Effects of Revenue Collection on the Relationship between Deficit Budget Financing and Operational Performance of Kisii County Government, Kenya

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Abstract

Revenue generation is becoming a source of government finance for service delivery to its citizenry; most governments however oftenly face budget deficits and rarely achieve balanced budgets. In the budget report Financial Year 2014/15, the Kisii County government projected public expenditure of Kshs.7.7 billion, with allocation from central government of Kshs.6.1 billion, but still it faced a deficit budget which was hard to fill regardless of revenue streams. The objectives that guided the study were: to determine the effect of single business permits revenue on the relationship between deficit budget financing and operational performance, evaluate the effects of land rates revenue on the relationship between deficit budget financing and operational performance, establish the effect of property rates revenue on the relationship between deficit budget financing and operational performance, find out liquor licensing revenue on the relationship between deficit budget financing and operational performance in Kisii County Government, Kenya. The study used descriptive case research design. The target population was 260 respondents. Stratified random sampling design was used to select respondents and the primary data was collected using a questionnaire and secondary data was obtained from two fiscal years; FY2013/14 and FY 2014/15 time series streams of revenue for 12 months. The study used percentiles and regression analysis to analyze the results. Findings include: the coefficient of determination r^2 was 0.605; this implied that Single Business Permit Revenue, Land Rates Revenue, Property Rates Revenue, Liquor Rates Revenue explain upto 60.5% the effect of variations in operational performance of Kisii County Government. The model $Y = 1.458 + 0.181X_1 + 0.476X_2 + 0.073X_3 + 0.243X_4$; the regression analysis results showed effect of the four factors on the relationship between Deficit financing and performance of Kisii County Government at 95% confidence level was statistically significant (p values < 0.05). the study concluded that Single Business Permit Revenue, Land Rates Revenue, Property Rates Revenue, Liquor Rates Revenue statistically and significantly influence the relationship between budget deficit financing and performance of Kisii County Government.

Keywords: Kisii County, Budget deficits, Revenue, Operational Performance, Service delivery

1. Introduction

The historical perspective to revenue generation is as old as civilizations have existed. In ancient Egypt, the fifth of all crops were given to Pharaoh. Ancient Greece imposed taxes to generate revenue to fund wars. The Roman Empire generated revenue by imposing taxes on colonies so as to increase the bounty of the empire. Julius Caesar imposed 1% sales tax and Augustus instituted to fund military expenditure. The first modern revenue generation is traced to the British Empire in the 14th Century when Tsar Peter taxed beads, boots, beehives, candles, hats, horses, chimneys and water to finance public expenditure in Europe. In China, taxes were levied 3000 years ago as the empire was being established (Aamir et al., 2011). In the United States, Economists generally caution that government leverage in excess of about 60 percent of the economy is problematic, and a rising debt level is simply unsustainable for an extended period of time. A rising debt level is ultimately unsustainable because its growth exceeds that of the overall economy. Congressional Budget Office of the United States finds that reducing government budget deficits, thereby bending the curve on debt levels, is a net positive for economic growth. CBO finds a dichotomy, however, between the short-term and longer-term impacts of deficit reduction. For instance, CBO's short-term economic models are driven mainly by demand-side factors. According Cooper and Schindler, (2006) these are short-term models deficit reduction that lowers government spending leads to a temporary reduction in economic output due to the assumed reduction in consumption as a result of lower government transfers. These models assume government spending has a "fiscal multiplier" in excess of 1, meaning that its reduction leads to an outsized reduction in overall economic output. Of course, every dollar the government spends must be taxed or borrowed from the private sector (House Budget Committee, 2013).

In Europe, revenue generation is from income tax, allowances, bands, rates, taxation on charitable, tax on bank interest, tax credits, land fill tax, climate change levy, aggregate levy, betting and gaming levies, capital gain taxes, inheritance tax, stamp duties, corporate tax, sea tax, bank levies, council or community tax and national insurance tax. In Europe, total UK government receipts are forecast to be £648.1 billion in 2014–15, or 37.7% of UK GDP. This is equivalent to roughly £12,400 for every adult in the UK, or £10,000 per person. Not all of this revenue comes from taxes: taxes as defined in the National Accounts are forecast to raise £606.0 billion in 2014–15 fiscal years, with the remainder provided by surpluses of public sector industries, rent from state-owned properties and so on (International Financial System, 2014). In India, revenue generation like other counties is mainly through their tax regime. Taxation Powers in India's federal structure of Central Government constitute; direct Taxes: (Income Tax, Corporation and Personal) Dividend Distribution Tax, Wealth Tax), indirect Taxes: Central Excise, Customs, service Tax, transaction Tax: Securities Transaction Tax, Value Added Tax. Other revenue generation in India comprise of Excise on alcoholic liquor, luxury tax, entry tax, electricity duty, entertainment tax, stamp duty, property tax, professional tax, agricultural income tax (International Monetary Fund Report, 2012).

