The Analysis of the Influencing Factors of Budget Absorption

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Abstract: The purpose of this research is to analyze and examine the effect of budgeting time, budget surplus, and local own-source revenue on the budget absorption in the Regency/Municipal Government in North Sumatera. It is an associative-causal research. The population in this research was all of the regencies/ municipalities in North Sumatera consisted of 33 regencies/municipalities. The data were collected by using documentation technique using the secondary data in the form of fincancial statements of the regency/ municipal government in North Sumatera. The sampling method used in this research was saturation in which all members of the population became the sample of the research. The hypotheses were tested by using the linear regression analysis. The results of this research showed that, simultaneously, the budgeting time, budget surplus, and local own-source revenue had some effect on budget absorption. Partially, the budgeting time did not have any effect on budget absorption while budget surplus and local own-source revenue had some effect on budget absorption.

Keywords: Budget Absorption, Budgeting time, Budget Surplus, Local Own-Source Revenue.

1. INTRODUCTION

Decentralization, which is a new paradigm in governance management, greatly contributes to the change, especially for the local government financial management. Government Regulation Number 58 of 2005 concerning Local Goverment Financial Management defines the local government financial management as a whole of activities including planning, implementation, administration, reporting, accountability, and monitoring of the local government finance. Furthermore, the regulation states that the local government finance is managed orderly, lawfully, efficiently, economically, effectively, transparently and accountably by considering the principles of justice, appropriateness, and benefit for the community.

Basically, managing the local government finance is managing the budget. Financial budget is a financial plan formulated as a basis in the implementation of public service provided by the local government to the

community. The financial budget in the region is called Regional Revenue and Expenditure Budget (APBD). Law Number 17 of 2003 concerning State Finances states that APBD is an annual financial plan of the local government approved by the Regional House of Representatives (DPRD) and stipulated by Regional Regulation (PERDA). APBD, which includes revenues, expenditures, and finances, should be managed and implemented effectively and efficiently.

In practice, it is difficult to achieve a hundred percent of budget realization. All local governments in Indonesia always report the surplus in their budget or that the budget is not fully absorbed by the end of the fiscal year. The high budget surplus reflects the low budget absorption. Economists consider the low budget absorption as one of the failure indicators of the bureaucracy which could obstruct the development and improvement of community welfare in the region (BPKP, 2011).

The regency/municipal governments in North Sumatra Province had reported the budget realization until the end of fiscal year of 2014 to the Bureau of Finance of North Sumatra Province with an average of budget absorption less than 90% which can be seen in Table 1 In the table, it can be seen that by the end of fiscal year of 2014, the highest absorption of the budget was in Serdang Bedagai regency, for 92,69% but there was still a regency which had a budget absorption less than 80%, which was Padang Lawas for 78,36%. The low budget absorption will have an effect on the community, especially for the activities that directly in contact to the interests of the wider community (Erlina, 2017).

Low budget absorption is a big issue in government financial management. In almost every second half of the fiscal year, there are many parties debate the low budget absorption. Many parties accuse that it contributes to the quality of public services and the difficulty in achieving the target of economic growth (Burhan *et al.*, 2015; Sirojuzilam *et al.*, 2016; Tarmizi *et al.*, 2016 & 2017). Budgeting plays a very important role in the effort to increase the budget absorption, since it will facilitate the implementation of the budget if it is well implemented (BPKP, 2011).

Failure in achieving the budget absorption targets results in loss of benefits in expenditure, since the not all of the allocated funds can be utilized, which means that there is *iddle money* occurred. If the budget allocation is efficient, the limited state financial resources can be optimized in order to fund the strategic activities. The limited sources of state revenues require government to prioritize the effective and efficient budgetary activities and budget allocations. When budget absorption fails to meet the targets, there has been an inefficient and ineffective budget allocation (BPKP, 2011).

Therefore, the government must perform the planning and budgeting well, especially in the consideration that the resources and potential of the government in the context of the implementation of obligatory affairs are very limited. The *underfinancing* or *overfinancing* arising from weak planning will have an impact on community service (Yahya *et al.*, 2017; Lubis *et al.,* 2016 and Dalimunthe *et al.*, 2016)). Instead, the main task of local government is to provide public services to improve the welfare of the community.

