

Local Government Budget at Province in Indonesia

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Abstract. This Research aims to to know how influence of Local Own Source Revenue, Fiscal Balance Transfers from the Central Government to Regions, and Others Legal Incomes to Local Budget at Provinve in Indonesia. Source of data at this research is Report on Local Government Finances which in obtaining from Local Government Budget which in the form of data about Local Government Budget at 34 Province in Indonesia from 2013 to 2017 totally perception counted 170 Report on Local Government Finances with a period of perception during 5 year. Data analysis method used method analysis linear regression. Result of this research indicate that Local Own Source Revenue, Fiscal Balance Transfers from the Central Government to Regions, and Others Legal Incomes have an effect on signifikan to Local Budget at Provinsi in Indonesia.

Keyword: Local budget · Local own source revenue · Fiscal balance transfers from the central government to regions · Others legal incomes

1 Introduction

Indonesia is a developing country that is aggressively developing infrastructure in all fields to increase the nation's economic growth. These various infrastructures continue to be built and developed in all provinces in Indonesia. This of course requires a large amount of regional expenditure. Regional expenditure itself is sourced from various sectors, one of which is sourced from the balance fund, which consists of the General Allocation Fund, Revenue Sharing Fund, Special Allocation Fund and the regional portion of the central tax revenue sharing .

The balancing fund is a manifestation of the financial relationship between the central government and the regions. Applicability of UU No. 33 Tahun 2004 [1] concerning Fiscal Balance between the Central and Regional Governments, brought about fundamental changes to the systems and mechanisms of regional government management. This law confirms that for the implementation of the authority of the Regional Government, Central Government will transfer the balance funds to the Regional Government.

Transfers from the central government are often used as the main funding source for regional governments to finance their main day-to-day operations, which the local government reports in the Local Government Budget calculations. The purpose of this transfer is to reduce (if not eliminate) fiscal gap between governments and ensure the achievement of minimum public service standards.

Based on this description, it is possible for local governments to improve welfare and services to the community, through the regional budget which is in favor of the people's interests. This means that the role of local governments in influencing poverty through the Local Government Budget policy is expected to be able to solve the existing poverty problem by allocating budgets that are closely related to these problems.

Others Legal Income is expected to increase regional government investment in regional spending so that the quality of public services is better. Each region has different financial capabilities in funding its activities, this causes fiscal imbalance between one region and another. Therefore, to overcome this fiscal imbalance the Government allocates funds sourced from the State Budget to fund regional needs in the implementation of decentralization. This balancing fund from the government whose allocation emphasizes aspects of equity and justice that are aligned with the administration of government affairs UU No. 32 Tahun 2004 [2]. With the transfer of funds from the center, it is hoped that the regional government can allocate other legitimate income that it receives to finance regional expenditures in the region.

2 Literatur Review

2.1 Local Budget

Local Budget according to Government Regulation No. 58 Tahun 2005 [3], are all expenditures from general cash accounts that reduce the equity of current funds, which are regional obligations within one fiscal year that will not be repaid by the region. Mardiasmo (2002) [4] defines local budget as all regional expenditures in a certain fiscal year period that is a burden on the region. As an organization or household, the government does a lot of expenditure (expenditure) to finance its activities. These expenditures are not only to run the daily administration but also to finance economic activities. Based on Permendagri No.13 Tahun 2006[5] shopping is grouped into two namely indirect shopping and direct shopping. Indirect expenditure is spending that is considered not directly related to the implementation of programs and activities.

2.2 Local Own Source Revenue

Halim (2001)[6] defines Local Own Source Revenue as revenue obtained by the region from sources within its own region that are levied based on Regional Regulations and in accordance with applicable regulations. According to UU No. 34 Tahun 2000 [7] the Local Own Source Revenue is all regional revenue that comes from the original economic resources of the region. Regional Revenue according to UU no. 33 Tahun 2004 [1] Article 1 is the right of a Regional Government which is recognized as adding value to net assets in the period of the year concerned.