Revenue generation in Rwanda is guided by the general provisions of law. The law demarcates taxation as a primary source of revenue generation to fund public expenditure. Rwanda has enacted tax laws to facilitate the collection of taxes and enhance compliance with tax laws. These laws include; Law on Direct Taxes on Income no 16 of 2005 as amended, law on Value-added tax no. 37 of 2012, as amended, Law on Tax Procedures no. 25 of 2005, the Commissioner General's Rules and Ministerial orders. This is the foundation of revenue generation in Rwanda (PWC, 2015). Revenue generation in Tanzania is regulated by the country's tax guide. In this guide, the tax rate of 30% on corporations is levied on both resident anon resident corporations. Equally, 25% tax is levied on newly listed companies as revenue generation to fund public expenditure. Capital deductions on building and plants on a rate range of between 5% and 37.5 percent are part of revenue generation for the Tanzanian Administration (Tanzania Tax Guide, 2015). Taxation is the key source of revenue that the government of Kenya uses to provide public services to its citizenry. Over the last decade tax performance in Kenya has significantly improved in nominal terms averaging about 24% of the size of the economy. This has enabled the government to finance 60% of the budget. Due to its importance, tax policy debates and decision making becomes a critical issue to the public, to businesses and the economy at large owing to the varied impact that it will have on each of these entities. Therefore the design and performance of the tax system has implications for inequality and as such it is the role of the government to ensure that it pursues a fair tax system for equitable distribution of income and welfare of the citizens. The tax systems will hitherto passing the new Constitution of Kenya 2010 reflects a two tier system of government comprising the national and 47 county governments (Mutua, 2012). Revenue collection is very important for every County Government globally as it enables the government to acquire assets which are not liable to debt and which the government uses to develop its economy. So, revenue is collected by the government upon its citizens for support or for the purpose of facilitating the Service Delivery in a country (Aamir et al., 2011). It is neither a voluntary payment by the tax payer nor like a donation. Rather it is an enforced payment to the government (Garner, 1999). County Governments therefore collect revenue for investment, Socio-Economic development and growth at the grassroots (Olatunji, 2009) and service delivery. Thus collection of adequate revenue by County Government is essential for economic development, growth, and improved service delivery at the County level (Clegg and Greg, 2010). So, sound revenue system for county governments is a vital pre-condition for the success in promoting efficiency in the service delivery and economic development at the counties (Ngotho and Kerongo, 2014). For most developing countries, revenue collection goes hand-in-hand with economic growth and the revenue is the lifeblood for governments to deliver essential services and to make long-term investments in public goods (Organization for Economic Co-Operation and Development [OECD], 2008).

In Kisii County, Budget preparation and subsequent implementation is geared towards improving the livelihood of the people through improved incomes and social welfare. This is only possible on reflection on the productivity of the public sector and our ability to implement decisions and policies more effectively. The County has shown greater commitment to ensuring that the citizenry receive better services from all the County government institutions. This is only possible through investing in broad based programmes that are aimed at increasing economic growth. The aim of the 2014/15 – 2016/17 Medium Term Expenditure Framework Budget for the County was to strike an appropriate balance between support for growth and continued fiscal discipline while providing room for the implementation of devolution as enshrined in the constitution. Specifically, the 2014/15 budget aimed at achieving efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance, and implementation of the development agenda (Kisii County Government Budget, 2014). In this regard, public spending is not seen as an end in itself but the basis for achieving development objectives outlined in the Second Medium Term Plan of the Kenya Vision 2030 and the County's annual plans. The focus of the 2014/15 – 2016/17 was therefore be on programmes aimed at achieving high levels of investment in economic and social infrastructure which promote rapid economic growth, support employment and broaden economic activity(Kisii County Government Budget, 2014).