The low budget absorption has attracted some researchers to conduct a research on it, among others, Abdullah, Darma and Basri (2015), who conducted a research on the regency/municipal governments in Aceh, stated that the budget surplus has a negative effect on Budget absorption and budgeting time does not have any effect on budget absorption. However, it is different from the results of research conducted by Arif & Halim (2013) in regencies/municipalities in Riau Province which stated that the slow progress in the approval of APBD is the most dominant factor in the minimum APBD/Regional Budget absorption.

Table 1.1
The Budget Realization of the Regencies/Municipalities in North Sumatera
Province in 2014 (IDR 000.000.-)

No	Regency/Municipality	Budget	Realization	%
1	Asahan	1,561,447	1,388,136	88.90
2	Batu Bara	901,917	791,505	87.76
3	Binjai	918,031	804,308	87.61
4	Dairi	653,622	586,112	89.67
5	Deli Serdang	2,638,460	2,360,947	89.48
6	Gunung Sitoli	578,162	492,938	85.26
7	Humbang Hasundutan	817,666	700,845	85.71
8	Karo	1,037,626	889,667	85.74
9	Labuhan Batu	1,002,406	915,110	91.29
10	South Labuhan Batu	739,555	650,580	87.97
11	North Labuhan Batu	820,669	754,766	91.97
12	Langkat	1,780,923	1,605,301	90.14
13	Mandailing Natal	1,077,130	975,996	90.61
14	Medan	4,625,170	3,723,643	80.51
15	Nias	590,170	512,571	86.85
16	West Nias	446,212	370,810	83.10
17	South Nias	891,425	719,011	80.66
18	North Nias	541,085	446,662	82.55
19	Padang Lawas	653,580	512,166	78.36
20	North Padang Lawas	679,497	588,450	86.60
21	Padang Sidempuan	730,482	670,016	91.72
22	West Pakpak	517,627	416,527	80.47
23	Pematang Siantar	909,447	774,366	85.15
24	Samosir	677,552	572,943	84.56
25	Serdang Bedagai	1,090,169	1,010,452	92.69
26	Sibolga	582,370	521,086	89.48
27	Simalungun	1,803,232	1,648,279	91.41
28	Tanjung Balai	691,912	571,815	82.64
29	South Tapanuli	963,751	862,248	89.47
30	Central Tapanuli	853,482	755,513	88.52
31	North Tapanuli	912,134	816,538	89.52
32	Tebing Tinggi	682,308	614,015	89.99
33	Toba Samosir	916,654	770,865	84.10

Source: Bureau of Finance of North Sumatera Province, Processed (2015).

In addition, according to Abdullah, *et.al.* (2015), budget changes do not have any effect on budget absorption. While the results of research conducted by Viona (2015) on regencies/municipalities in Indonesia stated that the budget changes have some effect on budget surplus. Another research conducted by Abdullah and Halim (2003), Muda (2012) and Muda *et al.*, (2017); stated that the Local Own-Source Revenue (PAD) has an effect on local government expenditure, where the local government expenditure is all of regional cash disbursement in the current year or also called as budget absorption.

2. LITERATURE REVIEW

2.1. Theoretical Basis

2.1.1. Agency Theory

The *agency theory* proposed by Jensen and Meckling (1976) defines agency relationship as a contract between one or more person (also called as principal) who appoints another person (called as agent) to provide services in accordance with the interest of the principal including delegating some decision-making authority to the agent (Ghulam, 2012).

According to Ghulam (2012), the positive effect of the implementation of agency theory is in the form of efficiency, but there are more negative effects in the form of *opportunistic behavior*. This is because the agency has more financial information than the principal (information advantage), while the principal utilizes personal or *self-interest* because it has *discretionary power* (Muda *et al.*, 2015 & 2016 & Nurzaimah *et al.*, 2016).

