Financial Budgetary Allocation and Financial Sustainability of the Water Companies in North Rift Counties of Kenya

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Abstract- Financial Sustainability is an organization's ability to achieve similar achievements over time to an extent that the organization attracts external investors and pension funds institutions to invest in the organization. Financial sustainability and development have a direct influence with social harmony and a county's Gross Domestic Development. This study therefore aimed at evaluating the effect of financial budgetary allocation on financial sustainability of the water companies in North Rift counties of Kenya.The study as constructed on: The New Economic Theory; Budget Theory; Modern Portfolio Theory and theory of Financial Control. This study adopted a constructivist paradigm with a survey research design as it assumes quantitative methodology. The target population consisted of all water companies in the North Rift Counties of Kenya with a registered pension scheme. This study utilized` census sampling. The study used questionnaires as a tool for data collection. A pilot study was done to determine the reliability and validity of the study. Data was described using descriptive statistics such as mean and standard deviation, which gave meaning to describing the distribution of responses. Various factor analysis statistics were used to infer population characteristics from the study sample. Pearson's correlation coefficient was used to establish relationships between variables. The study findings show that there is a significant relationship between financial budgetary allocations on financial sustainability of the water companies. Drawing on these findings, the study recommends that management and the employees who execute the reforms honestly assesses the challenges and objectively find a best solution. It further requires that the management has the skills to managing the mindset of all the stakeholders.

Indexed Terms- Financial Budgetary Allocation, Financial Sustainability, Water Companies.

I. INTRODUCTION

According to the International Monetary Fund Report (2012), 'Threats to financial stability stem from longevity risk derived from at least two major sources: one is the threats to financial sustainability as a result of large longevity exposures of governments and the second factor is possible threats to the solvency of private financial and corporate institutions exposed to longevity risk. The latter, draws awareness that longevity risk threatens to undermine financial sustainability of pension systems in the coming years and decades and complicating the longer-term consolidation efforts in response to the current financial difficulties.

A study by Abazi-Alili, et al., (2018) on the topic, "Sustainability of the Pension System in the Republic of Macedonia: Challenges and Solutions," showed that the key dilemma of many developed and transition countries remains precisely the direction of the development of the pension system, structure and performance. Pension reforms represent a dynamic and persistent category, which is encountered in developed, developing and transition countries. Even over the last decade, they are even more intensive, especially in terms of structure review, mobilization of resources to overcome demographic and financial difficulties, and preparation of a system that will provide a solution to the problems in the medium to long term.

A study done by Loretto, (2015) on challenges of administering new contributory pension scheme in Nigeria found that the rationale for the introduction of the Contributory Pension Scheme in Nigeria included very limited coverage under the Defined Benefit Scheme; inadequate budget allocation; unsustainable and outstanding pension liabilities; weak and inefficient administration. The study further found out that the pension scheme in its current state is inefficient, fraudulent and cannot achieve the desired or intended objectives of the scheme. The study recommended that strengthening of the pension scheme enforcement and administration through the organization of regular in-service training and workshops for the staff of the National Pension Commission and other stakeholders.

Pension schemes in Kenya can be categorized under public sector and private sector. Public sector addresses tier one that is NSSF and tier two that is Public Service Pension Scheme. Private Pension Schemes are of two types' namely occupational retirement benefits schemes (tier three) and individual retirement benefits schemes (tier four). According to the Retirement Benefits Act (Occupational Retirement Benefits Schemes) Regulations, 2000 occupational retirement benefits scheme means a retirement benefits scheme established by employers for the benefit of the employees including schemes established under a written law (RBA, 2000).

Occupational pension schemes in Kenya as 31^{st} December 2015 added up to 1,379 and constitutes 10.4% of the total coverage in the industry. Other schemes are the Civil Service Pension Scheme 22%, the Individual Pension schemes 0.6%, and the NSSF 67% (UNESCO Report, 2016). The Civil Service Pension Scheme being a non-contributory scheme is 100% funded and guaranteed by the National Government while the NSSF is contributory but enjoys the enactment of the NSSF Act 2012 which made it mandatory scheme for all employees.

II. FINANCIAL BUDGETARY ALLOCATION AND PENSION FUNDS FINANCIAL SUSTAINABILITY

The aim of budget allocations in the public sector is to manage limited financial resources to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes that will serve the needs of the community. A sound budget allocation allows government to make the best use of all available resources, including international development assistance, to improve the quality of life of society. This includes managing expenditure and raising revenue and is not merely an issue of spending more, but of maximizing the impact of public resources (Chang, 2015).