1.1 Statement of the Problem

The priorities outlined in the Medium Term Plan of Kenya Vision 2030 and the Kisii County Government Integrated Development Plan guided the development of sector priorities, policies, plans, monitoring and evaluation processes for FY 2014/15-2016/17 Kisii County Mid Term Economic Plan (Kisii County Budget, 2014). When preparing the budget reports, County government entities were expected to focus on the County priorities contained in the Second Medium Term Plan of the Vision 2030 and the Kisii County Annual Development Plans (Kisii County Budget, 2014). In the budget report FY2014/15, the County government projected public expenditure of Kshs.7.7 billion, with allocation from central government of Kshs.6.1 billion and generated revenue of Kshs. 551 million thereby creating a budget deficit of Kshs. 1.1 billion, this budget deficit which is hard to fill regardless of revenue streams. Mutua (2012) highlighted revenue generation in Kenya and paying specific attention to the robustness of the tax system in the County. Institute of economic Affairs (2012) examined tax reforms as a means of enhancement of revenue generation for the Kenyan government. KPMG (2013) examined fiscal deficit in South Africa and Egypt. However empirical evidence on budget deficit financing in Kenya is wanting. It is this knowledge gap this study intends to fill. Palley (1997) conducted a study on budget deficit financing and found out that if government does not undertake budget deficit financing especially borrowing, the economy will be hurt. Perotti (1999) and Blanchard and Perotti (2002) conducted studies on Keynesian effects with low government budget deficits and found out that government borrowed heavily to finance the deficit financing. Devereux et al (1996) conducted a study and established that increasing returns and monopolistic competition, where an increase in the level of government spending results in an endogenous increase in total factor productivity, the study further established that government spending shocks increase private consumption, the negative wealth effect of increased taxation on households is more than totally offset by the endogenous increase in total factor productivity. These studies inadequately addressed the link between Revenue operations, Budget deficit financing and operational performance therefore the study formed a basis on the effects of revenue collection on the relationship between deficit budget financing and operational performance of Kisii county government, Kenya

1.3 Objectives of the Study

The following specific objectives were used to guide the study

i. To determine the effect of single business permits revenue on the relationship between deficit budget financing and operational performance in Kisii County Government, Kenya.
ii. To evaluate the effects of land rates revenue on the relationship between deficit budget financing and operational performance in Kisii County Government, Kenya.
iii. To establish the effect of property rates revenue on the relationship between deficit budget financing and operational in Kisii County Government, Kenya.
iv. To find out liquor licensing revenue on the relationship between deficit budget financing and operational performance in Kisii County Government, Kenya.

1.4 Theoretical Literature

The following theories are relevant and vital anchor to this current study. These theories include Revenue Diversification Theory (RDT) and the Expediency Theory of Taxation. These theories are used to understand the significance of Revenue globally as it enables the government to acquire assets which are not liable to debt and which the government uses to develop its economy. So, revenue is collected by the government upon its citizens for support or for the purpose of facilitating the Service Delivery in a country.

1.4.1 Revenue Diversification Theory (RDT)

The study will adopt a revenue diversification strategy that stems from the financial Modern Portfolio Theory, were applied as the second potential revenue strategy for county governments. According to Bernelot (2013), the revenue diversification theory focuses on whether a more diversified, well-balanced revenue portfolio increases financial stability for county by reducing revenue volatility. There is a positive effect of the strategies adopted in raising revenues on finances. Commercial and market-oriented revenue strategies have been found to have a positive effect on revenue collection performance. Bernelot, (2013) suggest that revenue is derived from various sources and there must exist an equal balance between multiple incomes sources in the revenue portfolio of nonprofit organizations usually lead to increased financial stability.

1.4.2 The Expediency Theory of Taxation

The expediency theory of taxation states that every tax revenue collection report must pass the test of practicability, which must be the only consideration when the county government is choosing a revenue collection report. Proposition is that the economic and social objectives of the government should be treated as irrelevant, since it is useless to have a tax which cannot be levied and collected efficiently. However, there are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and county government is often forced to reshape tax structure to accommodate these pressures (Bhartia, 2009). In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations and so on (Bhartia, 2009). The expediency is relevant to the present study in that, it seeks to explain influence of administrative set up in revenue collections by County Governments.

1.5 Empirical Literature

Stanford economists John and Taylor, (2012) recently studied fiscal-consolidation strategies that use a so-called Neo-Keynesian economic model to take into account how consumers and businesses might react to a country's future fiscal trajectory. For example, forward-looking consumers and businesses may expect future tax hikes, and plan accordingly, if a country continues to build up large amounts of debt that will ultimately need to be paid off. In this study, felloXw authors find that even in the short-run, the consolidation of government finances is found to boost economic activity in the private sector sufficiently to overcome the reduction in government spending. John and Taylor (2012) have argued that government needs to encourage private investment, rather than keep its own spending high, in order to grow jobs. They believes that vast uncertainty, linked to the possibility of higher future tax rates and interest rates, is having a chilling effect on private investment and therefore job creation. Reducing government spending now would reduce the threats of higher taxes, higher interest rates and a fiscal crisis, and would therefore provide an immediate stimulus to the economy (Becker et al; 2011).

