

**CHALLENGES OF BUDGETING AT THE CITY COUNCIL OF NAIROBI**

**BY**

**ALLOYS N. ODHIAMBO SIAYA**


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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE  
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## DECLARATION

I declare that this is my original work and has not been presented for a degree in any other university.

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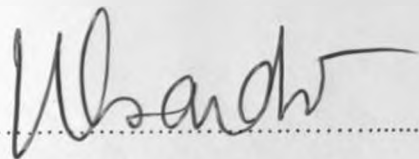
Date: 24/11/09 .....

Alloys N. Odhiambo Siaya

ID No. D61/P/8024/02

## SUPERVISOR

This project has been submitted for examination with my approval as university supervisor.

Sign:  .....

Date: NOV 24, 2009 .....

Mr. Otieno Odhiambo Luther

Lecturer, Department of Accounting and Finance

School of Business

University of Nairobi

## DEDICATION

I dedicate this work to my family for their support and understanding throughout the duration of the entire course.

## ACKNOWLEDGEMENT

In writing this research project I have been assisted by several people, especially those who appraised and criticized it at different stages of its preparation. I am particularly grateful to my supervisor Mr. Otieno Odhiambo Luther, for his valuable advice and encouragement.

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## ACRONYMS

ABB	-	Activity Based Budgeting
AGM	-	Annual General Meeting
CCN	-	City Council of Nairobi
CEO	-	Chief Executive Officer
ERS	-	Economic Recovery Strategy
MDG	-	Millennium Development Goals
MoLG	-	Ministry of Local Government
PPBS	-	Planning, programming, and budgeting systems
RCB	-	Responsibility center budgeting
SPSS	-	Statistical Package for the Social Science
ZBB	-	Zero Based Budgeting

## ABSTRACT

Budgeting and Financial Management have been at the core of economic reform programs in most nations around the world. They have also been the principle instruments of transformation and restructuring of public sector organizations. With the growing challenges posed by financial mismanagement and budgetary, the need for enhanced budget processes and innovative financial management techniques are increasingly felt in developing countries and transition economies. Budgets can be used to allocate funds optimally by funding projects that promise the highest returns. The objective of this study was therefore to identify the challenges encountered in the budgeting process at the City Council of Nairobi.

This study used descriptive survey study which was aimed at establishing the challenges of operational budgeting process at CCN. The study targeted a hundred (100) employees in the CCN. These were the respective heads of various departments/sections at the City Council. Primary data was collected using questionnaires which had both closed and open ended questions. Quantitative data was analyzed using SPSS. Descriptive statistics were used to summarize the data. This included mean scores, percentages and frequencies. Tables and other graphical presentations were also used to present the data collected for ease of understanding and analysis.

From the findings, the study found that there were some challenges faced by CCN in budgeting. These challenges included: investment processes are highly fragmented, methodological difficulties in budget implementation, limited financial resources, institutional and procedural weaknesses, fragmentation of decision-making, need to compare programs and projects with different timeframes and also failure to use market-related prices, CCN loses significant resources in "white elephant" projects at the expense of other beneficial projects, reduction of expenditure because of low revenue inflows, experiences of excess expenditure in budget implementation and also failed projects due to under-costing of the budget. The study therefore recommends that for the budgeting process at the CCN to be successful, the budget plan should be made more clear and accurate so that all the employees are able to understand it, many employees as possible in the departments should participate in budget preparation and all the senior staff in the organization should be involved in budget preparation and discussions.



## CHAPTER 1: INTRODUCTION

### 1.1 Background

Budgets occupy a leading place among the special tools of management employed to direct and control the affairs of large and multifarious organizations. They are used not only by governments, where budgeting had its origins, but in other public bodies, in industry and commerce and in private families (Coates, 2002). A budget is a basic tool in management. In this regard it serves as a tool for planning and controlling the use of scarce financial resources in the accomplishment of organizational goals, (Schick, 1999). The budget is an invaluable aid in planning and formulating policy and in keeping check on its execution (Premchand, 2004). It stipulates which activities and programs should be actively pursued, emphasized or ignored in the period under scope, considering the limited financial resources available to the organization.

Budgeting systems are universal and have been considered an essential tool for financial planning. These systems are meant to organize and encourage the performance of managers of small as well as large and complex organizations (Abernethy and Brownell, 1999). Traditionally in the public sector, budgets were seen as the primary planning document (Alam and Lawrence, 1994; Johnston, 1998). Effectiveness of budget implementation process will be assessed by addressing the various variances. A comparison between the actual performance and the budgeted performance should be done (Hongren, 1983).

Implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available (Premchand, 1994). This framework should include the following; identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate. The budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work. First, an allocation system under which expenditure is controlled by release of funds is put in place. Secondly, there is supervision of the acquisition of goods and services to ensure value for the money spent. Thirdly, an accounting system that records government transactions and provides a framework for an analysis of their

implications is implemented. The final phase involves a reporting system that permits a periodic appraisal of the actual implementation of policies (Premchand, 1994).

Public sector organizations are concerned with the provision of public goods to members of the society. Their budgets are therefore mainly intended for authorizing actions and providing ceilings for management actions (Hongren, 1983). This is unlike the private sector where organizations are profit motivated. Their budgeting reflects a conscious effort to plan for certain desirable results and controls to maximize the chances of achieving those results. Budgeting in public organizations is normally a hierarchical process which starts at the subunit level and ends at the apex of the hierarchy, which may be outside the organization itself. Often, therefore, there are several tiers between these two levels of the budgetary hierarchy. According to Lewis (2005), the basic reason for requiring estimates from subordinate officials is that higher officials do not have enough detailed information, time or specialized skills to prepare the plans themselves. It is the decision maker at the subunit level who has the relevant facts to effectively classify activities into various categories according to their importance. It is also at this level, that projects and activities requiring attention and hence financial support can be identified and prioritized.

### **1.1.1 The Local Government System in Kenya**

The Kenyan Local Government System includes the Ministry of Local Government and various types of Local Authorities; City, Municipal, Town, Urban and County Councils. Chapter 265 of the Laws of Kenya regulates their operations. The Ministry as part of the central government provides a supervisory and control role including approval of budgets. Besides the Ministry of Local Government, the Local Authorities coordinate with other Government Ministries, non-governmental organizations as well as local community groups to ensure that Government policy and the expectations of residents in their jurisdiction are executed harmoniously ([www.citycouncilofnairobi.go.ke](http://www.citycouncilofnairobi.go.ke)). Local Authorities are created and mandated to provide and maintain a variety of public services, initiate infrastructure development at the local level and undertake basic administrative tasks. To enable them perform these tasks, they are authorized to generate revenue from specified local sources. Successful execution of their mandate stimulates economic development. Due to rapid population growth in most African urban centres, the resources available have been strained

and hence the importance of efficient and effective financial management, an important component of which is the budgetary process.

The local authorities' budgets are produced and implemented on a system based on standing committees composed of councillors and departments represented by managers and support personnel. Budgets are prepared based on departments and their respective sections. Local authorities' budgets are prepared prior to a defined period specifying the revenue and expenditure policies to be pursued during that period in order to attain a particular council's objectives (Ondati, 2001). It sets forth performance objectives for each department and offers a means for comparing actual performance against planned objectives. It also facilitates central co-ordination among the various departments and committees.

The Kenya Local Government Act Chapter 265 section 212 requires all Local Authorities to produce a standard set of budget documents. The act provides a basis for the budget process and highlights important issues to be considered. It specifically indicates the budget period, the sequence of budgeting activities and budgetary controls (Ondati, 2001). The Law also states that the annual, revised and supplementary budgets shall contain such details as the Minister may require. The Minister is also empowered to exempt any Local Authority or class of Local authorities from submitting estimates for approval. Unfortunately, several Local Authorities have been known to prepare budgets, which fulfill the formal requirements but do not reflect the reality of the local situation. It is important to note that budgeting is not an annual ritual without practical meaning but, rather, a tool to improve administration of scarce local resources. Although good budgeting is critical, it is important to emphasize that it is not the only element of management. It cannot replace other critical functions such as personnel management, sound project planning, or effective operation of Council facilities, all of which must be fulfilled in order to serve the needs of the community. It is in the light of this state of affairs that this study will undertake to investigate the challenges of budgeting at the City Council of Nairobi.

### **1.1.2 The City Council of Nairobi**

The birth of Nairobi as a city was the result of the railway construction by the British when halfway on the route from the coast to Lake Victoria, the railway engineers found a flat expanse of land with adequate water supply. It was decided that this was a suitable place to

build railway repair yards and workshops. With the completion of the railway, the headquarters of the colonial administration was moved from Mombasa to the cooler, small settlement of Nairobi. Now, as the capital of the British Protectorate, the future of the city on the swamp was assured. Once the railway was up and running, wealth began to flow into the city ([www.citycouncilofnairobi.go.ke](http://www.citycouncilofnairobi.go.ke)). Nairobi, Kenya's capital city, has risen in a single century from uninhabited swampland to a thriving modern capital.

Nairobi was made a Municipality in 1935 by a Charter given by the Queen of Britain before the independence of Kenya in 1963. City Council of Nairobi was set up in 1952 charged with the function delivering services to the residents of Nairobi and maintaining the City status of Nairobi. City Council of Nairobi derives its legal mandate from the Local Government Act (Cap 265) of the Laws of Kenya amongst other Acts of Parliament that augment its diverse core functions and priorities ([www.citycouncilofnairobi.go.ke](http://www.citycouncilofnairobi.go.ke)). These priorities are contained in various policy and planning documents such as the National Development Plans, Poverty Reduction Strategy Paper and Economic Recovery Strategy (ERS) for Wealth and Employment Creation in the medium term and Kenya's vision 2030 & the Millennium Development Goals (MDG's) in the long term.