3 Fiscal Balance Transfers from the Central Government to Regions

3.1 Revenue Sharing Fund

Revenue Sharing Funds is a potential source of regional income and is one of the basic capital of regional governments in obtaining development funds and meeting regional expenditures that are not from Local Own Source Revenue other than General Allocation Fund and Special Allocation Fund. The revenue sharing pattern is carried out with a certain percentage based on the producing region. Revenue Sharing Fund tax revenue. While revenue from Revenue Sharing Fund natural resources comes from: Forestry, General Mining, Fisheries, Petroleum Mining, Natural Gas Mining, Geothermal Mining (Wahyuni & Adi, 2009) [8].

3.2 General Allocation Funds

According to UU No. 32 tahun 2004 [2], it is stated that for the exercise of regional government authority, Center of Government will transfer the Balancing Fund consisting of General Allocation Fund, Special Allocation Fund, and Revenue Sharing Fund consisting of taxes and Natural Resources. In addition, the Regional Government has its own funding sources in the form of Fiscal Balance Transfers from the Central Government to Regions, financing, and other legal income. Policy on the use of all funds is submitted to the Regional Government. Transfer funds from the Central Government are expected to be used effectively and efficiently by the Regional Government to improve its services Governments, the General Allocation Fund needs of an area are determined using the Fiscal Gap approach, where the General Allocation Fund needs of an area are determined by the needs of the region with regional potential. General Allocation Fund is used to close the gap that occurs because the needs of the region exceeds the potential of existing regional revenues (Cornia, 2010) [9].

3.3 Special Allocation Funds

Special Allocation Funds is funds sourced from the State Budget which are allocated to regional governments to finance special activities which are regional affairs and national priorities. The purpose of Special Allocation Funds is to reduce the burden of special activity costs that must be borne by local governments. The use of Special Allocation Funds is directed towards investment activities in the development, procurement, improvement, improvement of physical facilities and infrastructure of public services with a long economic life, with the directed use of Special Allocation Funds for these activities is expected to improve public services realized in capital expenditure (Forrester 1992) [10].

3.4 Other Legal Incomes

Other Legal Incomes according to UU 32 Tahun 2004 [2] article 164 paragraph 1 concerning regional governments are all regional revenues other than Local Own Source Revenue, Balancing Funds, which include grants, emergency funds, and other income determined by the government. Any regional expenditure that will be issued by the regional government is first budgeted in the Local Government Budget. In Permendagri No. 13 Tahun 2006 [5] Article 122 states that expenditures cannot be charged to the budget if these expenditures are not available or not sufficiently available in the Local Government Budget. Local Own Source Revenue, balance funds and other legal income are sources of regional income. This means that the regional government will adjust the regional expenditure that will be issued with the Local Own Source Revenue received, the balance funds transferred from the center and other legitimate regional revenues.

3.5 The Effect of Local Own Source Revenue to Local Budget

Several studies have been conducted to see the effect of regional income on spending. Abdullah and Halim (2003)[11] found that the tax-spend hypothesis applies to the case of regional government in several Latin American countries, namely Columbia, the Dominican Republic, Honduras, and Paraguay. Friedman (1978)[12] states that the tax will increase regional spending, so that it will increase the deficit. Hoover and Sheffrin (1992)[13] empirically found differences in relations in two different time frames. They found that for the data sample before the mid-1960s taxes affected spending, while for the sample data after the 1960s taxes and expenditure did not affect each other (causally independent). Satria & Munandar (2013)[14] states that changes in the target of Regional Original Revenue can affect the allocation of expenditure changes in the same year. From the perspective of agency theory, at the time of pure Local Government Budget compilation, the executive (and possibly also with the knowledge and or legislative agreement) Local Own Source Revenue targets are set below the potential, then carried out adjustment when the budget changes are made.

H1: The Local Own Source Revenue influences to Local Budget in Provinces in Indonesia

3.6 Effect of Fiscal Balance Transfers from the Central Government to Regions to Local Budget

Local Government Budget which includes local government revenue and expenditure can be used as a reflection of the policies taken by the government. Government policy in every purchase of goods and services for the implementation of a program reflects the amount of costs that will be incurred by the government to implement the program. Mardiasmo (2004: 63) [15]states that there are several reasons for the importance of the public sector budget, namely: (a) The budget is a tool for the government to direct socio-economic development, ensure sustainability, and improve the quality of life of the community, (b) the budget is needed because of the problem of limited resources. The budget composition should ideally be reversed, where direct spending can be

greater. The composition of the budget that is not ideal can make it difficult for local governments to carry out development because of the lack of funds to finance infrastructure development needed by the community in an effort to increase economic growth, whereas in the regional budget, regional governments also receive budget support from the central government.