Public current spending enters in the representative utility function, as proposed by Linnemann et al, (2004), affecting private consumption. Government capital expenditure, through accumulation of public investment in infrastructure, increases the substitution possibilities in production in the spirit of Barro (1990), Futugami et al, (1993) and Chen, (2007). According to Aiyagari et al (1992), Campbell (1994), Baxter and King (1993); several empirical macroeconomic models have tried to identify the possible effects of fiscal expansion. In real business cycle models, such as in Aiyagari et al, (1992) and Campbell, (1994), increases in government purchases lead to a decline in private consumption, showing a negative relationship between government spending and private consumption. Baxter and King, (1993) find that increases in government spending significantly reduce private consumption and investment. Devereux et al, (1996) applied a model with increasing returns and monopolistic competition, where an increase in the level of government spending results in an endogenous increase in total factor productivity, established that government spending shocks increase private consumption. Here, the negative wealth effect of increased taxation on households is more than totally offset by the endogenous increase in total factor productivity.

Perotti, (1999) found that in good times (at low levels of debt or deficit) expenditure shocks have positive, or Keynesian, effects. While negative, or non-Keynesian, effects can be found in the opposite circumstances. Blanchard and Perotti, (2002) found a positive effect of government spending on private consumption and strong negative effect on private investment spending. Estimating a Cobb Douglas function type of investment equation Alesina et al, (2002) highlight the important role played by the labour market. The behaviour of wages and the response of labour supply as a channel of transmission for fiscal policy shocks: government spending reduces private income and increases labour costs reducing profit expectations and so economic activity. Palley, (1997) arguing against a balanced budget in government contends that, if government is unable to borrow, this will have a severe negative impact on public investment, which will in turn hurt growth. In the private sector, when a business wants to expand, it does so by borrowing from a bank or having an initial public offering on Wall Street. Such actions provide business with the finance to buy the plant and machinery necessary for growth. Thus, business is not forced to rely exclusively on its existing profits: if it were, start-up companies which have no profits could never get going. Instead, both new and existing business borrows to finance expansion, and then uses the resulting profits to redeem the debt. This is an unending process in a growing economy, and it means that the total amount of business debt is always increasing (Palley, 1997).

A number of studies have linked fiscal deficit as one of the causes of current account trade deficit (Gupta and Jadhav, 2009). A few other studies have concluded that fiscal deficits are caused by trade deficit (Aridyato, 2006). With an increase in openness of economies to external trade, globalization, it is desirable to treat trade deficit as a contributor to fiscal deficit. Trade deficit could be viewed as deferred exports. Thus it has an intertemporal dimension, which is not inherently self-correcting. As seen here, the causes of deficits are varied and quite difficult to assess (Gupta, 2009). Differences in endowment should be thought as introducing yet another constraint in the choice of an optimal local tax system, akin to the mobility issue. Ceteris paribus, one should avoid choosing tax tools with a very unequal distribution at the territorial level, as this distribution can only be imperfectly corrected ex post through the grant system. For instance, it is a matter of fact that in many countries territorial differences in per capita income or value added are larger than differences in per capita consumption. This is so because the richer parts of the country, either through the national government budget or through the donations of individual citizens such as transfers from emigrants in the richer regions, usually transfer resources to the poorer parts of the country, and this helps to maintain per capita consumption at a more equal level in spite of the difference in per capita income (Ogechi, 2013).

This overlapping, variously explained in the literature as a consequence of a conflict across levels of governments or as the attempt of benevolent national governments to limit excessive variance in the supply at local level of fundamental services of education and health , has probably some justifications even on purely efficiency grounds. Spillover effects across different functions are probably unavoidable, so that any rigid attribution of competencies across levels of government is bound to be overcome in reality. There are services that although decided at the central level are better executed at the local level for purely administrative and organizational reasons; and finally there may be various political distortions which suggest that overlapping among levels of government could be in many case a second best solution to an incentive problem (Breton, 1996). This means that it might be better to think of many public functions as to a continuum, with different levels of governments which act, sometimes overlapping, on some pieces of this continuum. In such a world, it is obvious that the source of financing for local governments need also to “overlap”, presenting a continuum from own taxation to grants from the central level, as the different levels of government attempt to influence the choices of the other level in its own piece of the continuum. Hence, the role of local taxation should be assessed in the context of this continuum of functions and resources (Smart, 1998).

The available literature suggests three fundamental methods of tax assignment: own taxes -independent legislation and administration; tax surcharges; tax sharing. Each method is characterized by a different degree of fiscal autonomy or taxing power. Let us briefly discuss merits and demerits of these alternative methods. Maximum degree of sub-national fiscal autonomy occurs under independent legislation and administration, where sub-national governments enact their own tax laws independently of higher levels of government; each jurisdiction chooses which taxes to levy, the definition of tax base, sets up the tax rates, and it is responsible for tax administration and enforcement. Own revenues, in the sense of own taxing power and marginal source of revenues, provide sub-national governments control over the level of taxation and expenditure and this has many advantages (Sule and Adejo, 2013). First, sub-national governments can predict their revenues with an acceptable degree of certainty and in consequence can plan their expenditure flows; second, they are able to increase or reduce their revenues and are clearly responsible for the consequences of their actions; third, under independent legislation, the level of local public services is strongly connected to the level of local revenues. In this respect, independent legislation is also consistent with the definition of assignment as the authority to design and implement policy (Breton, 1996).