According to Lane (2003), the agency theory can be applied in public organizations. He argues that modern democracy is based on a series of principal-agent relationships. The agency problem that arises among the executives tends to maximize the utilization (*self-interest*) in the preparation or budgeting of the APBD, because it has the advantage of information (information asymmetry). As a result, the executives tend to perform *"budgetary slack"*. This is because the executives will secure their position in government in the perception of the legislature and community, even for the sake of the next election, but the *budgetary slack* of APBD is more on the *self-interest* of the executives than on the public interest (Latifah, 2010).

2.1.2. Budget Absorption

The local government budget is called the Regional Revenue and Expenditure Budget (APBD). Government Regulation Number 71 of 2010 concerning Government Accounting Standards states that the Regional Revenue and Expenditure Budget (APBD) is an annual financial plan of the local government approved by the Regional House of Representatives (DPRD).

Starting from the definition of budget, the follow-up of budget is to realize the budget that has been allocated in accordance with what has been determined in the APBD. In this case, the follow up is the realization of the activities that have been planned to be implemented within one fiscal year. Thus, the achievement of the realization of activities that have been planned is a reflection of budget absorption.

2.1.3. Budgeting time

APBD is the basis of local government financial management for within one year. APBD has a planning function which means that APBD becomes a guide for local government in planning activities in the

related year (Muda *et al.*, 2017). This function makes APBD important because the programs of activities and development projects owned by the local government can be implemented if there has been a pre-determined APBD (Sutaryo, 2014).

The regional regulation draft on APBD and the draft of regulation of the head of region on definition of APBD which have been evaluated are stipulated by the head of region into a regulation on APBD and a regulation of the head of region on definition of APBD. The stipulation of the regional regulation draft on APBD and the draft of regulation of the head of region on definition of APBD shall be conducted no later than 31 (thirty-one) of December of the previous fiscal year.

2.2. Review of Previous Research

In the research conducted by Abdullah, et.al. (2015) on the influencing factors of the absorption of local government budget conducted sampling on the local government of regencies/municipalities in Aceh. This study used secondary data sourced from the APBD and the realization APBD in 23 (twenty-three) regencies/municipalities in Aceh. The test and analysis of the data were conducted by using multiple linear regression method. The results of this study showed that, simultaneously, the budgeting time, budget surpolus and budget changes had some effect on budget absorption. Partially, budget surplus had an effect (negatively) on budget absorption, while the budget changes and budgeting time did not have any effect on budget absorption.

Arif and Halim (2013), in their research on the influencing factors of the low absorption of the Regional Revenue and Expenditure Budgets (APBD) in the regencies/municipalities in Riau Province in 2011, used primary data obtained from heads of departments, heads of agencies, and *snowball informants* who were involved in the preparation and implementation of APBD in 2011. The obtained data were then analyzed by using the *Miles & Hubberman* model. The results showed that each regency / municipality in Riau Province had different factors which resulted in minimal absorption of the Regional Income and Expenditure Budget (APBD) in 2011. In this research, the results obtained were different from the results of the research conducted by Abdullah,*et.al.* (2015), which are in the variable of the slow progress in the approval of APBD, where in this research the slow progress in the approval of APBD or those related to the budgeting time had some effect on the minimal budget/APBD absorption, while in the research conducted by Abdullah,et.al. (2015) the budgeting time did not have any effect on budget absorption.

3.1. Conceptual Framework

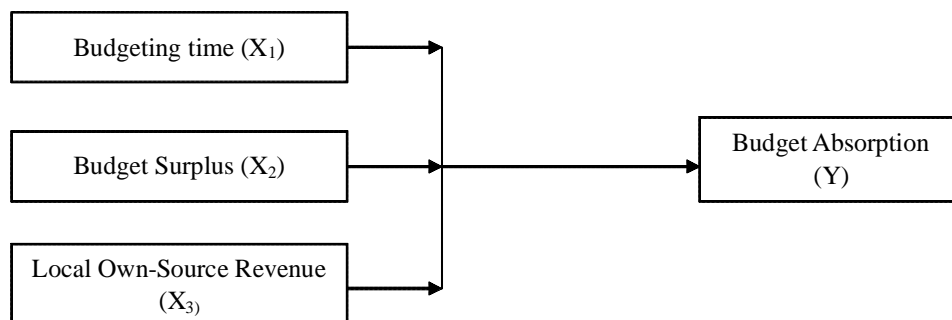The conceptual framework can be seen in the following Figure:

Figure 1: Conceptual Framework

3.1. Research Hypothesis

Budgeting time, budget surplus and local own-source revenue have an effect on budget absorption either simultaneously or partially, to the regency/municipal government in North Sumatra.