H2: Fiscal Balance Transfers from the Central Government to Regions influences to Local Budget Provinces in Indonesia

3.7 The Effect of Others Legal Income to Local Budget

Others Legal Income are other revenues from the central government and / or from central agencies, as well as from other regions. The greater the revenue Other Legitimate Revenues the more it reflects a region or province capable of being independent to offset budgeted regional expenditure expenditures, Sumarni (2008)[16].

H3: Others Legal Income influences to Local Budget in Provinces in Indonesia

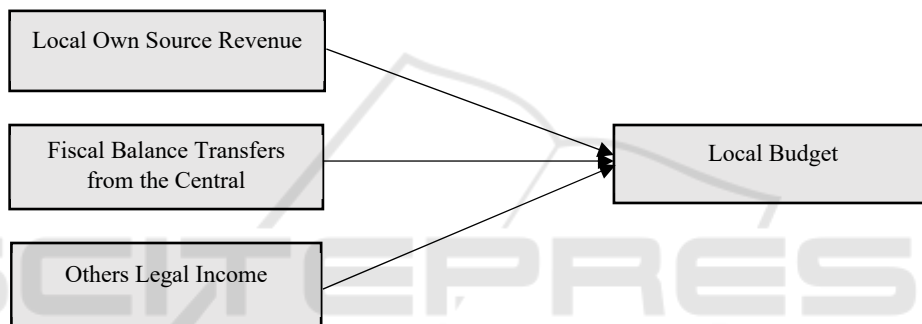


Fig.1. Research Framework.

4 Research Methods

The population in this study is the Report on Local Government Finances which in obtaining from Local Government Budget which in the form of data about Local Government Budget at Province in Indonesia. In this study using the census method, namely by taking the entire population. The object of research is the Regional Budget in Indonesia. In this study, the location of the study is the center of financial data for provinces in Indonesia with a data center obtained from the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia.

The data collection technique uses documentation. In this study, the data used are times series data in the form of Local Government Budget data, the time period from 2013 to 2017. The analytical method used in this study is simple linear regression which aims to test and analyze the effect of the Local Own Source Revenue to Local Budget in the provinces in Indonesia. The linear regression model in this study is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \tag{1}$$

5 Results

Descriptive statistical results for Local Budget (LB), Local Own Source Revenue (LOSR), Fiscal Balance Transfers from the Central Government to Regions (FBTCGR), and Others Legal Incomes (OLI), can be seen in the following Table 1:

Table 1. Descriptive Research Data.

Var	N	Min	Max	Mean	Std. Dev
LB	170	77,8	51.066,0	7,2	8,4
LOSR	170	1,3	43.901,5	3,7	6,6
FBTCGR	170	87,8	18.969,2	2,5	2,5
OLI	170	1,1	11.819,5	1,1	2,0

Based on table 1, the Regional Expenditure Budget Results for 5 years, from 2013 to 2017, the mean value of 7.2 trillion Rupiahs, the minimum value of regional expenditures of 77.8 billion for North Kalimantan Province in 2013 whereas the maximum value for Regional Expenditures is 51.0 Trillion Rupiahs for DKI Jakarta Province in 2017. The standard deviation value for 3 years of observation is 8.4. The next variable is Regional Original Revenue obtained a mean value for 5 years amounting to 3.7 trillion Rupiahs, with a minimum value of 1.3 billion Rupiahs for North Kalimantan Province in 2013, and a maximum value of 43.9 trillion Rupiahs obtained by DKI Jakarta Province in 2017. The standard deviation value for 5 years of observation was 6.6.