Rational tax assignment may thus help to increase accountability. Independent legislation has however potential disadvantages, especially if different jurisdictions design tax structures which are radically different: duplication of administration, higher compliance costs, tax exporting, which may produce inequities and inefficiencies. Another potential demerit of independent legislation is predatory tax competition, especially in the case when sub-national governments are free to set tax bases rather than tax rates, and may erode the tax base competition among the US states and Canadian provinces to attract business and households has resulted in the erosion of some tax bases and to an increased complexity of tax system, hence raising transaction costs (OECD, 2003). The second method of tax assignment consists of surcharges, when the same tax is levied by central and sub-national governments. The latter impose surcharges on the tax base defined by the central government. In this case, the taxing power of sub-national jurisdictions is lower than under independent legislation and lies in the choice of tax rates, sometimes within limits decided by central government, on their share of total tax base. This method of tax assignment retains some of the benefits of the independent legislation method, such as transparency, administrative ease and simplicity, without giving rise to the problems discussed above. On the other hand, it may give rise to horizontal fiscal disparities, as revenues arise where economic activity occurs and incomes are generated. Furthermore, it may enhance the vertical externalities problem we referred to above, given the interdependence of taxing decisions when different levels of government tax the same base. What is certain is that such spillovers make it highly unlikely that the right level of taxation and expenditure were found in any jurisdiction (Bird, 1999).

Problems arise also with regard to the attribution of tax base to the use of formulas to divide tax base among sub national jurisdictions, as it is often difficult to decide where a given income is generated. For instance, in the case of corporate income taxes the revenue is often attributed to the different jurisdictions according to some appropriation formula. These formulas, in turn, are usually not water-proof with respect to strategic behavior of jurisdictions. Finally, tax sharing may assume two different forms. Sub-national governments are entitled to a fraction of particular tax revenues arising in their jurisdiction or to a given percentage of nation-wide tax receipts (Peri, 2007)

This method of tax assignment has some of the same merits as tax surcharges, but sub-national governments have very limited fiscal autonomy, as they do not directly control the level of their own revenues. Furthermore, although there are methods to ease this problem, tax sharing makes the revenues of one level of government depending on the choices taken by another level of government; say, decisions by the center about the tax bases or the tax rates of national taxes immediately impact on the receipts of lower level of governments. Hence, tax sharing is often more precisely considered a particular form of grant or subvention than a method of tax assignment (Lockwood, 2004).Grant and transfer systems play several important roles; they offset both horizontal fiscal disparities such imbalance in the revenues at a given level of government, when fiscal capacity is not evenly distributed across sub-national jurisdictions) and vertical fiscal imbalances, imbalance in the revenues available to different levels of government); they may help to internalize spillover effects, that may arise when the inhabitants of adjacent jurisdictions can benefit from spending in another; they allow the center to influence like through conditional grants, matching grants and similar transfers, the pattern of local expenditure, stimulating or forcing the local levels to use their resources in particular directions, deemed important at national level. However, they may also interact with the fiscal autonomy of the local governments and the exercise of their tax autonomy. Interregional distributive mechanisms, aimed to reduce fiscal capacity disparities, for instance, may have negative effects on the tax efforts of both rich and poor communities (Bordignon et al., 2001)

Parthasarathi, (1988) says that when a country is in a process of formulating its budget, it undertakes revenue projections. If the revenue turns out to be smaller than the budget expenditures, a country ends up with deficit financing. Budget deficit is precisely total revenue falling short of total public expenditure. Osoro, (1997) argues that if the government wants to reduce its deficits, it should not determine the level of spending on political grounds and then adjust the tax to suit it. The level of spending should be determined by the funds available. This can be achieved by adopting a proper budgeting process. Measures to reduce deficits must begin with policies to curtail spending. As long as spending grows faster than revenue, any policies to contain deficits were successful only in the short run. The government thus needs to cut unproductive and unauthorized expenditure, which calls for budget restructuring and stern efforts to strictly enforce spending limits. Other measures that can be taken would increase revenue by enhancing tax collection, for example, through greater productivity of the tax system. Improved tax collections would, in turn, reduce government’s need for borrowing, which is a low-cost mode of financing public spending relative to taxation, and ultimately help reduce the deficit. The County governments have power to raise and spend revenue. The Constitution through the taxation section gives County government power to generate revenue. The county government may impose property rates, entertainment taxes and any other tax that it is authorized to impose by an Act of Parliament (Public Financial Management Bill, 2012). In addition, a County government may borrow with the approval of the County government’s assembly and only if the national government guarantees the loan. Once various taxes have been determined they will have to be collected. The practice has been that County Government collects local taxes within their jurisdiction. Experience indicates that most of County Government has limited capacity to discharge this function. With the new the Constitution, it is still a subject of debate whether the Kenya Revenue Authority (KRA) will collect revenue on behalf of the Counties or whether it shall assist the Counties in building their own capacities to collect their own revenue. In the long term, if the County governments are suppressed leaving the control of finances in the hands of the Central Government, then the whole concept of devolution was defeated. In fact, County governments without the power to control their own finances were political and administrative units, negating the whole idea of devolution of the Country into Counties with more efficient financial management systems.