The mandate of the City Council of Nairobi is provide and manage basic social and physical infrastructure services to the residents of Nairobi. These services include Pre-primary and primary or basic education, public health and sanitation, environmental protection and management, roads drainage and security lighting, water supply and sewerage, refuse and garbage collection, urban planning and development control, urban public transport management, public housing, fire services , provision of burial services and sites, community development, and enforcement of City By-Laws ([www.citycouncilofnairobi.go.ke](http://www.citycouncilofnairobi.go.ke)).

Nairobi's population has grown from an estimated 1.1 million in 1985 to around 3 million today with the numbers set to rise to about 3.8 million by 2015. An estimated 44 per cent of the city's population lives below the poverty line ([www.citycouncilofnairobi.go.ke](http://www.citycouncilofnairobi.go.ke)). The absence of a strategic plan in the 21st century is a key handicap with the current plan approved for Nairobi dating back to 1948. As a result unplanned and piecemeal development, informal settlements, lack of sufficient sanitation, increasing pollution of water supplies, rising amounts of solid waste and traffic related fumes are currently all taking their toll on the health and wealth of the city.

## 1.2 Statement of the Problem

Budgeting and Financial Management have been at the core of economic reform programs in most nations around the world Schick (1999). They have also been the principle instruments of transformation and restructuring of public sector organizations. With the growing challenges posed by financial mismanagement and budgetary, the need for enhanced budget processes and innovative financial management techniques are increasingly felt in developing countries and transition economies. Budgets can be used to allocate funds optimally by funding projects that promise the highest returns (Hongren, 2003).

Several studies have been conducted on budgeting in Kenyan organizations. There has been a wide variety of previous studies with many focusing on budgeting practices of private sector organizations while others have dwelt on specific aspects of budgeting. Muleri (2001) performed a survey of budgeting practices among the major British non-governmental organizations in Kenya, wherein he sought to ascertain the budgeting practices in use as well as examining the extent to which budgets are used in management and control. Ambetsa (2004) conducted a survey of the budgeting practices adopted by commercial airlines operating at Wilson Airport in Nairobi, with the objective of determining the budgeting practices and critical factors of the budgeting process. More recently, Ndiritu (2007) conducted a case study on the effectiveness of cash budgeting at Telkom Kenya, which was a public institution at the time of the study. In this study, he focussed on cash flow management, and sought to determine the cash budgeting process at Telkom Kenya as an important aspect of planning and controlling operations in the management of the entity. Kadondi (2002) carried out a survey of capital budgeting techniques used by companies listed at the Nairobi Stock Exchange, which is more of a study on investment decisions.

There exists a research gap since no study has been conducted on challenges of budgeting in public organizations in Kenya, and more specifically at the City Council of Nairobi. This study therefore seeks to fill this gap by focusing on challenges of budgeting at the City Council of Nairobi, also a public institution and a local government authority. The City Council of Nairobi is by far the biggest local authority in Kenya charged with running the city of Nairobi. Due to its large size and area of jurisdiction, the organization is faced with a challenge of providing common services to a very large population, amid stagnated revenues

and increasing obligations. This scenario presents a challenge in its budgetary process, and which is the focus of the study.

Effective implementation of budgets enables an organization to effectively and efficiently utilize its resources (Hongren, 2003). However, in his research, Muleri (2001) found out that budgets have degenerated to the level of resource mobilization and allocation tools. Being the basis of securing funds, budgets are often used to build empires rather than being used to: Aid the planning process, Coordinate activities of the organization, Control operations, Motivate performance, Communicate intentions and operations, and Evaluate performance and impact of a project. The studies that have been done so far in Kenya did not address the challenges organizations face in budgeting

This study was based on the need to analyze the challenges faced by the City Council of Nairobi in its budgeting process. City Council of Nairobi is faced with the typical problems of inadequate resources and pressure from many interest groups to be satisfied, and many challenges are bound to be experienced when drawing up the budget. Ndiritu (2007) wrote that "...the City Council of Nairobi is another example where cash flow problems have persisted and the staff has severally gone on strike demanding their monthly dues (Strategic paper for the Ministry of Local Government, 2004).

City Council of Nairobi being a service delivery entity that is nonprofit making, its success or failure in its budgetary allocations is not reflected in terms of profit or net gain like in the profit making private entities. Furthermore, like many other public organizations, the city council mostly does not deliver results as expected, thus the need to find out whether budgeting could be the cause of the problem. This proposed study was aimed at identifying and documenting these challenges and where in the process are they prevalent.

### **1.3 Objectives of the Study**

To identify the challenges encountered in the budgeting process at the City Council of Nairobi.

#### **1.4 Importance of the Study**

- i. **To the City Council of Nairobi:** the City Council of Nairobi will benefit from the documentation and analysis of its budgetary process and the challenges faced therein, and how these challenges can be overcome.
- ii. **To policy makers:** policy makers will benefit from the issues raised in the study, which will be useful in refining the existing budgetary policy framework.
- iii. **To the academicians:** the study will provide a useful basis upon which further studies on budgeting in the public sector could be conducted
- iv. **To Other organizations:** this study will help to sensitize organizations in Kenya on the importance of budgeting.

## CHAPTER 2: LITERATURE REVIEW

### 2.1 Introduction

This chapter summarizes the information from other researchers who have carried out their research in the same field of study. The specific areas covered here are: budget; types of budgeting, public sector budgeting and public budgeting systems.

### 2.2 Budget

A budget is not only a means of planning for various revenue streams, a control mechanism for an administration to keep from spending too much, a procedure for controlling its units, a process to coordinate the many activities that an institution undertakes, and a way to communicate to all stakeholders a summarization of the activities that the various units will undertake, but it is also a technique for setting the organization's priorities by allocating scarce resources to those activities that officials deem to be the most important and rationing it to those areas deemed less vital. Following the priorities set in a budget is a key element in determining the direction of the organization and its future success or failure, which is why it should be based on a formal plan, such as a strategic plan, that the institution is supposed to be following. The creating and following of budgetary priorities is important, even during relatively favorable financial times, while a downturn in financial circumstances only makes this more difficult and even more crucial. Consequently, budgets are a key element in determining the direction of the organization and its future success or failure (Goldstein, 2005; Maddox, 1999; Martin, 1993; McCabe, 1984).

A budget is just as important for nonprofit organizations, which by their nature are not required to maximize their profits, as it is for businesses, which exist to bring the utmost return on the stockholders' investments. Kevin Guthrie's *The New-York Historical Society* documents an extreme example of how the administrators of a nonprofit can create a calamitous situation when they ignore their financial position and budgetary constraints. In this case, an important archives and museum came exceedingly close to financial collapse on a number of occasions, mostly because its managers neither stayed within the bounds of the budget nor followed the institution's priorities when acquiring items for the collection (Guthrie, 1996). The need to prioritize one's spending is just as important for all types of repositories, including libraries.



Because of the importance of budgeting, it is prudent for those with fiscal responsibilities to have a solid understanding of how their budgetary system works. There are, however, many types of budgetary systems that are used by nonprofit organizations and these can accomplish their fiscal tasks in very different ways. Some state-financed institutions must follow budget procedures and formats dictated by their legislatures. Conversely, few private repositories have any restrictions as to which budgetary system they use. In this case, there are many possible influences upon the type of system that is chosen, including the type that the institution has historically used, the procedures the president is accustomed to, the institution's mission, and the organization's culture. When considering these various types of systems, it is wise to keep in mind John Green and David Monical's observation that there "are probably as many different ways of allocating resources in institutions of higher education as there are presidents" of these institutions (Green and Monical, 1985). This is no doubt also true for the governing bodies of other types of libraries. With this many allocation systems, while it is difficult to classify some of them, many can be categorized.

## **2.3 Types of Budgeting**

### **2.3.1 Incremental Line-Item Budgeting**

Incremental line item budgeting is probably the most widely used type of system. It makes all increases and decreases to the budget equal for all units on a percentile basis. Essentially, the previous budget is seen as having already been justified and it is used as a base upon which to make the changes for the next fiscal year. Thus, unless the budget creators go out of their way to change part of the budget, budget lines will be re-funded whether or not the activities that they finance are still supported by the strategic plan, are needed for any other reason, or are being used optimally (Coates, 2002).

This system, by locking into place the decisions of the past, guarantees that the units that won the budgetary battle when the incremental system was installed, whether because they were the most important to fund or received more than they deserved because of political influence, will continue to win in this budgetary process until the incremental system is replaced or side-stepped, either temporarily or permanently (Rodas, 2001). This system, however, tends to create the least amount of conflict during the budgeting process because it just continues the status quo. It seems that unit heads are much more likely to complain when

some other units get significant increases while theirs gets left behind, than when everybody's budget moves in lockstep even if it seems to be doing so in an inequitable way (Coates, 2002).

Advantages of an incremental budget are that it is relatively easy to create and to allocate money; however, because all of the budget lines are moving together, strategic changes cannot be made to the budget without breaking its incremental nature. In particular, this is clearly a poor system for an institution to use during a period of change, like that currently facing academia due to pressures such as great technological change, stakeholders' demands for greater accountability, and reduced governmental monetary support (Caruthers and Orwig, 1979; Goldstein, 2005; Phelps, 1996).

### **2.3.2 Formula Budgeting**

Formula budgeting is typically employed by governmental bodies as a means of distributing its money to its various sub entities. Although most states use this system to distribute funds to elementary and secondary schools, its use for higher education is most common in Northeastern and Midwestern states.

A formula is essentially a decision rule that reduces the complexity of the budgetary process. Those who create them have deemed the factors that are incorporated in the formula to be important in the running of the organization. Although formula budgeting can be thought of as a relatively rational approach to budgeting because there seems to be little room for political influence in the allocation of funds, the creation of the formula can be the result of a political process. As a result, those who have power at the time of the formula's creation or revision may be able to have those elements at which their unit excels to be those that are rewarded the most. For example, public libraries serving small populations would want their state to allocate to all of its public libraries the same amount of money per library, while those serving large populations would want the state's funding formula to be based solely on a per capita basis. Once the formula is created, the winners of this political battle have a built in advantage for every funding allocation until the formula is changed (Goldstein, 2005).