Government institutions are all rely on the citizens of the country for their income and are therefore subject to relevant public-sector legislative and administrative processes in dealing with revenue and expenditure. Internationally, poor performance of governments has a common origin, namely weak government spending practices and accountability requires adequate capacities for managing public finances (Aregbeyen& Baba, 2013). The aim of budget allocations in the public sector is to manage limited financial resources to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes that will serve the needs of the community. A sound budget allocation allows government to make the best use of all available resources, including international development assistance, to improve the quality of life of society. This includes managing expenditure and raising revenue and is not merely an issue of spending more, but of maximizing the impact of public resources (Bhatia, 2013; Chang, 2015).

The aggregate deployment of resources must be considered in light of the organization's strategic goals, not just in relationship to new ideas or initiatives under consideration. Factors that affect and ultimately comprise a company's strategy stream continuously from these intended and emergent sources. Regardless of the source, however, they then must flow through a common filter the resource allocation process. This is because a company's actual strategy is manifest only through the stream of new products, processes, services and acquisitions to which resources are allocated. The resource allocation process acts like a filter that determines which intended and/or emergent initiatives get funding and pass through, and which proposals are denied resources (Sterling, 2013).

A study by Kanyinga (2014)budgetary allocation is used by most organizations as a tool for proper management of resources in the organization and its activities. An organization with well formulated budgetary allocation easily assigns its managers the responsibility for the use of designated financial resources to achieve their assigned operational objectives. Budget allocation provides comparisons of actual results against budget plan. Departures from budget can then be investigated and the reasons for the differences can be divided into controllable and non-controllable factors, this is essential is reducing inefficiencies and poor budget practices leading to efficient allocation of scarce resources.

Sitzmann and Bell (2017) researched on the dynamic effects of subconscious goal pursuit on resource allocation, task performance, and goal abandonment. The study results showed that the subconscious achievement of goals contributes to promoting task performance while subconscious under-attainment goals cause abandonment of goals and difficult conscious goals mitigate those effects depending on the level of resource allocation and timing of the target execution. The study also revealed that resources are considered to be the assets that can be applied with the main aim of managing productivity and performance and that resource allocation is majored on ensuring that the available resources are assigned in a more effective and efficient way to ensure that the organizational goals and objectives are achieved accordingly. The findings of this study further indicated that in most organizations, production requires limited specific resources of the firm and their allocation to different uses is one of the managers' most important responsibilities hence equity should be considered in all areas of the organization (Sitzmann& Bell, 2017). Whereas this study looked at resource allocation at the company level and its success financially, this study aims to fill the gap on financial resource allocation at the pensions fund and how this impacted on the financial sustainability.

Kogan, Papanikolaou, Seru and Stoffman (2017) investigated on technological innovation, resource allocation and growth. The study established that how well resources are defined and allocated will contribute to the effective running of the organization. This allocation needs careful planning since the process can sometimes be hard. It was also established that when the resources are not allocated as expected it will become very hard to implement the strategy of an organization. The study revealed that the way one allocates the resources will automatically have a direct or indirect effect on the level of productivity and performance. It was concluded that effective resource allocation plays a key role in letting the managers understand how the employees work, hence making it much easier to assign tasks to the resources according to the skills of the employees.

Chi and Bump (2018) investigated on the processes of resource allocation at multilateral organizations working in global health. The study findings revealed that recipient countries themselves have little influence on allocation processes, although they have some influence in relatively narrow areas within these processes. Proper resource allocation can help managers identify the presence of employees in a certain task and even assign them specific tasks according to their availability. Proper resource allocation is also believed to help managers in managing the workload of their employees. This implies that the manager will be able to check the task list of the employees and know who is having more than adequate tasks and those who have been undersigned. This will help in giving the employees the morale they need in improving their performance because they will not feel overworked (Chi & Bump, 2018).

Lemarleni, Ochieng, Gakobo and Mwaura (2017) researched on how resource allocation affects strategy implementation at Kenya Police Service in Nairobi County. Findings suggest both positive and substantial associations exist between the predictor and dependent variables. Strongest and most favorable associations were observed between organizational culture and implementation of the strategy followed by implementation of the financial resource and strategy. Resource allocation has continued to play an important role in organizational performance hence creating need for having clearly formulated strategic plans and ways that will ensure that the allocation is achieved as expected.