The purpose of establishing a county financing system is in recognition of the important role played by County Government as agents of decentralization; grassroots democracy; and engines for development. Many countries aware of this potential are transferring more resources and service responsibilities to County Government. Equipped with such resources County Governments are increasingly taking on more responsibilities to meeting Millennium Development Goals (MDGs) as well as facing the challenges of globalization” (Basil Morrison 2008). In the years 1969, 1973, 1978 and 1989 County Government saw a gradual removal of their functions to central government ministries and departments, consequently a decline in sources of revenue. For example, in

1969 the Transfer of Functions Act mentioned earlier authorized the transfer of primary education, health services and road maintenance from rural County Government to central government. The removal of these powers was due to the fact that County Government was unable to deliver the services effectively. One possible solution to the issue of inadequate revenues for County Government is that addressed by the first Medium Term Plan (2008-2012) of the Vision 2030. The MTP (2008- 2012) describes a comprehensive review of laws relating to decentralization of funds and the Local Government Act (Institute of Economic Affairs, 2009).

According to Smoke, (1994), one of the reasons for failure of County Government is to cope with increasing demands is to do with characteristics of their existing sources of revenue and inadequacy of the financial regulations and procedures employed. Many County Government are lacking administrative capacity and therefore cannot fully benefit from the existing sources of revenue. This is quite often the case with regards to property taxes largely as a result of the absence of proper financial cadastres and the necessary periodic revaluation collection of charges for services rendered appear inefficient as many LAs are owed huge amounts of money by customers, including central government and Parastatals. According to Kariuki (2003), most County Government run on deficit in their budgets thus are unable to support their current expenditures. According to Yaqub, (1994) inadequate revenue refers to the situation whereby the estimated tax revenue is greater than the realized tax revenue. Among the causes of inadequate tax revenue is the inelasticity of the revenue structures and inadequate tax effort. Inadequate revenue creates fiscal crisis. Holcombe and Sobel, (1997) continue to argue that fiscal crises are an interaction of many complex causes including inadequate tax bases, increasing expenditure demand and limits placed on state government by voters.

Adequacy of Total Tax revenue is estimated by computing its responsiveness to GDP. If it is inelastic to GDP then automatically TTR is inadequate. If it is elastic to GDP then the elasticity of its component Tax Revenues is estimated. If individual tax revenue is elastic to its base and the base in turn is elastic to GDP, then TTR is adequate. Total Tax Revenue to be adequate its entire component Tax Revenues must be adequate revenue Collection Awitta, (2010) stated that revenue collection is the amount of money that a company receives during a specific period. It is the "top line" or "gross income" figure from which costs are subtracted to determine net income. Revenue collection can be defined as income that a company receives from its normal business activities, usually from the sale of goods and services to customers. Revenue is referred to as turnover. Some companies receive revenue from interest, dividends or royalties paid to them by other companies. Revenue may refer to business income in general, or it may refer to the amount, in a monetary unit, received during a period of time. The Financial Accounting Standard Board(FASB) Concept Statement 6, Elements of Financial Statements (December 1985) have defines revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering service or other activities that constitutes the entity’s ongoing major or central operations. In addition, Hongreen, (2002) described revenue as inflows of asset received for products or services provided to customers. However, KRA have referred revenue to means taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule.

Holzer and Kimes, (2002) have defined revenue as the monetary unit received during a period of time. It may also mean the gross receipts. This revenue includes donations from individuals and corporations, support from government agencies, income from activities related to the organization’s mission, and income from fundraising activities, membership dues, and financial investment. While the KRA have termed revenue to means taxes, duties, fees, levies, charges, penalties, fines or other monies collected or imposed under the written laws set out in the First Schedule. Over the years KRA has been surpassing targets as set by the Ministry of Finance from. The only exception is in 2008 which was largely because of the effects of post election violence. In 2010, revenue collections translated into 9% of the previous year’s collection. This meeting of targets can be attributed to various revenue enhancement measures that have been put in place such as internal controls, internal and client audits, border patrols, authorization and segregation of duties. However there is still room for improvement by KRA in performing its mandate as a revenue collector. There are some areas where manual accounting is practiced and there is an urgent need to computerize the areas if revenue leakages are to be minimized.