When formula budgeting is used within a particular institution, different formulas are used for units that function differently. For example, the library and physical plant would probably have different formulas than the parts of the institution that mainly do instruction. These

various formulas are created to estimate the money that the units will require. Some examples of factors that are included in some formulas are degrees conferred, credit hours taught, number of programs that award graduate degrees, students enrolled, and gross square footage of space in buildings. As a result, a library could get as part of its funding \$200 for each member of the university's faculty, \$25 per undergraduate student, \$125 per masters student, and \$250 per doctoral student.

An advantage of formula budgeting is that it makes it relatively easy for the director to predict the amount of money that will be allocated. However, its rigidity makes it unlikely to foster innovative practices or new programs. In addition, formulas lack the flexibility that is needed when changes are made to the organization's mission (Allen, 1977; Caruthers and Orwig, 1979; Goldstein, 2005; Hallam and Dalston, 2005; Rodas, 2001; Phelps, 1996; McKeown, 1996a, b). For example, if the governing body does not allow for the library director to move money from one line to another, it might take a great deal of effort to be allowed to stop purchasing microfilm with money from its line and be allowed to use those funds to buy more databases. As a result, to try to maximize one's flexibility in this system, the library director should attempt to get the budget lines to be defined as broadly as possible. In the previous example, if there had been one line for the purchasing of all types of materials for the library collection, one could easily stop buying microfilm and use that money to purchase more databases.

### **2.3.3 Mathematical Decisions Models Budgeting**

Mathematical decisions models were developed during the 1970s. These were created to help college administrators allocate money more effectively by using complicated computer models to determine the resources required for various needs. The use of these models quickly dropped-off for many reasons, including the time that is needed to be invested (Rodas, 1998, 2001).

### **2.3.4 Zero-Based Budgeting**

Zero-based budgeting (ZBB) is a system that, when used in its purest form, essentially has the organization recreated its budget from scratch every year. Consequently, every dollar on

every line of the budget must be justified every year. In addition, every unit has to rank its lines in order of priority before sending the list up to the central administrators who decide on the allocations. As a result, the decision makers have a ranking of what the directors of every unit think are the most and least important activities to fund. This facilitates their ability to decide which departments should receive reduced funds and which should have increased allocations. In this way, it is the opposite of the incremental approach of adding a certain amount to the budget that had been justified the year before. ZBB is also very different in that it concentrates on whether or not individual activities are still justified to be funded. As a result, it is more likely to be instituted during a time of fiscal retrenchment, rather than growth.

A benefit of ZBB is that it points out those expenses that are no longer necessary, thus allowing the library to shift money to where it will be needed in the future. Because ZBB requires that every item be justified it takes a great deal of time to do the work that this system requires. This is why a much smaller number of organizations now use ZBB than did a few decades ago. Many that do still use it do so in conjunction with another system. When utilized in this way, ZBB is used in one part of the institution every year, but the unit that is doing the intense budgetary work rotates every year, so that any given unit has to do it only once every so many years (Caruthers and Orwig, 1979; Chen, 1980; Goldstein, 2005; Hallam and Dalston, 2005; Phelps, 1996).

### **2.3.5 Program Budgeting**

Program budgeting is the general name for a few slightly different systems, all of which require not only that there should be specificity in how funds are to be spent, but also why they will be spent that way. Program budgets list costs by each type of output, rather than, or in addition to, each type of cost, as most budgets do. A principle of program budgets is to attach all spending to one program or another. Consequently, the focus is on the various categories of outputs and on determining as closely as possible all of the costs, even the indirect ones, which go into producing each. In addition, because this is like doing cost-benefit analysis, not just the costs, but also the outputs must be at least somewhat quantifiable (Goldstein, 2005). Moreover, program budgets tie the total costs of various programs to the objectives of the library. As a result, it is relatively easy to determine which programs are the least cost effective. Conversely, a program budget is a bit unrealistic, in that it requires library administrative costs to be spread throughout the various programs. As an example of how a

program budget could work, it could state that for a certain amount of money that the budget will invest in the bibliographic instruction program one should expect that a particular number of classes should have attended instruction sessions. One should be aware that with this system the more interdependence that the different outputs have, the more difficult this system becomes. By more closely tracking the output statistics, a program budget becomes a type of performance budget (Hallam and Dalston, 2005; Hirsh, 1966; Robinson and Robinson, 1994).

Planning, programming, and budgeting systems (PPBS), which is the most commonly used type of program budgeting system today, links the planning process with the one for budgeting. As a result, this system is more likely than most to create a budget by looking towards the future, rather than looking to the past, but it focuses on what will be done, rather than how it will be done.

PPBS has three parts: a systematic process of long-range planning, the creation of programs to meet the goals of the plan, and a budget that supports these plans and programs. For this system one must not only determine the costs and benefits of the various program options, but also their comparative importance. Consequently, those who make the budget must be in agreement on the institution's priorities. This can be a problem in academia, because of the trouble a faculty would have agreeing on a ranking of the importance of all of their university's programs. In addition, it is difficult for budget leaders to agree as to how to define and measure educational outcomes, which would be an important factor in determining the benefits of a program. An advantage of PPBS is that because it requires aggregating even indirect costs to the various outputs of the library, it allows one to easily determine facts about a particular library that other systems do not. For example, one might find out that it costs more per square foot to provide study space than to shelve books or that it would cost more to shelve books on-campus than to use off-site storage and to pay people to retrieve any needed books. However, PPBS does not factor into its analysis the quality of the services provided, such as whether or not students who attend bibliographic instruction sessions actually learn anything from them, which could be important considering stakeholders' recently increased interest in measuring outcomes (Goldstein, 2005; Hallam and Dalston, 2005; Rodas, 1998; Phelps, 1996).

### **2.3.6 Performance-Based Budgeting**

Performance-based budgeting focuses on outcomes, as opposed to outputs. The difference is that an output of a bibliographic instruction program would be the number of students that received instruction, while an outcome would be the skills that those students had learned. It seems that this system was created in reaction to calls from stakeholders for greater accountability for all the funding they provide and as a way to bring together the strategic planning process with the budget creation process, which some systems, such as incremental and formula budgeting, can easily separate. Because this system relates inputs (funding), activities, and results (outcomes or impacts), it is easy not only to track the cost of each library service, but also to determine its efficiency. There are several reasons why this system is not widely used in higher education. For one thing, not only is student learning, which is the principle outcome in academia, difficult to trace back to the individual units that helped to bring it about, but also there is disagreement as to what higher education outcomes should be. In addition, performance budgeting takes a great deal of time to implement. Furthermore, there is a danger that those carefully keeping track of the statistics will start to view the numbers as an end in itself rather than a means to an end. With stakeholders putting more emphasis on making educational institutions accountable for their outcomes, however, there could be a resurgence in the use of this and other budgeting systems that require the analysis of educational outcomes (Goldstein, 2005; Hallam and Dalston, 2005; Rodas, 1998; Burke and Modarresi, 2000; Phelps, 1996).

### **2.3.7 Responsibility Center Budgeting**

Responsibility center budgeting (RCB), which has been referred to in many ways, including value centered management, cost center budgeting, and "every tub on its own bottom," attempts to make every unit more accountable by forcing it to manage its own expenses and revenues. It has been noted that academic units often have the authority to make changes that can greatly affect the institution's spending or revenue, but are often not held financially responsible and, thus, do not have to experience the direct effects of their actions. In RCB, the central administration gives its units both academic authority and fiscal responsibility. This creates incentives to restrict the number of money-losing programs, which in other allocation systems would be allowed to exist because of subsidies from money-making departments (Rodas, 1998).

Central administrations that institute RCB often do so with the expectation that this will result in a more entrepreneurial culture on campus. Every responsibility center is accountable for all of its expenses and revenues, from donations to tuition per student taught. Responsibility centers that are to be profit centers are expected to run surpluses. They can carry any surpluses or deficits into future budget years, thus inspiring managers to control costs, be efficient, and increase revenue. As a result, the profit center can fund its own initiatives from its accumulated surpluses. For example, if the library wanted to purchase a database with a huge up-front cost, but a manageable yearly cost, it could accumulate unspent money for many years until it had enough to purchase the database. If an unexpected event were to occur, however, it is unlikely that the library would be able to get funding from the central administration to cover the cost. For example, if the library owned its computer server and it suddenly stopped functioning, the library would have to find a way to pay for its replacement using surpluses it had accrued or creating deficits that it would have to pay off (Hallam and Dalston, 2005).

One should note that by better aligning the university's and the units' budgetary goals, RCB minimizes the classic economics quandary of the principal-agent problem. For instance, the rolling over of any leftover funds at the end of the fiscal year removes the incentives for dynamic inefficiency that commonly finds administrators hurriedly spending all remaining monies in the budget at the end of every fiscal year, sometimes on items of questionable importance.

In some cases, like Harvard's, the libraries are mainly a cost of the unit of which they are a part. Thus, the Harvard Business School is responsible for the budget of its Baker Library. At most RCB schools, however, libraries are cost centers. A cost center is not expected to break even and is supported through taxes on the profit centers, which is called subvention. However, departments that should be profit centers, but that are losing money, risk having their managers replaced or, in extreme cases, having the whole program be terminated. For instance, Harvard eliminated its geography department decades ago because it was neither profitable nor prestigious (Burke and Modarresi, 2000).

