector.

Qualitative research methodology and Luder Financial Management Reforms Model (2013) were used with a sample size of 20 interviewers of state department reporters. The researcher concluded that the demand of more financial information on budgets by United States citizens pushed the government to adopt Program Based Budgeting with modernized reporting systems. Indonesia adopted the Program Based Budgeting from the traditional budgeting which had many weakness (Bawono, 2015).

According to Michael Baidoo study on budgeting for result, introduction of program based budgeting in Ghana. One of specific objectives was to determine whether the Program Based Budgeting led to Budgeting for Results. These included strategic allocation of Public resources, effective utilization of Public resources and attainment of government priorities. Descriptive statistic method was used with a sample size of 67 participants (Baidoo, 2019). Ndzovu S. and Ngang'a P. did a study Effects of Integrated Financial Management Information System on Financial Performance of County Government of Kwale. One of the specific objective was to determine the effect of electronic budgeting on financial performance of County Government of Kwale. The study adopted descriptive research design and used a sample size of 137 out of 142 employees. The study concluded that electronic budgeting has a great influence on financial performance of County Government of Kwale (Ndzovu & Ngang'a, 2019).

METHODOLOGY

Research Design

Descriptive research design focuses on what is happening rather than why it happens (Nassaji, 2015).

Target Population

This study targeted 202 respondents working in the County Government of Bungoma Treasury.

Sample Size and Sampling Techniques.

This study used stratified sampling to represent the entire population that was 134 professionals.

Types and sources of data

The primary data was collected through questionnaires to respondents.

Measurement of variables.

The variables were measured on the 5-point Likert scale - Key 1=strongly disagree, 2= Disagree, 3= Neutral, 4 =Agree and 5=Strongly Agree.

Data Analysis and Presentation

Data collected was cleaned and coded before inputting in the Statistics Package for Social Studies. The method of data analysis systematically explained and analyzed the results, using mathematical or logical methods and gaining insight into how to deduce and make decisions (Shamoo and Resnik, 2003).

FINDINGS

Descriptive Statistics for Program Based Budgeting Results.

The majority of the respondents 48% and 26% agreed and strongly agreed respectively that programs are implemented as per approved budget whereas 6% and 7% disagreed and strongly disagreed respectively that the programs are implemented as per approved budget at the County government of Bungoma, with a mean response of 3.670 and a standard deviation of 0.102. Similarly, 45% and 38% agreed and strongly agreed respectively that identification of programs is carried out at department level at the County government of Bungoma whereas 6% and 4%

disagreed and strongly disagreed respectively that identification of programs is carried out at department level, with a mean response of 3.980 and a standard deviation of 0.099.

Also, 45% and 30% agreed and strongly agreed respectively that costing in all activities are done by departmental sector working groups at the County government of Bungoma whereas 9% and 3% disagreed and strongly disagreed respectively that costing in all activities are done by departmental sector working groups, with a mean response of 3.930 and a standard deviation of 0.099. With respect to the county revenues, majority of the

respondents, 37% and 33% agreed and strongly agreed that revenues can be identified as per department programs at the County government of Bungoma whereas 12% and 5% disagreed and strongly disagreed that revenues cannot be identified as per department programs, with a mean response of 3.850 and a standard deviation of 0.112.

On average, the overall mean of the program-based budgeting variable was 77.9% (mean = 3.893, Std. dev = 0.655) rated moderate. This indicates that the county government of Bungoma effectively implemented the program-based budgeting.

Table 1: Descriptive Statistics Results for Program Based Budgeting.

Statement	N	Min	Max						Mean (π)	Std. Dev. (S.D)	Std. Error of mean (S.E)
				SD	D	N	A	SA			
Programs are implemented as per approved budget	112	1	5	8	7	14	54	29	3.670	0.102	1.077
				7%	6%	13%	48%	26%			
Identification of programs are carried out at department level	112	1	5	4	7	9	50	42	3.980	0.099	1.048
				4%	6%	8%	45%	38%			
Costing in all activities are done by departmental sector working groups	112	1	5	3	10	15	50	34	3.930	0.099	1.046
				3%	9%	13%	45%	30%			
Revenues can be identified as per department programs	112	1	5	6	13	15	41	37	3.850	0.112	1.187
				5%	12%	13%	37%	33%			
Average		1	5						3.893	.655	.693

Descriptive Statistics Results Financial Performance

The majority of the respondents, 63% agreed, and 12% strongly agreed that departments' strategic prioritization of resource allocation improved the overall expenditure out turn ratio, whereas 6% and 1% disagreed and strongly disagreed respectively that departments' strategic prioritization of resource allocation improved the overall expenditure out turn ratio, with a mean response of 3.780 and a standard deviation of 0.813. Similarly, majority of the respondents, 40% agreed and 10% strongly agreed that the local revenue out turn ratio improved in the last six years reduced pending bills

whereas 18% and 4% disagreed and strongly disagreed that the local revenue out turn ratio improved in the last six years reduced pending bills, with a mean response of 3.290 and a standard deviation of 0.983. Also, 42% agreed and 7% strongly agreed that efficient and cost effective management of programs were achieved the last six years, however, 16% and 3% disagreed and strongly disagreed that efficient and cost effective management of programs were achieved the last six years at the County government of Bungoma, with a mean response of 3.290 and a standard deviation of 1.008 Majority of the respondents 52% and 9% agreed and strongly agreed respectively that

departments did overall control with sustainable limit, with a mean response of 3.530 and a standard deviation of 0.910. Also, 52% and 12% who formed the majority of the respondents agreed and strongly agreed respectively that legislations passed in the last six years led to transparency in the budget implementation at the county government of Bungoma, with a mean response of 3.580 and a standard deviation of 0.955.