Kisii County has been created following the 2013 elections as per the Kenyan Constitution, 2010, article 174 on Devolved Government. It has 45 wards. The policy implementers are the County Governor, who is the Chief Executive Officer, together with the Secretary and the executive team who oversees the day to- day management and administrative activities. The County Representatives are policy makers. They depend on revised the Local Government Act Cap. 265, Devolved Government Bill 2012, County Government Bill 2012 and Public Finance Management Act 2012, Urban Areas and City Areas Act No. 13 of 2012 Act. According to the County

Government Bill 2011, Section 48 (1) Subject to subsection (3), the functions and provision of services of each county government shall be decentralized to (a) the urban areas and cities within the county established in accordance with the Urban Areas and Cities Act, 2011 No. 13 of 2011.Governments are working towards maximizing on their revenue collection methods to ensure that they raise enough revenues to run and manage the affairs of the county government at the grassroots. Increase in revenue collection can be achieved through employing county revenue instruments for tax collection as well as exploiting and harnessing all available sources of revenue in their localities and devising a cost effective means of collecting revenues. The county government ensures the proper policies and procedures that are in harmony with the citizens to facilitate smooth flow of activities and development initiatives. Ensure proper management of funds, efficient and effective internal control systems to maintain a fair play in the administration and management of county resources (GoK, 2004).

There two main methods of revenue collection, namely electronic revenue collection and manual systems. Electronic Revenue Collection System (ERCS) is a comprehensive solution for the electronic collection of government fees, taxes and custom duties (Agbeyegbe, Terence, Stotsky and Wolde, 2004). This method serves as a means to achieve a cashless environment via the introduction of virtual funds and automates all revenue collection processes, allowing government agencies to exploit the full capabilities of the technology to transform its services to the public. ERC system provides various electronic methods that enable the government to collect all revenues related to the government services, customs and taxes and so forth. Manual systems of revenue collection are centrally from one place and unlike the electronic systems of revenue collection they inhibit autonomy done using manual receipts. Manual systems of revenue collection lead to high costs for collection, fraud, underpayment and leakages in revenue. County governments can apply effective revenue collection methods for example making assessment of taxpayers and ascertaining the number of taxpayers for that year (Ghura, 1998). This helps in determining the amount of tax to be collected from tax payers annually in order to plan and budget for development agenda (Holger, 2009). A reminder notice is sent to tax payers in a period of 2-3 weeks before taxes are due for collections in order to ensure that there are no tax arrears. This helps tax payers to file returns on time and mitigate irregularities and inconsistencies on revenue collected and thus creating harmony between citizens and county government (Lymer and Oats, 2010).

According to Mitullah, et al. (2005), designate revenue collection points for convenience and efficiency. In addition, losses through corruption and tax evasion need to be reduced by applying stiffer penalties to corrupt officials and tax evaders. This can be achieved by contracting collections to a private collection agency; thus increasing revenues from existing sources and also reducing cost. County governments should adapt this method in order to increase revenues and improve their efficiency in revenue collection. Traditional rulers should be appointed in collection of community tax; this will lead to reduction of costs for example limiting the number of surplus staff appointed to collect taxes. Most traditional rulers are well respected and can easily collect community tax since they understand the geographical location of communities. Measures are required to enhance taxpayers „compliance and to improve the accountability of tax collectors for example the local governments can device a means of allowing tax payers to pay their taxes online. Here tax payers are registered and connected using the internet with the revenue office/collector such that they can be reminded or compelled to pay their taxes online as at when due and automatically identify defaulters for further action, this would make the job of revenue collection a lot easier and cheaper (Australian Aid and World Bank, 2012).

Taxes are compulsory payments to government without expecting direct benefit or return by the tax payer. Taxes collected by the government are used to provide common benefits to all mostly inform of public welfare services. Taxes do not guarantee any direct benefit for the person who pays the tax. The government collects tax revenue by way of direct and indirect taxes, direct taxes includes; corporate tax; personal income tax capital gain tax and wealth tax. Indirect taxes include custom duty, central excise duty, VAT and service tax (Blind, 2005). The revenue obtained by the government from sources other than tax is called Non- Tax Revenue. The sources of non-tax revenue such as Fees are other important source of revenue for the government. A fee is charged by public authorities for rendering a service to the citizens. Unlike tax, there is no compulsion involved in case of fees. The government provides certain services and charges certain fees for them. For example, fees are charged for issuing of passports and driving licenses. Fines or penalties are imposed as a form of punishment for breach of law or non fulfillment or certain conditions or for failure to observe some regulations. Like taxes, fines are compulsory payments without quid pro quo. But while taxes are generally imposed to collect revenue, fines are imposed as a form of punishment or to prevent people from breaking the law. They are not expected to be a major source of revenue to the government (Eden, 2009). Eissen (2010) suggests that the Government also gets revenue by way of surplus from public enterprises. In an article, Guldentops (2001) indicates that gifts are Voluntary contributions by individuals or institutions to the government. Gifts are significant source of revenue during war and emergency. A grant from one government to another is an important source of revenue in the modern days. Grants from foreign countries are known as Foreign Aid. Developing countries receive military aid, food aid, technological aid, etc. from developed countries.