An advantage of RCB is that it forces units to pay for everything they use and to be paid for what they supply. One problem with this system is that it can hamper cross-disciplinary work since each unit is so independent. In addition, there is the definite risk that costly redundancies within the greater institution may develop. For example, Harvard's law school

offers its own accounting courses instead of sending its students that want an accounting class, and their tuition, to the Harvard Business School (; Goldstein, 2005; Hallam and Dalston, 2005; Harris, 1970; Maddox, 1999; Rodas, 1998; Phelps, 1996; Strauss and Curry, 2002; Priest et al., 2002; West et al., 1997; Class, 2004).

### **2.3.8 Block-Incremental Budgeting**

Block-incremental or lump sum budgeting is an alternative to RCB, in that it is a partly decentralized method of budgeting. In this system, while the spending part of the budget is decentralized, the central administration more tightly controls the income. As a result, an advantage of this system, as it is for RCB, is that unit heads have the flexibility to shift spending to where they think it is needed most. Like the federal government's method of funding some spending programs by the states, the central administration allots a unit's money in a block that those administrators that are further down the hierarchy and, thus, more knowledgeable of the various needs of the units, can dole out as they see fit. For example, if the university librarian thinks that more funding is needed for audio-visual materials than for monographs, funds can be expended in this way without needing to ask to be allowed to do this. Essentially, as long as the library director does not spend more than the amount in the block of funding, how much the library overspends or under-spends on a particular line does not matter. As a result, a unit's budget may grow incrementally, but its various budget lines may not (Hallam and Dalston, 2005; Rodas, 1998; Phelps, 1996).

### **2.3.9 Initiative-Based Budgeting**

Initiative-based budgeting, which is also called reallocation budgeting, is more an organized way of creating a pool of money for funding new initiatives than a comprehensive budget system. It is also not a system that can be used indefinitely. No matter which variant of this an institution uses, it forces units to give back a certain percentage of their base budget, which forces units to reevaluate their activities to make sure that all of them are still needed. The central administration then uses the pool of money that this process creates to fund initiatives that were given priority in the college's planning process (Goldstein, 2005).

Finally, these budgeting systems can, and often are, mixed. For example, a college could use ZBB with a different unit every year, while all the others get budgeted using an incremental approach. Furthermore, one should keep in mind that institutions will sometimes employ a



different budgeting system internally to distribute resources to their various units than the one that their governing authority uses to give them money. For example, Indiana University receives its funding from the state via formula budgeting, but allocates money to its units using a form of responsibility center budgeting (Bava, 2001).

## **2.4 Public Sector Budgeting**

There has been an increasing trend towards public sector decentralization within developing countries (World Bank/International Bank for Reconstruction and Development, 1999). A number of explanations, both political and economic, have been advanced to account for this trend. In the political context, a key impetus for decentralization is seen to be the spread of multiparty democracy, which has placed increasing pressure on central governments to allow for more local voices in decision-making (World Bank/International Bank for Reconstruction and Development, 1999). On the economic side, decentralization is credited with increasing efficiency, and improving decision-making as a result of informed local participation (Pollitt et al., 1998; Kaplan and Atkinson, 1998; Dillinger and Fay, 1999; World Bank/International Bank for Reconstruction and Development, 1999).

A combination of political and administrative decentralization, with selective devolution of public sector management responsibilities, was adopted as the new structural system for governance. The stated aim of this restructuring is to improve the efficiency and effectiveness of service delivery in a number of areas, a key one being health care (Ministry of Local Government (MoLG), 1998). Along with the move to decentralization came changes to financial management. In particular, the devolution of budgeting responsibilities became an important mechanism for operationalizing the new management structure.

The importance of budgeting in the public sectors of both developing and developed countries is beyond debate. Public sector budgets serve three macro aims: tools of accountability; tools of management; and instruments of economic policy (Premchand, 1983).

More generally, budgeting serves many purposes that are important to public sector management. It is a tool for planning, coordinating, organizing and controlling activities (Henley et al., 1992), it can enhance communication in organizations (Coombs and Jenkins, 1991), and it may also serve as a political tool.

Academic studies, particularly those adopting a contingency theory framework, have identified possible relationships between budgeting practices and organizational structure. Although most of these studies are based on private sector organizations, their findings are informative in public sector contexts also. Overall, it appears that managers in highly structured (implicitly decentralized) organizations tend to perceive themselves as having more influence on the budgeting process. They participate more in budgeting and appear to be more satisfied with budget related activities. Conversely, managers in organizations where authority is concentrated (i.e. centralized) generally perceive budgets as being less relevant, useful and flexible (Bruns and Waterhouse, 1975; Gordon and Miller, 1976; Otley, 1980; Chapman, 1997). Decentralization is, therefore, generally perceived as conducive to enhancing managers' experiences of, and commitment to, the budgeting process. As a result, decentralization might be expected to enhance the efficiency and effectiveness of public sector management.

Despite the recognized importance of budgeting and its suggested links to organizational structure, there has been little empirical exploration of how public sector budgeting has developed within increasingly decentralized frameworks of governance. This is particularly the case for developing countries adopting decentralized structures, despite recognition that appropriate budgeting practices are consistent with all societies' legitimate expectations that public resources be employed efficiently and effectively (Henley et al., 1992; World Bank/International Bank for Reconstruction and Development, 1998).

#### **2.4.1 Budgeting Process in the Public Sector**

Many developing and transition economy countries are planning significant investments in infrastructure, education, healthcare and other important areas. However, these countries often encounter difficulties in developing and implementing public investment programs that meet their needs. Limited financial resources are one important reason, but in most of the countries, institutional and procedural weaknesses add significantly to the problems created by financial constraints. Public investment processes tend to be highly fragmented, and ad-hoc decisions and sub-optimization are prevalent. The focus is often on mobilizing financing and little effort is put into ensuring the quality of the projects. As a result, public investment portfolios are often inefficient. Significant resources may be spent on prestige projects with limited social value ("white elephants") whereas highly beneficial projects remain unrealized (Bava, 2001).

The public investment process also entails a number of methodological difficulties. The absence of market-related prices for many government services makes it difficult to numerate the social benefits of programs and projects and to take decisions based on their net benefits.

There exist several techniques for assessing such benefits, but they all involve significant elements of subjectivity and can at best help to inform the decisions. The need to compare programs and projects with different timeframes, and the inherent uncertainty in many of the parameters, create additional methodological challenges (Hallam and Dalston, 2005).

In addition, many of the systemic challenges in public sector decision-making processes become particularly difficult for public investments. Investments are complex and individual decisions can have significant impact. In particular, the fragmentation of decision-making, combined with incomplete or asymmetric information about the implications of the decisions, makes it very difficult to ensure that public investment decisions are consistent across different sectors and projects, and over time.

The purpose of public organization is the reduction of economic, social, and psychic suffering and the enhancement of life opportunities for those inside and outside the organization. It is then understood that the purpose of a public organization is to serve society through social development. However, quality service of public organizations nowadays is influenced and limited by the financial allocation and support of its activities. Thus, the budget process and the budget goals of a public organization strongly determine the public organization's performance (Henley et al., 1992).

A public sector budget is used as an instrument to allocate public resources toward achieving some public value. Public decisions must weigh the cost of public action against the worth of the activity to society. One must understand and remember that the public service should be aimed for the benefit of the public itself. Thus, even if an activity contributes to the society yet does not give any practical gain, the organization may be able to identify it immediately. Also, this provides a time frame for decisions regarding the organization's services and activities (Rodas, 1998).

The process of preparing a meaningful and useful budget is best undertaken as an organized and structured group exercise. The budget process involves asking a number of questions. These start with plans and goals, not numbers. Since many different people will need to use

the budget for different purposes, they should be able to pick it up and understand it without any additional explanation. Clarity and accuracy is crucial, particularly if staff change during the life of a project. So it is important to keep notes on all budgeting assumptions and how calculations have been made (Henley et al., 1992).

The budget serves as a financial plan that operates as a statement of revenue and expenses of an organization (Henley et al., 1992). Budgets may then be used to look forward as a plan and/or look backward as a monitor. This is due to the limiting feature of the budget to the activities, which the organization may involve in. With budget goals, an organization can also check and verify expenditures that are appropriate. Furthermore, budgets give indications of the revenue flows.

The budget process is made up of activities that include the development, implementation, and evaluation of a plan for the provision of services and capital assets. An effective budget process includes several essential features, which includes, but are not limited to the following: The budget process incorporates a long-term perspective; The budget process establishes links to broad organizational goals; The budget process focuses the budget decisions on results and outcomes; The budget process involves and promotes effective communication with stakeholders; The budget process is based on a "team approach" for program managers and administrative management; and the budget process provides incentives to government management and employees.

At some levels of public organizations, the goal of public budgets was intended to inhibit theft. Budgetary control acts as prevention against misuse of funds, since effective monitoring of expenditures lessens the possibilities of embezzlements. Rules establish procedures, and they also establish the limitations of behavior. Control assumes that spending must agree with appropriation. Appropriation expresses the objective of the authorizing agent or the legislature (Maddox, 1999).

Control maintains information on expenditures so as to preserve an audit trail. Take into consideration the principle of fiscal accountability. This principle applies to private goods but is often suspended when we are speaking of public goods. Nevertheless, public goods include public expenditures; thus consequently there must be some accountability. Budget control requires encumbrance control throughout the year, and not just at the end of a budget period.

It is important therefore that the budget managers be able to track the flow of resources accurately (Maddox, 1999).

Finally, public budgets should satisfy requirements that are often not necessary in private organization budgets. These requirements are unity, universality (also called the gross budget rule), solidarity and transparency. Unity means that all resources and all expenditures of the public organization must be stated in a single document. This principle gives fiscal authorities a thorough view of all public financial matters. Universality indicates that all revenues are accounted for in their gross amount. This principle requires that all revenues are properly accounted for without any compensating against spending items. The gross budget rule also prohibits the public organization from increasing their resources beyond their budget appropriation in any way other than those provided by law. Solidarity suggests that all revenues should serve to fund all expenditures. This principle avoids "ear-marking" by which parts of the budget are seized or kept back for special interests. Last, transparency denotes that the budget should be free from falsification and fraud. This principle of transparency requires that the budget document be a public document.