On average, the overall mean financial performance was 70.4% (mean = 3.493, Std. dev = 0.5281) rated moderate. This indicates that the county government of Bungoma was not performing very well financially, instead, was performing averagely thus need for improvement.

Table 2: Descriptive Statistics results of financial performance.

Statement	N	Min	Max						Mean (π)	Std. Dev. (S.D)	Std. Error of mean (S.E)
				SD	D	N	A	SA			
Departments' strategic prioritization of resource allocation improved the overall expenditure out turn ratio.	112	1	5	1	8	22	65	16	3.780	.813	.077
The local revenue out turn ratio improved in the last six years				1%	7.1%	19.6%	58%	14.2%			
reduced pending bills											
Efficient and cost-effective management of programs were achieved the last six years	112	1	5	4	21	34	44	9	3.290	.983	.093
Overall control with sustainable limit was done by departments				3.6%	18.8%	28.7%	39.3%	14.2%			
The legislation passed in the last six years let to transparency in the budget implementation	112	1	5	6	17	38	41	10	3.290	1.008	.095
Departments' strategic prioritization of resource allocation improved the overall expenditure out turn ratio.				5.4%	15.2%	33.9%	36.6%	8.9%			
The local revenue out turn ratio improved in the last six years	112	1	5	1	18	26	56	11	3.530	.910	.086
reduced pending bills				1%	16.1%	23.2%	50%	9.8			
Efficient and cost-effective management of programs were achieved the last six years	112	1	5	3	13	27	54	15	3.580	.955	.090
				3.5%	11.6%	24%	48.2%	13.4%			
Average									3.493	.5281	.0499

Inferential Analysis Results:

H₀₁: There is no significant effect of program-based budgeting on financial performance by County Government of Bungoma, Kenya.

The researcher findings shows that F-Statistic was statistically significant, $F(1,110) = 19.721$, $p\text{-value} = 0.000 < 0.05$; these results indicates that the linear regression model was a good fit to modelling linear

relationship between program based budgeting and the financial performance in County Government of Bungoma, Kenya. The model (program-based budgeting) explained 15.2% of variation in the financial performance of the County Government of Bungoma, Kenya as indicated by the $r\text{-square} = 0.152$ The regression Coefficients findings in shows that the unstandardized beta coefficient for the program-based budgeting variable was significant;

$\beta = 0.305$, $t = 4.441$, $p = 0.000 < 0.05$; the study therefore rejected the null hypothesis and concluded that program-based budgeting had a statistically significant influence on the financial performance of the County Government of Bungoma, Kenya. These indicated that a unit improvement in the Program based budgeting was likely to improve financial performance of the County Government of Bungoma, Kenya by .305

units. The constant value in the linear regression model was found to be significant statistically; $\beta = 2.334$, $p = 0.000 < 0.05$ this indicated that, besides the program-based budgeting in the model, there are other factors not captured in the study linear regression model that significantly influence financial performance of the County Government of Bungoma, Kenya.

Table 3: Simple Linear Regression of Program based budgeting on financial performance by County Government of Bungoma, Kenya.

Model Summary					
Model	r	r-square	Adjusted r-square	Std. Error of the Estimate	
1	.390	.152	.144	.61808	
a. Predictors: (Constant), Programme based budgeting					
b. Dependent Variable: Financial Performance					
ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	7.534	1	7.534	19.721	.000
Residual	42.023	110	.382		
Total	49.557	111			
a. Dependent Variable Financial Performance					
b. Predictors: (Constant), Programme based budgeting.					
Coefficients					
	Unstandardized Coefficients		Standardized Coefficients		
Model	β	Std. Error	Beta	t	Sig.
(Constant)	2.334	.273		8.540	.000
Programme based budgeting	.305	.069	.390	4.441	.000
a. Dependent Variable: Financial Performance					

To predict the financial performance of the County Government of Bungoma, Kenya when the level of program-based budgeting, the study proposed following model;

Financial Performance = $2.334 + 0.305$ Program Based Budgeting.

CONCLUSION, RECOMMENDATIONS, SUGGESTION FOR FUTURE RESEARCH

The finding indicated that 77.9% (Mean 3.893: SD=.655) of the county government workers believe that Program based budgeting had an effect on financial performance of County Government of Bungoma. The hypothesis that, "there was no

statistically significant effect of Program based budgeting on financial performance of County Government of Bungoma." was however rejected based on the finding which showed that there was no statistically significant effect of Program based budgeting on financial performance of County Government of Bungoma with a coefficient of $\beta = .305$. Program based budgeting had a positive standardized beta coefficient value of 0.305 ($p = 0.000 < 0.05$); these indicated that a unit improvement in the Program based budgeting was likely to improve financial performance of the County Government of Bungoma, Kenya by 0.305 units.

County Government of Bungoma should complete the implementation of the Program Based Budgeting as per Public Financial Management Reform Programme strategic plan 2022-23. The National Government and Donors should provide technical and financial support to County Governments to improve on program systems for efficient service delivery and availability of information.

County Assembly should allow public participation to make regulations and do oversight that will improve the community live hoods. I urge the

scholars to do similar research to the remaining County Governments to compare results and better financial performance of the devolved unit. The County Assemblies in Kenya seem to play a major role on financial performance of County Governments. The researchers should do the study on the financial management reforms of the County Assemblies on oversight of County Governments of Kenya. There should be also a study done on the role public Private partnership on financial performance of County Governments of Kenya. Finally financial control reforms and financial performance of County Government entities.

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