4. RESEARCH METHOD

4.1. Type of Research

Based on the level of explanation, which aims to explain the position of variables of the research and the relationship between one and another variable (Sugiyono, 2014; Gusnardi *et al.*, 2016 & Lutfi *et al.*, 2016)), the type of this research is associative/causal research. In this study, the form of relationship used is the causal relationship or causality.

4.2. Population and Sample

The population of this research was all regency/municipal governments in North Sumatera Province which consisted of 25 regencies and 8 municipalities in the period of observation of 2011-2014. The entire population was used as the sample of research or, in other words, census research.

4.3. Data Collection Method

The data used in this study were the combination between *time-series* and *cross-sectional* data or also called as *pooled* data. *Time-series* data is the data that is chronologically arranged according to time in a particular variable, while *cross-sectional* data is the data collected at a point of time. In this research, the researcher used secondary data obtained from the Bureau of Finance of the Provincial Government of North Sumatra.

4.4. Operational Definition and Measuring Method of the Variables

Table 1
Operational Definition of the Variables

Variable	Operational Definition	Parameter	Scale
Budget Absorption (Y)	All of expenditures of the local government which can be realized based on what has been determined in APBD/Regional Budget	The realization of the expenditure of the local/regional government until the end of the fiscal year	Ratio
Budgeting Time (X_1)	The date in which the Regional Revenue and Expenditure Budget (APBD) is stipulated/determined.	It would be late if it is determined after the 31 of December of the current year and vice versa.	Ratio
Budget Surplus (X_2)	The amount of surplus of the previous year budget available in the current budget.	The amount of *SiLPA* in the original APBD	Ratio
Local Own-Source Revenue (X_3)	The revenue obtained by the region collected based on the regional regulation in accordance with the legislation	Realization of the Local Own-Source Revenue (PAD) until the end of the fiscal year	Ratio

4.6. Data Analysis Model and Technique

4.6.1. Data Analysis Model

The data analysis model used in the research was the multiple linear regression by using the SPSS program. The significance level used in this research was 5% or á = 0,05 with the hypothesis test conducted by using *Ordinary Least Squares* (OLS).

4.6.2. Data Analysis Technique

The classic assumption test used in this research included the normality, multicollinearity, autocorrelation, and heteroscedasticity tests.

4.6.3. Hypothesis Test

The equation of multiple linear regression model used in this research is as follow:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_{3 +} \varepsilon$$

Y	=	Budget Absorption
X_1	=	Budgeting time
X_2	=	Budget Surplus
X_3	=	Local Own-Source Revenue
ε	=	Residual Value
a	=	Constant
b	=	Regression Coefficient

5. RESULTS AND DISCUSION

5.1. Results

5.1.1. Descriptive Statistics

The sample of the research consisted of 33 (thirty-three) regencies/municipalities as the *cross-sectional* data and the length of observation was 4 (four) years as the *time-series* data, so that this research obtained 132 (one hundred and thirty-two) observational data with the descriptive statistics as follows:

Table 2
Descriptive Statistics of Research Data

	N	*Minimum*	*Maximum*	*Mean*	*Std. Deviation*
Budget Absorption	132	257.20	3723.64	780.1762	564.36646
Budgeting time	132	.00	1.00	.2955	.45798
Budget Surplus	132	.27	406.21	39.7452	52.20514
Local Own-Source Revenue	132	2.76	1384.25	79.2737	205.17931
N Valid (listwise)	132				

Source: Research Results, 2016.