The budget process and goals in the public organization is therefore an indispensable and relevant part for the organization to function and perform properly in its responsibilities. It should then be seen that proper budget objectives and procedures does not only serve as a financial strategy but also as a financial and organizational safeguard.

#### **2.4.2 Timetable**

There are several stages involved in constructing a budget before it can be submitted for approval to the governing body or a senior manager. It is a good idea to prepare a budgeting timetable and start the process early. This could be up to six months before the start of the financial year, depending on the size of your organization and the approach you plan to take (Premchand, 2005).

#### **2.4.3 Budget Headings**

When setting a budget for the first time or when reviewing a budget, it is important to pay attention to the Chart of Accounts (list of accounts codes). This is because the budget line items also appear in the books of account and on management reports. If the budget items

and accounting records are not consistent then it will be very difficult to produce monitoring reports once the project implementation stage is reached (Premchand, 2005).

One way of achieving consistency is to prepare an information sheet for people preparing budgets in your organization. For instance, this could list all of the main types of income and expenditure that a project or department might have in a typical year. It can help jog people's memories and remember all the relevant costs (Premchand, 2005).

#### **2.4.4 Estimating Costs**

It is important to be able to justify your calculations when you are estimating costs. Even if you use the incremental method of budgeting, do not be tempted to simply take last year's budget and add a percentage amount on top for inflation. You should also think about whether all the costs are justified. Last year's budget can be very helpful as a starting point; but it can also be misleading and contain historical inaccuracies (Diamond, 2003).

#### **2.4.5 Contingencies**

Try to avoid the practice of adding a 'bottom line' percentage for so-called 'contingencies' on the overall budget. As a rule, donors do not like to see this and it is not a very accurate way of calculating a budget. It is better to calculate and include a contingency amount for relevant items in the budget – e.g. salaries, insurance, and fuel. Every item in your budget must be justifiable – adding a percentage on the bottom is difficult to justify – and difficult to monitor.

#### **2.4.6 Forgotten costs**

Many a failed project is based on an under-costed budget. There is a tendency in the public sector to under-estimate the true costs of running a project for fear of not getting the project funded adequately. The most common of the forgotten costs are the indirect or non-project costs. Some of the most often overlooked costs include staff related costs (e.g. recruitment costs, training, benefits and statutory payments), start-up costs (e.g. publicity), overhead or core costs (e.g. rent, insurance, utilities), vehicle running costs, equipment maintenance (e.g. for photocopiers and computers), governance costs (e.g. board meetings, AGM) and audit fees. After all that have been considered, then a budget is drawn for the whole organization (Ambetsa, 2004).

The primary concern during the budget implementation process is to ensure the fulfilment of the financial and economic aspects of the budget. The financial tasks include; spending the amounts for the purposes specified, minimizing savings and avoiding lapses or rush of expenditures during the end of the year. The economic tasks on the other hand are; ensuring that the physical targets of programmes and projects are achieved and the macro-economic aspects of the budget such as borrowing and deficit levels are also achieved. In managing budget implementation one of the key areas of focus is the revenue and expenditure flow pattern.

In situations when revenue inflow is low and therefore cash releases are affected as budgeted, ministries are often forced to reduce expenditures. As a rule, personnel emoluments and statutory obligations (for example debt payments) are exempt from expenditure reductions. Therefore implementation of development projects and purchase of goods and services suffer severe budgetary reductions. This results in distortion of priorities and reduction in productivity as the recurrent costs of development projects cannot be met. One of the major problems in the implementation of the budget, especially the development budget, is the recurrent cost problem. The recurrent cost problem is the failure to provide adequate funds to operate and maintain a project or programme. The recurrent cost problem arises when the recurrent outlays are sufficiently below the level necessary to operate or maintain a project at its intended level to result in a noticeable loss in output, inefficiency or an obvious deterioration in plant and facilities (Premchand, 2005).

Schick (1999) developed a measure to illustrate the recurrent cost problem. The method referred to as the G-M measure calculates the ratio of current expenditures on other goods and services to expenditure on wages and salaries (the coefficient of effectiveness) (Schick, 1999). Using tills measure for the case of Kenya in the period 1972-1980, the G-M measure rose significantly reflecting the fact that during the period recurrent expenditure grew rapidly. However this did not in any way result in a reduction in the recurrent cost problem in Kenya. The conclusion to be drawn from this is that the growth in recurrent expenditure has been absorbed mainly in non-development oriented services rather than being used to alleviate the recurrent cost problem (Ambetsa, 2004).

Premchand (2003) states that implementation of the budget requires an advance program of action evolved within the parameters of the ends of the budget and means available adequate (Premchand, 2003). This framework, he further states, should include the following;

identification and enumeration of the implementation tasks, assessment of the suitability of the means of achieving the ends and prospects for the improvement of means if they are less than adequate (Premchand, 2004). The budgetary and economic tasks are rendered operational through the administrative process that comprises four major interrelated phases of work, namely; an allocation system under which expenditure is controlled by release of funds, (Muleri, 2001); Supervision of the acquisition of goods and services to ensure value for the money spent, (Brigham, 2005); An accounting system that records government transactions and provides a framework for an analysis of their implications (Kadondi, 2002); and a reporting system that permits a periodic appraisal of the actual implementation of policies (Ndiritu, 2007).

State Corporations must prepare forecasts of the financial receipts and payments in order to facilitate prompt release of funds for the actualization of their activities and programmes. Release of funds by the Ministry of Finance is an instrument that is very critical to the budget implementation process. When planned and affected properly it can facilitate the implementation tasks of spending agencies, while the negative use of the same process may hamper the activities of the agencies. In the course of budget implementation another key factor that has to be taken into account is the issue of cost increases (Schick, 1999).

In most government programs and projects cost increases are the rule rather than the exception and cases of cost increases have been known to inflate project budgets by as high as 100 percent. These increases have to be anticipated and policies formulated to counteract them or provide for them as has been suggested by Premchand (2004) through creation of a contingency reserve. The phenomena of excess expenditure also critically affect budget implementation (Premchand, 2004). It may occur as a result of cost increase or as a consequence of poor management. Excess expenditures cause instability in the resource allocation process and are discouraged by many government, some even providing legislative restrictions. Schick (1999) observes that a country can have a sound budget and financial system and still fail to achieve its intended targets. This is because the rules of the game by which the budget is formulated and implemented are equally important and do influence outcomes (Schick, 1999).

Budget implementation has been an issue of public concern for a long time. The concern arises because of the impact it has on public sector performance and outcomes. During the last decade the capacity of the government to provide essential services to citizens has been



increasingly and seriously strained by the large gap between revenues and expenditures, growing balance of payments difficulties, the increasing demand for services and a decline in the efficiency of operations of the public service (Schick, 1999).

Budget rationalization which should be carried out when faced with resource constraints is totally lacking in public institutions and often they do not focus their expenditures on critical activities in the development and recurrent budgets thus resulting in allocation of funds to areas that are not in line with national priorities (Report of the Government Projects Review Committee 1993).

## **2.5 Public Budgeting Systems: Inefficiencies and Ineffectiveness**

With regard to being inefficient, it is generally considered that the traditional budgeting process is very bureaucratic and protracted (Bunce and Fraser, 1997; Hope and Fraser, 1997; Fanning, 1999). In particular, it is claimed that budgets take up too much management time, often involving numerous revisions and substantial delays (Fanning, 1999). Significant concerns regarding the apparent ineffectiveness of traditional budgets, meanwhile, include: that typically such budgets encourage parochial behavior, reinforcing departmental barriers while hindering flexibility, responsiveness and knowledge sharing; that they are seen as a rigid commitment, constraining management to out-of-date assumptions while inhibiting both management initiative and the pursuit of continuous improvement; that they strengthen the traditional vertical chain of command rather than empowering the people on the organization's front line; and that they emphasize cost-minimization rather than the maximizing of value (Bunce and Fraser, 1997; Hope and Fraser, 1997). Overall, it is considered that such budgeting systems often fail to give lasting improvement or generate congruent behavior (Bunce and Fraser, 1997; Fanning, 1999) – indeed, Hope and Hope (1997) summarize the situation by concluding that: ... the budgeting process is too rigid, too internally focused, adds too little value, takes too much management time, and encourages the wrong managerial behavior.

It is suggested that a significant number of these problems of inefficiency and ineffectiveness relate to the fact that traditional budgeting systems were actually initially designed just as an aid to financial forecasting, cash flow management and the control of costs and capital expenditure (Hope and Fraser, 1997). In recent times, though, budgets have also been utilized to support such important management functions as communicating and determining

corporate goals and objectives, allocating resources and appraising performance functions for which the budgetary control system was never designed, and for which it is not at all well suited (Bunce and Fraser, 1997). It is perhaps not surprising then that it is considered that the traditional budgeting system is “out of sync” with the needs of organizations in the information age and that a new approach to achieving management’s purposes for budgeting is needed (Hope and Hope, 1997).

### **2.5.1 New Approaches to Budgeting Systems**

It has been suggested that it may be possible to meet the budgetary needs of organizations in the information age through adopting “better budgeting” processes including, for example, activity based budgeting (ABB) and zero-base budgeting (ZBB) (Schick, 1999). However, it is being increasingly argued that just “tinkering” with an organization’s budgeting systems will not be adequate. Instead, it is suggested that what is really needed is a fundamentally new approach to such important budgeting purposes as forecasting and resource allocation, performance measurement and control, and cost management – an approach that incorporates a range of “alternative steering mechanisms” that especially promote empowerment, flexibility and knowledge-sharing (Hope and Fraser, 1997).