1.6 Research Methodology

The study adopted a descriptive research design since it describes the state of affairs as it is. Descriptive design is used when collecting information about people's attitudes, opinions, habits and other possible behavior (Orodho and Kombo, 2005). Descriptive case study research design is deemed appropriate because the main interest is to explore the viable relationship and describe how the factors support matters under investigation. Descriptive design method provided quantitative data from cross section of the chosen population. According to Mugenda and Mugenda (2003) the descriptive research collects data in order to answer questions concerning the current status of the subject under study. The target population of the study comprised of 10 county executive committee members, 10 chief officers, 190 revenue officer, 30 finance department employees and 20 directors from each department hence a target population of 260 employees of Kisii County Government. Stratified random sampling design was used in determining the sample size of the study. The sample for the study was 107 employees. The study used primary and secondary data, the instruments of primary data collection was through questionnaires. Data was analyzed using descriptive statistics such as mode, median, mean, standard deviation and regression analysis.

1.7 Results and Discussion

The study established the effects of revenue collection on the relationship between deficit budget financing and operational performance of Kisii County Government using regression analysis.

Table 1 Regression Model Summary

R	R^2	Adjusted R^2	Std. Error of estimate	Change statistics			
				F change	Df1	Df2	Sig F Change
0.06053	0.6053	0.52	0.6055	2.761	3	104	0.22

A multiple regression analysis was conducted to determine how budget deficit financing and county performance is affected by the four factors. The analysis results model shows a goodness of fit as indicated by the coefficient of determination r² with value of .605. This implies that independent variables; Single Business Permit Revenue, Land Rates Revenue, Property Rates Revenue, Liquor Rates Revenue explain the effect of 60.5% of the variations in operational performance of Kisii County Government 39.5% of variations are brought about by factors not captured in the objectives. The regression equation

$Y = 1.458 + 0.181X_1 + 0.476X_2 + 0.073X_3 + 0.243X_4$

Where: Y=Operational Performance

β_0, β_1, β_2, β_3 are the regression coefficients

X_1 = Effect of Single Business Permit Revenue

X_2 = Effects of Land Rates Revenue

X_3 = Effects of Property Rates Revenue

X_4 = Effects of Liquor Rates Revenue

Table 2 Regression coefficient of determination of the effect of independent variables on dependent variable

Unstandardised coefficients			Standardized coefficients		
	B	Std Error	Beta	T	Sig
Constant	1.458	.560		2.584	.001
Single Business Permit Revenue	0.181	.054	.313	3.329	.002
Land Rates Revenue	.476	.126	.312	3.779	.000
Property Rates Revenue	.273	.077	.052	3.544	.003
Liquor Rates Revenue	.143	.047	.322	3.016	.004

Dependent Variable: Deficit budget financing and operational performance

According to the regression equation established, taking the four factors (Single Business Permit Revenue, Land Rates Revenue, Property Rates Revenue, and Liquor Rates Revenue) constant at zero, the deficit financing and performance of Kisii County Government a result of these independent factors will be 1.458. Findings also show that taking all other independent variables at zero, a unit increase in single Business Permit Revenue will lead to a 0.181 increase influence budget deficit financing and performance in Kisii County. A unit increase in land

Rates Revenue will lead to a 0.476 increase influence budget deficit financing and performance of Kisii County Government; a unit increase in Property Rates Revenue will lead to a 0.273 increase influence budget deficit financing and performance of Kisii county Government, and lastly a unit increase in liquor licensing revenue influence will lead to a 0.143 increase in deficit budget financing and performance of Kisii County Government. Further, the regression analysis results show that the relationship between the four factors on Deficit financing and performance of Kisii County Government at 95% confidence level is statistically significant with p values < 0.05. The most significant factor was Land rates Revenue with p value of 0.00. This implied that Land Rates Revenue influences budget deficit financing and performances of Kisii county government while Liquor Rates Revenue was the least.

1.8 Conclusions

The study concluded that the single business permits, single land rates, property rates, liquor licensing help minimize Kisii County Budget deficit. The most significant factor was Land rates Revenue with p value of 0.00. This implied that Land Rates Revenue influences budget deficit financing and performances of Kisii county government significantly while Liquor Rates Revenue was the least.

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