The Effect of Local Own Source Revenue to Local Budget

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Abstract. This Research goal to to know how influence of Local Own Source Revenue to Local Budget at Province 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 Province in Indonesia start from 2013 to 2017 on Local Government Finances with a period of perception during 5 year. Data analysis method used method analysis simple linear regression. Result of this research indicate that Local Own Source Revenue have an effect to Local Budget at Province in Indonesia.

Keywords: The local budget · Local own source revenue

1 Introduction

Regional revenue to obtain Local Own Source Revenue can be seen from the condition of local taxes, regional levies and other valid local original revenues. One of the Local Revenue that is increasingly being improved is through local tax revenue. That is because taxes are the largest source of regional revenue in the collection of Regional Original Revenues. Gradually the level of independence of a region will continue to be pursued even higher through an increase in regional income obtained. The income is expected to support an increase in regional spending that is also getting bigger.

Local Own Source Revenue whose components are revenue derived from regional taxes, regional levies, the results of the management of separated regional assets and other legal Local Own Source Revenue. A large increase in Local Own Source Revenue is expected to encourage greater accountability, improve regional funding, and also reduce the source of funding that comes from central government transfers that directly increase regional independence.

Regional financial potential that is not the same cause a financial gap that can lead to development disparities between regions. To reduce inequality and to support the implementation of regional autonomy through the provision of sources of funding, the issuance of UU No. 25 tahun 1999 [1] was most recently amended by UU No. 33 Tahun 2004 [2] concerning Financial Balance between the Central Government and regional governments.

2 Literatur Review

2.1 Local Own Source Revenue

Halim (2001) [3] 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 [4] 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 [2] 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. In accordance with UU No.33 Tahun 2004 [2] concerning Financial Balance between the Central Government and regions article 6 is as follows: 1) Local Own Source Revenue from: a. Local tax b. Regional Retribution c. The results of the management of separated regional assets. d. Other valid Local Original Revenue. 2) Other legal Local Own Source Revenue, including: a. results of the sale of regional assets which are not separated. b. current account service c. interest income d. profit difference between the exchange rate of the rupiah against foreign currencies, and e. commission, deductions or other forms as a result of the sale and / or procurement of goods and / or services by the Region.

2.2 Local Budget

Local Budget according to Peraturan Pemerintah No. 58 Tahun 2005[5], 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) [6] 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[7] 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.

2.3 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) [8] found that the tax-spend hypothesis applies to the case of regional goverment in several Latin American countries, namely Columbia, the Dominican Republic, Honduras, and Paraguay. Friendman (1978) [9] states that the tax will increase regional spending, so that it will increase the deficit. Hoover and Sheffrin (1992) [10] 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 (2017) [11] 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 Goverment

Budget compilation, the executive (and possibly also with the knowledge and / or legislative agreement) Local Own Source Revuenue targets are set below the potential, then carried out adjusment when the budget changes are made. Based on the discussion above, the proposed research hypothesis can be described as follows:

H: The Local Own Source Revenue influences to Local Budget in Provinces in Indonesia
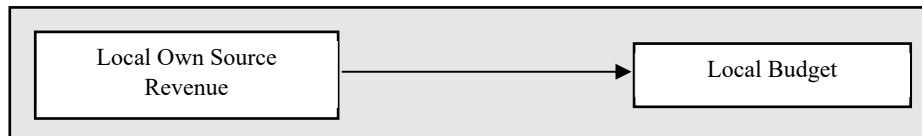
Fig.1. Research Framework.

3 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 start from 2013 to 2017 on Local Government Finances with a period of perception during 5 year. 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 used in this study are secondary data, that is data that already exists and do not need to be collected by the researcher themselves (Sekaran, 2006: 77)[12]. The data collection technique uses documentation.. 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. Data is processed using the SPSS program. The linear regression model in this study is as follows:

$$Y = \alpha + \beta_1 X_1 + e \tag{1}$$

4 Results

Descriptive statistical results for Local Budget (LB) and Local Own Source Revenue (LOSR), 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

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 Dearah 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 results of hypothesis testing using linear regression from the influence of the Local Own Source Revenue to Local Budget in Provinces in Indonesia can be seen in the following:

$$Y = 4,605 + 0,891 \, X1 + e \qquad (2)$$

The results showed that the Local Own Source Revenue had a positive effect on Local Budget in Provinces in Indonesia. This means that if the Local Own Source Revenue increases Rp. 1 then Local Budget will also increase by Rp. 0.891.

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 & Munandar, 2017) [11]. This was also expressed by Abdullah (2013) [13] 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.

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