Effective resource allocation is believed to come up with some organizational developments that are geared towards the improved performance of the organization (Lemarleni et al., 2017). The study found out that pension funds used their financial and non-financial assets to generate enough income to meet both short and long-term liabilities which leads to positive impact on investment income. The growth in investment income is expected to be positively related to members' contributions. Effective use of assets in this regard will lead to positive impact on investment income. The growth in investment income was expected to be positively related to Member Contributions.

Oluoch (2013) in her study titled "The Determinants of Performance of Pensions Funds done in Kenya" found that Member Contributions has a weak positive relationship with return on investment. The study argues that the main source of investment funds for pension funds is monthly contributions from scheme members and sponsors. Argue that benefits are the major part of pension funds expenditure since they draw financial resources from the pension funds thus reducing investment funds. Olouch (2013) argued that weak positive impact of member contributions on return on investment indicated that member contributions were not effectively utilized on income generation.

Tijjani (2014) in his study titled "Determinant of Financial Sustainability of Pensions Fund Administrators in Nigeria" found that Contributions from Members had a weak positive impact on financial Sustainability of Social Security Schemes at 0.0552 level of statistical significance. Oluoch (2013) study titled "The Determinants of Performance of Pensions Funds done in Kenya" found that Member Contributions has a weak positive relationship with return on investment. Olouch (2013) argued that weak positive impact of member contributions on return on investment indicated that member contributions were not effectively utilized on income generation. Tijjani (2014) findings are similar to that from the study done by Oluoch (2013) but different from Shola (2013) study that indicated a strong positive relationship between Member Contributions and investment income growth.

A study by Keng'ara and Makina (2020) on effect of Budgetary Processes on Organizational Performance: A Case of Marine State Agencies, Kenya revealed that there was a positive significant relationship between budgetary processes for intense budgetary planning, budgetary control and budgetary implementation, monitoring and evaluation on organization performance. The regression was 0.834a and R. square of 0.65. For the correlation, there was a positive coefficient between budgetary processes and organization performance. The study recommended that organizations should embrace budgetary process in order to realize superior performance. Whereas the study established literature on the budgetary processes on organizational performance, there was paucity of literature on the same on the pension sector, a gap that the study sought to fill.

III. MATERIALS AND METHODS

Sekaran and Bougie (2013) states that a research design is the glue that binds the research together. Therefore, research design should have a clearly defined purpose and consistency between the research questions and the proposed research method. This study used a survey design as it was suitable to obtain quantitative data using questionnaires as the tools of data collection. The target population consisted of the all the financial managers in the water companies, a total of 76 respondents. This study utilized census sampling technique to select the whole population as a sample for the study. Pearson Product Moment was used to establish the reliability index where if a reliability co-efficient of greater than 0.70 was obtained on all the quantitative items, the tool was considered reliable. The information from the quantitative data analysis was presented in terms of means and standard deviations. Further, the data was processed for correlational analysis.

IV. DESCRIPTIVE RESULTS

Before analyzing the regression analysis, the study examined the descriptive statistics of the study sample based on the specific objectives. It is vital to explain how the mean values were interpreted though out this study. Mean values close to the high end of the scale (closer to 5) indicate high level and in contrast, mean values close to the lower end of the scale (1) indicate low level of the values. This interpretation was used throughout this study.

Table 1:Descriptive Statistics

Scale	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Financial Budgetary Allocation	3.83	.633	-1.176	.343	2.328	.674
Sustainability	3.23	1.077	-.588	.343	.001	.674

From Table 1, it was observed that financial budget reforms is one the reform functions doing well in the pension programme with a M=3.8.3, (SD=.663). Scaled against the maximum measure of point M=5, this was a fairly above average performance of the new scheme in terms of budget reforms. The skewness and Kurtosis are all less than one (absolute). This latter result suggested that the responses from the participants are normally distributed around the mean. This is positive results going forward because the data is representative of the population from where it was drawn.