## **2.6 Conclusions**

From the literature review, it can be concluded that a budget is just as important for nonprofit organizations and public sector, which by their nature are not required to maximize their profits, as it is for businesses, which exist to bring the utmost return on the stockholders’ investments. However, formula budgeting is typically employed by governmental bodies as a means of distributing its money to its various sub entities because it has an advantage of making it relatively easy for the director to predict the amount of money that will be allocated. The literature further concludes that Performance-based budgeting is preferred for Public Sector Budgeting because it focuses on outcomes, as opposed to outputs. There has been an increasing trend towards public sector decentralization which is credited with increasing efficiency, and improving decision-making as a result of informed local participation. A combination of political and administrative decentralization, with selective devolution of public sector management responsibilities, was adopted as the new structural system for governance. The stated aim of this restructuring is to improve the efficiency and effectiveness of service delivery.

The literature further concludes that budgeting serves many purposes that are important to public sector management. It is a tool for planning, coordinating, organizing and controlling activities, it can enhance communication in organizations and it may also serve as a political tool. A public sector budget is used as an instrument to allocate public resources toward achieving some public value. Public decisions must weigh the cost of public action against the worth of the activity to society

The literature also concludes that budgetary control acts as prevention against misuse of funds, since effective monitoring of expenditures lessens the possibilities of embezzlements. Public budgets should satisfy requirements that are often not necessary in private organization budgets which include unity, universality (also called the gross budget rule), solidarity and transparency.

On the new approaches to budgeting systems the literature has suggested that it may be possible to meet the budgetary needs of organizations in the information age through adopting “better budgeting” processes including, for example, activity based budgeting (ABB) and zero-base budgeting. What is really needed is a fundamentally new approach to such important budgeting purposes as forecasting and resource allocation, performance measurement and control, and cost management – an approach that incorporates a range of “alternative steering mechanisms” that especially promote empowerment, flexibility and knowledge-sharing .

On Budgeting Process in the Public Sector we can conclude from the literature that many developing and transition economy countries often encounter difficulties in developing and implementing public investment programs that meet their needs. Limited financial resources are one important reason, but in most of the countries, institutional and procedural weaknesses add significantly to the problems created by financial constraints.

Despite the recognized importance of budgeting and its suggested links to organizational structure, there has been little empirical exploration of how public sector budgeting has developed within increasingly decentralized frameworks of governance. There exists a gap in the literature since no study has been conducted on challenges of budgeting in public organizations in Kenya, and more specifically at the City Council of Nairobi. This study therefore seeks to fill this gap by focusing on challenges of budgeting at the City Council of Nairobi, also a public institution and a local government authority.

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1 Research Design

This was a descriptive survey study aimed at establishing the challenges of operational budgeting process in the local authorities in Kenya. A descriptive study is concerned with finding out the what, where and how of a phenomenon.

### 3.2 Population

This was a case study of the CCN. The population of interest of this study was the managers and supervisors that manage all the budgetary units at the CCN. These budgetary units were the various departments and sections at the CCN, which were a hundred in number at the time of study. The study used a census survey targeting the one hundred heads of these budgetary units. The study being a case study implied that data was to be collected from all the departments and sections in the City Council, at their Headquarters in Nairobi's City Hall and City Hall Annex as well as the various outstation offices around the city. This therefore means that a census survey method was used.

### 3.3 Data Collection

In order to identify the challenges faced in operational budgeting in the CCN in Kenya, self-administered drop and pick questionnaires were distributed among the senior employees currently employed by the Council. The questionnaire was designed to identify the challenges that were faced in the formulation and execution of budgets by the CCN.

The study being a case study means that senior employees were selected from the various departments of the city council and administered with the questionnaire. These staff included managers and other senior staff in the ranks of management. This made it easier to get adequate and accurate information necessary for the research.

Structured questionnaires were used as the main data collection instrument. The questionnaires had both open and close-ended questions. The close-ended questions provided more structured responses to facilitate tangible recommendations. The open-ended questions provided additional information that may not have been captured in the close-ended questions.

Secondary data sources were employed through the use of previous documents or materials to supplement the data received from questionnaires and information from interviews.

### **3.4 Reliability and Validity of Research Instrument**

Validity is the degree by which the sample of test items represents the content the test is designed to measure. Content validity which was employed by this study is a measure of the degree to which data collected using a particular instrument represents a specific domain or content of a particular concept. Mugenda and Mugenda (1999) contend that the usual procedure in assessing the content validity of a measure is to use a professional or expert in a particular field.

To establish the validity of the research instrument I sought opinions of experts in the field of study especially my supervisor and lecturers. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

Reliability refers to the consistency of measurement and is frequently assessed using the test-retest reliability method. Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures.

Reliability of the research instrument was enhanced through a pilot study that was done on five employees at the CCN. The pilot data was not included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was established so as to enhance the instrument's validity and reliability. The pilot study enabled me to be familiar with research and its administration procedure as well as identifying items that required modification. The result helped me to correct inconsistencies arising from the instruments, which ensured that they measured what was intended.

### **3.5 Data Analysis**

Qualitative data was analyzed using qualitative analysis while SPSS was used to analyze the quantitative data in the likert scale. Qualitative data analysis sought to make general statements on how categories or themes of data are related (Mugenda and Mugenda, 2003). The qualitative analysis was done using content analysis. Content analysis is the systematic qualitative description of the composition of the objects or materials of the study (Mugenda and Mugenda, 2003). It involves observation and detailed description of objects, items or things that comprise the sample. Descriptive statistics were used to summarize the data. This

included percentages and frequencies. Tables were also used to present the data collected for ease of understanding and analysis.

## CHAPTER 4: DATA ANALYSIS AND INTERPRETATION

### 4.1 Introduction

This chapter presents analysis and findings of the research. From the study population target of one hundred employees in the CCN, eighty respondents returned the filled questionnaires, comprising of 80% response rate.

### 4.2 General Information

#### Respondents Department

From the study, the respondents were in departments such as city planning, human resources, internal audit, accounting, administration. The respondents were also in designations such as senior administrative officers, field assistants, accounts clerks, audit clerks, accountants, human resource officers and administrators.

**Table 1: Respondents Total Work Experience**

	Frequency	Percent
1-5 years	9	11.2
6-10 years	36	45.0
11-15 years	15	18.8
16-20 years	14	17.5
Over 20 years	6	7.5
Total	80	100.0

The study also sought to find out the respondents total work experience in years. According to the findings, as represented in Table 1 above, most of the respondents as shown by 45% had an experience of 6-10 years, 18.8% of the respondents had an experience of 11-15 years, 17.5% of the respondents had an experience of 16-20 years, 11.2% had an experience of 1-5 years, while 7.5% of the respondents had a total work experience of over 20 years. This information implies that the majority of respondents (88.8%) were well versed with challenges of budgeting as they had a total work experience of 6 years and above.

**Table 2: Duration of Working in the Department**

	Frequency	Percent
1-3 years	11	13.7
4-6 years	21	26.3
7-9 years	39	48.7
10 years and above	9	11.3
Total	80	100.0

The respondents were also required to indicate the duration that they had worked in their respective departments. According to the findings in the table 2 above, most of the respondents had worked in their departments for 7-9 years as shown by 48.7%, 26.3% of the respondents had been working in their departments for 4-6 years, 13.7% of the respondents had been working in their departments for 1-3 years, while 11.3% of the respondents reported that they had been working in their respective departments for 10 years and above. This information also shows that most of the respondents were well versed with the operations of their respective departments, including the challenges of budgeting therein, as most of them (86.3%) had worked in their departments for 4 years and above.

**Table 3: Total Number of Employees in the Department**

	Frequency	Percent
Less than 50	5	6.3
50-100	68	85.0
Above 100	7	8.8
Total	80	100.0

The study also sought to establish the total number of employees in different departments at the CCN. According to the findings represented in table 3 above, the study found that most of the departments had 50-100 employees as shown by 85% of respondents, 8.8% said above 100 employees, while 6.3% of the respondents reported that their departments had less than 50 employees.



### 4.3 Budget Planning

**Table 4: Whether City Council of Nairobi Budget Plan Is Clear and Accurate**

	Frequency	Percent
Yes	11	13.7
No	69	86.3
Total	80	100.0

The study also sought the respondent's views on whether the CCN budget plan was clear and accurate. From the study, as represented in table 4 above, most of the respondents (86.3%) felt that the CCN budget plan was not clear and accurate, while 13.7% of the respondents felt that the budget plan was clear and accurate.

**Table 5: Length of Time Period the Budget Plan Covers**

	Frequency	Percent
7-9 months	7	8.8
10-12 months	68	85.0
1-3 years	5	6.3
Total	80	100.0

The respondents were also asked to state the time period that the budget plan covered. From the study, as represented in table 5 above, most of the respondents said that it covered 10-12 month, 8.8% of the respondents said that it covered 7-9 months, while 6.3% of the respondents said that it covered 1-3 years.

**Table 6: Respondent's Involvement in the Preparation of Budgets**

	Frequency	Percent
Yes	25	31.3
No	55	68.8
Total	80	100.0

On whether the respondents were involved in the preparation of budgets, as shown in table 6

above, most of the respondents as indicated by 68.8% reported that they were not involved in the preparation of budgets, while 31.3% of the respondents said that they were involved in the preparation of budgets.

**Table 7: Participation of All Senior Staff in Budget Preparation and Discussions**

	Frequency	Percent
Strongly agree	5	6.3
Agree	9	11.3
Neutral	38	47.5
Disagree	18	22.5
Strongly disagree	10	12.5
Total	80	100.0

The respondents were also asked whether all senior staff in the organization participated in budget preparation and discussions. From the study, as shown in table 7 above, most of the respondents (47.5%) were neutral on this fact, 22.5% of the respondents disagreed with this fact, 12.5% of the respondents strongly disagreed, 11.3% of the respondents agreed, while 6.3% of the respondents strongly agreed that all senior staff in the organization participated in budget preparation and discussions.