The next variable is the Fiscal Balance Transfers from the Central Government to Regions a mean value for 5 years of 2.5 trillion Rupiahs, with a minimum value of 87.8 billion Rupiahs for East Nusa Tenggara Province in 2017, and a maximum value of 18.9 trillion Rupiahs obtained by DKI Jakarta Province in 2017. The standard deviation value for 5 years of observation was 2.5. Other Legal Incomes obtained a mean value for 5 years of 1.2 trillion Rupiahs, with a minimum value of 1.2 billion Rupiahs for the Kepulauan Riau Province in 2017, and a maximum value of 11.8 trillion Rupiahs obtained by Aceh Province in 2017. The standard deviation value for 5 years of observation was 2.0.

The results of hypothesis testing using linear regression from the influence of the Local Own Source Revenue, Fiscal Balance Transfers from the Central Government to Regions, and Others Legal Incomes to Local Budget in Provinces in Indonesia can be seen in the following:

$$Y = 4,605 + 0,891 X_1 + 0,858 X_2 + 1,034 X_3 + e \quad (2)$$

The Local Own Source Revenue had a positive effect on Local Budget in Provinces in Indonesia. This means that the Local Own Source Revenue also increase Local Budget. These results explain that provinces that get large Local Own Source Revenue will tend to have large Local Budget as well. These results provide a strong indication that the behavior of regional spending will be strongly influenced by sources of revenue, one of which is from local own source revenue. The greater the acceptance of the Local own source revenue, the more it reflects a region or province capable of being independent to offset budgeted local budget expenditures.

In Indonesia, in general, Local Own Source Revenue are allocated to Capital Expenditure, Local Own Source Revenue Budgets are also allocated for employee operational expenditure. That is because personnel expenditure will be expected to improve the performance of the regional apparatus to continue trying to improve public services, the provision of adequate infrastructure facilities. Furthermore, it can also improve the administrative capabilities of tax collection and levies in the region so that an important source of regional revenue namely the Local Own Source Revenue can be used to finance both physical and non physical development (Satria & Mmandar, 2017)[14].

This was also expressed by Abdullah (2013) [14] who stated that changes in income, especially Local Own Source Revenue, could be based on the opportunism of decision makers, especially the bureaucracy in regional work unit. But not infrequently the changes in the Local Government Budget also contain the political preferences of politicians in the Assembly at Provincial.

The Balancing Fund has a positive effect on Regional Expenditure in Provinces in Indonesia. This means that the Balancing Fund also increases Regional Expenditure. This result explains that provinces that receive a large Balancing Fund will tend to have large Regional Expenditures as well. These results provide a strong indication that the behavior of regional spending will be strongly influenced by sources of revenue, one of which is from regional own-source revenue. The greater the acceptance of the original regional income, the more it reflects a region or province capable of being independent to offset budgeted regional expenditure expenditures.

The Balancing Fund in addition to being allocated for Capital Expenditure, the allocation of the Regional Original Revenue Budget is also for employee operating expenses. That is because personnel expenditure will be expected to improve the performance of the regional apparatus to continue trying to improve public services, the provision of adequate infrastructure facilities.

The results of this study are in accordance with the results of Dougherty, et al. (2003)[17] where changes in the budget were made to be more useful in the long-term implementation of the budget cycle both before and in the future, adjustments were made in the current fiscal year due to economic income growth which contributed to an increase in the surplus against adjustments especially in the field of capital expenditure. This is also in line with the results of research conducted by Sumarni (2008) [16] where the General Allocation Fund has a positive effect on Regional Expenditures. The results of this study are also consistent with the results of research conducted by Syukriy & Halim (2003) [18] which states that general allocation funds affect regional government spending. In accordance with research conducted by Sumarni (2008)[16] which shows that general allocation funds affect regional spending.

The results showed that Other Legitimate Revenues have a positive effect on Regional Expenditure in Provinces in Indonesia. This means that Other Legitimate Income also increases Regional Expenditure. This result explains that provinces that get Other Legitimate Revenues that are large will tend to have large Regional Expenditures as well. These results provide a strong indication that the behavior of regional spending will be strongly influenced by revenue sources, one of which is from Other Legal Revenues. Other Legal Revenues are other revenues from the central government and / or from central agencies, as well as from other regions. The greater the revenue Other Legitimate Revenues the more it reflects a region or province capable of being independent to offset budgeted regional expenditure expenditures.

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