V. FACTOR ANALYSIS

A Factor Analysis with a Varimax rotation of 14 items from a survey data gathered from 48 participants. Varimax rotation was used to ensure factors are independent. An examination of the Kaiser-Meyer Olkin measure of sampling adequacy (KMO=.719) and the Barnett's test Chi-square=675.556, $p<0.001$) with 91 degrees of freedom collectively suggested that the sample data is suitable for factor analysis. This is because the KMO is above the minimum value of 0.6 and the Chi-square is significant ($p<.05$)-Table 2.

Table 2: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.719
Bartlett's Test of Sphericity	Approx. Chi-Square	675.556
	Df	91
	Sig.	.000

The component matrix results (Table 2) show the correlation of each item with the component.

VI. CORRELATION RESULTS

The data was further computed for correlational analysis and the findings were recorded in Table 3.

Table 3:Correlations

		1	Sustainability
Financial budget allocation	Pearson Correlation	1	
	Sig. (2-tailed)		
Sustainability	Pearson Correlation	.641**	1
	Sig. (2-tailed)	.000	
**. Correlation is significant at the 0.01 level (2-tailed).			

Financial Budget allocation is significantly associated with Financial Sustainability ($r=.641$, $p<.000$) and the association is positive. Retirement schemes that are able to maintain above average Service cost reform, on average outperform the retirement scheme with below average reforms in Financial Budget allocation.

VII. REGRESSION ASSUMPTIONS

The multicollinearity assumption: regression assumes that the independent variables in the model are not highly correlated (Multicollinear). This assumption is tested by observing correlation matrix of the independent variable. The correlation results (table 3) showed that data does not suffer from multicollinearity issues since no pair of independent variable are highly correlated (rho>0.7). Also multicollinearity is assessed using Variance Inflation

Factor. VIF values less that 10 are considered an indication of no significant multicollinearity. VIF results (Table 3) suggests the assumption is met.

Table 3.Collinearity statistics

	Tolerance	VIF
Financial budget allocation	.705	1.417

It is assumed that the errors are constant along all values of the dependent variable. A plot of regression residuals against the predicted values is used to check for the assumption. The plots of the residual (errors) should not show any pattern or funning out for the assumption to be met.

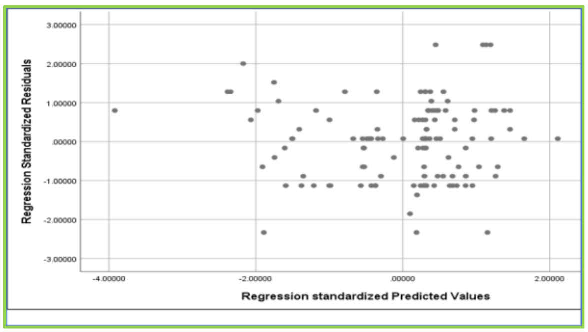

Figure 1. Heteroscedasticityresults

As seen from the results in Figure 1, the assumption is not significantly violated. No particular pattern emerges. The assumption is therefore met as no any pattern or funning is shown from the regression standardized predicted values.

- Regression Results

Table 4.ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.826	4	6.957	30.399	.000
	Residual	9.840	43	.229		
	Total	37.667	47			

The ANOVA results (table 4) shows that the model is a good model to predict level of financial sustainability from scores in retirement reforms ($F_{(4, 43)}$ =30.399, p<.000). The model is better than the null model such that the knowledge or information available on retirement reforms is critical in informing better estimation of financial Sustainability than without the information. Based on the ANOVA results, it is critical for retirement to have good scores and records of the retirement reform implementation scores.

It is seen that one of them is service cost reforms (B=.100, t=3.226, p<.001). Based on this result an increase in service cost reforms by say 100 units, then Financial Sustainability will increase by 10 units.

Table 5.Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.079	.323		.243	.809
Service Cost Reform	.100	.031	.102	3.226	.000

Overall, regression findings have underpinned the importance of new reforms in financial sustainability of retirement schemes. As noted in the model summary results, the reforms accounts for almost three-quarters of variability in financial sustainability performance. Retirement schemes with strategies to raise the reform score is evidently a differentiating factor between financial success and financial failure.

CONCLUSION

From the study findings, it is concluded that, financial budget allocation has a significant positive effect on financial sustainability of retirement schemes and it is one of the strategies the schemes can remain sound financial.

RECOMMENDATION

Drawing on these findings, the study recommends that management and the employees who execute the reforms honestly assesses the challenges and objectively find a best solution. It further requires that the management has the skills to managing the mindset of all the stakeholders.

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