**Table 8: Purposes of Operational Budgets**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
To plan/forecast the future	53.8	35.0	11.3	0	0	1.6
assist in control	53.8	41.3	5.0	0	0	1.5
To enforce accountability	28.8	55.0	16.3	0	0	1.9
As a mean by which management communicates to other levels of department	16.3	48.8	22.5	12.5	0	2.3
As a means of organizing operational activities	11.3	22.5	66.3	0	0	2.6
As a means of performance appraisal	36.3	46.3	17.5	0	0	1.8
To motivate employees to perform better	6.3	23.8	23.8	22.5	23.8	3.3

Operational budgets have a number of purposes. The respondents were therefore requested to indicate their level of agreement on how relevant the purposes of budgeting in the above table were relevant in their organizations. The findings were then presented using mean scores for easier interpretations. From the study, as shown in table 8 above, most of the respondents were in agreement that budgets in their organization was used to assist in control as shown by a mean score of 1.5, to plan/forecast the future as shown by a mean score of 1.6, as a means of performance appraisal as shown by a mean score of 1.8, to enforce accountability as shown by a mean score of 1.9 and also as a mean by which management communicates to other levels of department as shown by a mean score of 2.3.

Further, most of the respondents were neutral that budgets in their organization were used as a means of organizing operational activities as shown by a mean score of 2.6 and also to motivate employees to perform better as shown by a mean score of 3.3.

**Table 9: Budgets Are Tailored Along CCN's Priorities and Expenditure**

	Frequency	Percent
Strongly agree	5	6.3
Agree	20	25.0
Neutral	32	40.0
Disagree	18	22.5
Strongly disagree	5	6.3
Total	80	100.0

The respondents were also required to state the extent that they agreed that the budgets were tailored along CCN's priorities and expenditure. From the study, as shown in table 9 above, most of the respondents as shown by 40% were neutral on this fact, 25% of the respondents agreed with this, 22.5% of the respondents disagreed, while the respondents who strongly agreed and those who strongly disagreed with this fact were shown by 6.3% each.

**Table 10: Whether Budgeting Process Takes Appropriate Time Duration at CCN**

	Frequency	Percent
Strongly agree	5	6.3
Agree	14	17.5
Neutral	28	35.0
Disagree	28	35.0
Strongly disagree	5	6.3
Total	80	100.0

The study also sought to establish whether budgeting process at CCN takes appropriate time duration. From the study, as shown in table 10 above, the respondents who disagreed with this and those who were neutral were shown by 35% each, 17.5% of the respondents agreed, while the respondents who strongly agreed and those who strongly disagreed were shown by 6.3%.

**Table 11: Responsibility of Making Final Decision on the Budget Proposals**

	Frequency	Percent
The accountant	27	33.8
Operational manager	10	12.5
The board	9	11.3
Others	34	42.5
Total	80	100.0

On who makes the final decision on the budget proposals, as shown in table 11 above, most of the respondents said others i.e. the management, the full council, administrators, senior accountants and city treasurer. 33.8% said that the accountants made the final decision on the budget proposals, 12.5% said operational managers, while 11.3% of the respondents said that the final decision on the budget proposals were made by the board.

#### 4.4 Effectiveness of the Budgeting Process

**Table 12: Agreement That the Budget Document Is a Public Document**

	Frequency	Percent
Strongly agree	14	17.5
Agree	62	77.5
Neutral	4	5.0
Total	80	100.0

From the findings presented in table 12 above, most of the respondents (77.5%) agreed that the budget document was a public document, 17.5% of the respondents strongly agreed, while 5% of the respondents were neutral on this fact.

**Table 13: The Extent That the Prepared Budget Serve Their Purpose at CCN**

	Frequency	Percent
Very great extent	5	6.3
Great extent	9	11.3
Moderate extent	66	82.5
Total	80	100.0

The respondents were also asked to state the extent that the prepared budgets served their purpose at CCN. From the study, as shown in table 13 above, most of the respondents as shown by 82.5% said that the prepared budgets served their purpose at CCN to a moderate extent, 11.3% of the respondents said to a great extent, while 6.3% of the respondents said that the prepared budget served their purpose to a very great extent.

**Table 14: Rate at Which CCN Makes Ad-Hoc Decisions on Revenues and Expenditure**

	Frequency	Percent
Frequently	34	42.5
Moderate	36	45.0
Rarely	10	12.5
Total	80	100.0

The respondents were also requested to give their views on the rate that CCN makes ad-hoc decisions on revenues and expenditures. From the study, as shown in table 14 above, 45% of the respondents felt that CCN makes ad-hoc decisions on revenues and expenditures to a moderate extent, 42.5% of the respondents said frequently, while 12.5% of the respondents felt that CCN makes ad-hoc decisions on revenues and expenditures.

**Table 15: Applicability of Stages of Budgeting in CCN**

	Yes	No
Identification of capital expenditure projects	93.8	6.3
Search (explore several different capital expenditure)	81.3	18.8
Information-acquisition	52.5	47.5
selection (choosing projects for implementation)	55.0	45.0
Financing	76.3	23.8
Implementation and control	87.5	12.5

The study also sought to establish the stages of budgeting that were applicable in CCN. From

the study, as shown in table 15 above, most of the respondents said that the stages that are mostly applicable in CCN in descending order were identification of capital expenditure projects as shown by 93.8% of the respondents, implementation and control shown by 87.3% of the respondents, search (explore several different capital expenditure) as shown by 81.3%, financing shown by 76.3%, selection (choosing projects for implementation) shown by 55% of the respondents and information-acquisition as shown by 52.5% of the respondents.

**Table 16: Respondents Agreement with Budgeting in CCN**

	Strongly agree	Agree	neutral	Disagree	Strongly disagree	Mean
CCN puts great emphasis on assuring quality projects	41.3	27.5	25.0	6.3	0	2.0
CCN puts great emphasis on mobilizing finances	46.3	53.8	0	0	0	1.5
CCN applies budgeting controls, through effective monitoring, to prevent misuse	17.5	30.0	46.3	6.3	0	2.5

From the findings presented in table 16 above, most of the respondents were in agreement that CCN puts great emphasis on mobilizing finances as shown by a mean score of 1.5 and also CCN puts great emphasis on assuring quality projects as shown by a mean score of 2.0. Further, most of the respondents were neutral on the fact that CCN applies budgeting controls, through effective monitoring, to prevent misuse as shown by a mean score of 2.5.

#### **4.5 Challenges of Budgeting**

**Table 17: Challenges Faced by CCN in Budgeting**

	Yes	No
CCN experiences limited financial resources	93.8	6.3
There are institutional and procedural weaknesses	93.8	6.3
Investment processes are highly fragmented	100.0	0
Methodological difficulties in budget implementation	100.0	0
Failure to obtain/use market-related prices	58.8	41.3
Need to compare programs and projects with different timeframes	71.3	28.8
Investments are complex	41.3	58.8
Fragmentation of decision-making	87.5	12.5

The study also sought to find out the challenges that CCN faced in budgeting. According to the study, as shown in table 17 above, these challenges were that investment processes are highly fragmented and there exist methodological difficulties in budget implementation as shown by 100% in each, CCN experiences limited financial resources and also there are institutional and procedural weaknesses as shown by 93.8% each, fragmentation of decision-making as shown by 87.5%, need to compare programs and projects with different timeframes as shown by 71.3% and also failure to obtain/use market-related prices as shown by 58.8%.



**Table 18: Respondents Agreement with the Challenges of Budgeting at CCN**

	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Mean
CCN loses significant resources in "white elephant" projects at the expense of other beneficial projects	70.0	18.8	11.3	0	0	1.4
CCN is often forced to reduce expenditure because of low revenue inflows	41.3	52.5	6.3	0	0	1.7
CCN often experiences excess expenditure in budget implementation	47.5	41.3	5.0	6.3	0	1.7
There are failed projects due to under-costing of the budget	42.5	23.8	33.8	0	0	1.9
The management is able to overcome the budgeting challenges in the CCN	0	0	47.5	33.7	18.8	3.5

The respondents were also requested to indicate their level of agreement regarding the statements in the above table on the challenges of budgeting. From the study, as shown in table 18 above, most of the respondents strongly agreed that CCN loses significant resources in "white elephant" projects at the expense of other beneficial projects as shown by a mean score of 1.4. Most of the respondents further agreed that CCN is often forced to reduce expenditure because of low revenue inflows and CCN often experiences excess expenditure in budget implementation as shown by a mean score of 1.7 in each case and also there are failed projects due to under-costing of the budget as shown by a mean score of 1.9. Most of the respondents disagreed that the management is able to overcome the budgeting challenges in the CCN as shown by a mean score of 3.5.

### **Possible Solutions to the Major Budgeting Challenges Facing the CCN**

The respondents were also requested to give their perceived possible solutions to the major budgeting challenges facing the CCN. From the study, the respondents suggested that there should be put in place an oversight board to monitor revenue and expenditure at the council, an inspection and acceptance committee to check on contracts and goods delivered to the council should be welcome, there should be legal and systematic allocation of funds in the council, those involved in budgeting should be well trained on budgeting in order to avoid the budgeting challenges, budgeting should be done very professionally as sometimes the budgeted amount get finished before the end of the year and also the top management should be consulting with departments before they disregard the proposed departmental projects or suggested purchases and the departments should participate in budget preparation.

## CHAPTER 5: DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

### 5.1 Introduction

From the analysis and data collected the following discussions, conclusions and recommendations were made. The response was based on the objectives of the study. The objective of this study was to identify the challenges encountered in the budgeting process at the CCN.

### 5.2 Discussions

The study found that the budget plan at the City Council of Nairobi (CCN) was not clear and accurate (Table 4). Also, most of the respondents reported that they were not involved in budget preparation (Table 6). Further, most of the respondents were neutral that all senior staff in the organization participated in budget preparation and discussions (Table 7). Most of the respondents were also neutral on the fact that the budgets were tailored along CCN's priorities on expenditure (Table 9). From the study, the majority of respondents said that the final decision on the budgeting proposal was made by the accountants (Table 11). All these study findings, which are strongly correlated, indicate a failure by CCN to obtain budget estimates from subordinate officers as a requirement for good budget planning, since they are the ones who have the relevant facts to effectively classify activities into various categories according to their importance. From the literature, the basic reason for requiring estimates from subordinate officials is that higher officials do not have enough detailed information, time or specialized skills to prepare the plans themselves (Lewis, 2005).

The respondents were also neutral on the fact that budgeting process took appropriate time duration at CCN (Table 10). This corroborates literature that traditional budgets take up too much management time and are inefficient in the sense that they are very bureaucratic and protracted (Bunce and Fraser, 1997; Hope and Fraser, 1997; Fanning, 1999).

Previous studies found that budgeting serves many purposes as a tool for planning, coordinating, organizing and controlling activities (Henley et al., 1992), enhancing communication in organizations (Coombs and Jenkins, 1991), and it may also serve as a political tool. This correlates well with the purposes of budgets found by the study (Table 8), which were: to assist in control, to plan/forecast the future, as a means of performance

appraisal, to enforce accountability and also as a mean by which management communicates to other levels of department. However, the study findings do not entirely agree with the intended purpose of budgeting to encourage performance of managers (Abernethy and Brownell, 1999; Ondati, 2001).

On the effectiveness of budgeting process, the majority of the respondents agreed that the budget document was a public document (Table 12), which is in agreement with the requirement that public budgets should be transparent so as to be free from falsification and fraud. Also, most of the respondents felt that the prepared budgets moderately served their purpose at CCN (Table 13). However, the respondents also felt that CCN made ad-hoc decisions on revenues and expenditure (Table 14). This finding correlates strongly with that where most of the respondents were also in agreement that CCN loses significant resources in "white elephant" projects at the expense of other beneficial projects, CCN is often forced to reduce expenditure because of low revenue inflows, CCN often experiences excess expenditure in budget implementation and that there are failed projects due to under-costing of the budget (Table 18). It further correlates with the finding that challenges exist in CCN as follows; that CCN experiences limited financial resources, there are institutional and procedural weaknesses, investment processes are highly fragmented, there exist methodological difficulties in budget implementation, and fragmentation in decision-making (Table 17). These are consistent with literature that developing and transition economy countries suffer institutional and procedural weaknesses and often encounter difficulties in developing and implementing public investment programs that meet their needs, and that ad-hoc decisions and sub-optimizations are prevalent, leading to inefficient public investment portfolios and significant expenditure on "white elephant" projects (Bava, 2001).

The stages of budgeting that were applicable in CCN, according to the respondents, were: identification of capital expenditure projects, implementation and control, search (explore several different capital expenditure), financing, selection and information-acquisition. This correlated with the phases that were stipulated by (Premchand, 1994).

The study also found that CCN puts great emphasis on mobilizing finances (Table 16). This is consistent with the finding that CCN faces limited financial resources in budgeting (Table 17), and agrees with Premchand, (2005), who stated that one of the major problems in the implementation of the development budget is the recurrent cost problem, which is the failure

to provide adequate funds to operate and maintain a project or programme. This leads to reduction of expenditure as evidenced in the findings in Table 18, hence affecting project quality or even leading to “white elephant” projects.

The respondents were mostly neutral on the application of budgetary controls through effective monitoring, which should act as prevention against misuse of funds (Maddox, 1999). This is consistent with the finding that CCN has institutional and procedural weaknesses (Table 17) and also that CCN experiences excess expenditure in budget implementation (Table 18).

The respondents suggested that the possible solutions to the major budgeting challenges at CCN were that an oversight board should be instituted to monitor revenue and expenditure at the council, an inspection and acceptance committee instituted to check on contracts and goods delivered to the council, there should be legal and systematic allocation of funds in the council, those involved in budgeting should be well trained on budgeting in order to avoid the budgeting challenges, budgeting should be done very professionally to avoid the budgeted amount getting finished before the end of the year and also the top management should be consulting more with departments for their input on the proposed departmental projects or suggested purchases.

### 5.3 Conclusions

From findings and the discussions, the study concludes that although budget plan in CCN was not clear and accurate to most of the employees it was used to assist in control, to plan/forecast the future, as a means of performance appraisal, to enforce accountability and also as a mean by which management communicates to other levels of department. Most of the respondents were also neutral on the fact that the budgets were tailored along CCN's priorities on expenditure. The respondents were also neutral on the fact that budgeting process took appropriate time duration at CCN. From the study, the majority of respondents said that the final decision on the budgeting proposal was made by the accountants.

The study also concludes that there are challenges experienced in budgeting at CCN. These challenges include: investment processes are highly fragmented, methodological difficulties in budget implementation, limited financial resources, institutional and procedural

weaknesses, fragmentation of decision-making, need to compare programs and projects with different timeframes and also failure to use market-related prices. Other challenges are: CCN loses significant resources in "white elephant" projects at the expense of other beneficial projects, reduction of expenditure because of low revenue inflows, experiences of excess expenditure in budget implementation and also failed projects due to under-costing of the budget.

#### **5.4 Recommendations**

The study therefore recommends that for the budgeting process at the CCN to be successful, the budget plan should be made more clear and accurate that all the employees are able to understand it, many subordinate officers as possible in the departments should participate in budget preparation and all the senior staff in the organization should be involved in budget preparation and discussions. CCN should build strong institutions and improve its budgetary procedures so as to avoid ad-hoc decision-making.

The study also recommends that the council should ensure that in budgeting, market related prices should be used, CCN should also apply budget controls through effective monitoring to prevent misuse and also CCN should also have other income generating sources in order to substitute their income to ensure that they do not reduce expenditure because of low revenue inflows.

#### **5.5 Suggestions for Further Research**

A similar study should be undertaken focusing on other related organisations. The respondents should also be broadened to cover not only middle and top management but also all the people in organizations.

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## Appendix I: Questionnaire

Kindly answer the following questions by ticking in the appropriate box or filling the spaces provided.

### Part A: General information

1. Department Name ..... Section .....
2. What is your designation? .....
3. What is your total work experience in years? .....
4. How long have you worked in the department? \_\_\_\_\_ Years
5. What is the total number of employees in your Department: Please tick one  
Less than 50           
50 – 100               
Above 100

### Part B: Budget planning

1. Is the City Council of Nairobi (CCN) budget plan clear and accurate to you?  
 Yes     No
2. What is the length of time period your budget plan covers?  
1 – 3 Months           
4 – 6 Months           
7 - 9 Months           
10 - 12 Months         
1 – 3 Years              
Over 3 Years
3. Are you involved in the preparation of budgets?                     Yes    No
4. All senior staff in your organization participate in budget preparation and discussions.  
Do you agree to this statement? Please tick appropriate scale.  
a. Strongly agree

- b. Agree [ ]
- c. Neutral [ ]
- d. Disagree [ ]
- e. Strongly disagree [ ]

5. Operational budgets have a number of purposes; indicate how important do you think that each of the following budgeting purpose is relevant for your organization (please tick the appropriate scale): -

Purpose	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
To plan/forecast the future					
Assist in control					
To enforce accountability					
As a means by which management communicates to other levels of department					
As a means of organizing operational activities					
As a means of performance appraisal					
To motivate employees to perform better					

6. To what extent do you agree with the statement: "The budgets are tailored along CCN's priorities on expenditure"?

- a. Strongly agree [ ]
- b. Agree [ ]
- c. Neutral [ ]

d. Disagree [ ]

e. Strongly disagree [ ]

7. Do you agree that the budgeting process takes appropriate time duration at CCN?

a. Strongly agree [ ]

b. Agree [ ]

c. Neutral [ ]

d. Disagree [ ]

e. Strongly disagree [ ]

8. Who makes the final decision on the budget proposals?

The Accountant [ ]

Operational Manager [ ]

CEO [ ]

The Board [ ]

Any Other [ ] Title of Other \_\_\_\_\_

### Part C: Effectiveness of the budgeting process

1. The budget document is a public doc. To what extent do you agree?

a. Strongly agree [ ]

b. Agree [ ]

c. Neutral [ ]

d. Disagree [ ]

e. Strongly disagree [ ]



5. Which stage takes the longest time and why?

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6. To what extent do you agree with the following statements? Please tick appropriate scale.

Statement.	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
CCN puts great emphasis on assuring quality of projects.					
CCN puts great emphasis on mobilizing finances.					
CCN applies budgeting controls, through effective monitoring, to prevent misuse.					

#### Part D: Challenges of Budgeting

1. Does CCN face the following challenges in budgeting? (Tick Yes OR No)

CCN experiences limited financial resources  Yes  No

There are Institutional and procedural weaknesses  Yes  No

Investment processes are highly fragmented  Yes  No

Methodological difficulties in budget implementation  Yes  No

Failure to obtain/use market-related prices  Yes  No

Need to compare programs and projects with different timeframes  Yes  No

Investments are complex  Yes  No

Fragmentation of decision-making  Yes  No

Any Other(s)  Yes  No

\_\_\_\_\_

Yes  No

\_\_\_\_\_

Yes  No

\_\_\_\_\_

2. To what extent do you agree with the following statements? Please tick appropriate scale.

Statement.	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
CCN loses significant resources in “white elephant” projects at the expense of other beneficial projects.					
CCN is often forced to reduce expenditure because of low revenue inflows.					
CCN often experiences excess expenditure in budget implementation.					
There are failed projects due to under-costing of the budget.					
The management is able to overcome the budgeting challenges in the CCN.					

3. What are the possible solutions to the major budgeting challenges facing the CCN?

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**Thank You.**