Based on the output of the descriptive statistics of research data in Table 2, it can be explained as follows:

1. Budget Absorption (Y)

   The lowest budget absorption during the period of 2011-2014 was IDR 257,2 billion in West Nias in 2011 and the highest was IDR 3.723,64 billion in Medan in 2014. The average budget absorption during the period of 2011-2014 was IDR 780,17 billion with a standard deviation of IDR 564,36 billion. This gap was due to the difference in the amount of APBD/Regional Budget in each region.

2. Budgeting Time (X_1)

   Budgeting time variable is a *Dummy* variable, so it had the lowest value of 0 and the highest value of 1 with an average value of 0,29 and a standard deviation of 0,45 which means that there were more regions which were late in determining the APBD than the those which determined the APBD on time.

3. Budget Surplus (X_2)

   The lowest budget surplus during the period of 2011-2014 was IDR 0,27 billion in Mandailing Natal in 2011 and the highest was IDR 406,21 billion in Serdang Bedagai in 2012. The average budget surplus during the period of 2011-2014 was IDR 39,74 billion with a standard deviation of IDR 52,20 billion. This gap was due to the difference in the amount of APBD/Regional Budget in each region and the ability of regions in managing their finances.

4. Local Own-Source Revenue (X_3)

   The lowest local own-source revenue during the period of 2011-2014 was IDR 2,76 billion in West Nias in 2011 and the highest was IDR 1.384,25 billion in Medan in 2014. The average local own-source revenue during the period of 2011- 2014 was IDR 79,27 billion with a standard deviation IDR 205,17 billion. This gap was due to the difference in the local own-source of each region and the ability of the regions in exploring the potential of their existing own-source revenue.

5. Budget Changes (Z)

   The lowest budget change during the period of 2011-2014 was IDR 0 in Karo in 2011, 2012 and 2014, Labuhan Batu in 2013, Medan in 2014 and the highest was IDR 622,04 billion in Asahan in 2013. The average budget change during the period of 2011-2014 was IDR 76,47 billion with a standard deviation of IDR 88,91 billion. This gap was due to the changes in local policy to adjust the financial plan to the existing development occurs.

5.1.2. *Koefisien Determinasi (R^2)*

Essentially, the coefficient of determination (R^2) measures the extent of the ability of the model to explain the variation of the dependent variable. A value close to one means that the independent variables provide almost all of the information needed to predict the variation of the dependent variable (Ghozali, 2013).

Table 3
Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.886[a]	.784	.779	.23662	2.105

Source: Research Results, 2016.

From Table 3, it is known that the value of R^2 is 0,784 or 78,4%. However, the basic weakness of the use of the coefficient of determination is the bias on the number of independent variables inputted to the model, so that, there are many researchers give recommendation to use the adjusted R^2 value in order to evaluate the inverse regression model. The Adjusted R^2 value in this research is 0,779 or 77,9% which means that the variation of dependent variables can be explained by the variation of the three independent variables. Meanwhile, 22,1% will be explained by other variables which are not explained in this research.

5.1.3. F-Statistic Test

From the results of the F-statistic test in Table 4, it is known that the significance value Sig = 0,000 < α = 0,05, which means that Ho is rejected or the proposed hypothesis is accepted. It means that the independent variables simultaneously have some effect on the dependent variable in a significance level of α = 0,05.

Table 4
F-Statistic Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.062	3	8.687	155.167	.000[b]
	Residual	7.166	128	.056		
	Total	33.228	131			

Source: Research Results, 2016.

5.1.4. T-Statistic Test

The t-statistic test was used to see the effect of budgeting time, budget surplus and local own-source revenue on budget absorption partially as can be seen in Table 5.

Table 5
T-Statistic Test

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	5.127	.086		59.542	.000
	X1	.010	.047	.009	.203	.839
	X2	-.039	.017	-.094	-2.225	.028
	X3	.426	.020	.890	21.169	.000

a. Dependent Variable: LnY

Source: Research Results, 2016.

Based on the multiple linear regression data between the independent variables on the dependent variable as follow:

LnY = 5,127 + 0,010 X1 - 0,039 X2 + 0,426 LnX3

Information:

Y   = Budget Absorption

X1 = Budgeting Time

X2 = Budget Surplus

X3 = Local Own-Source Revenue

From the equation above, it can be seen that the coefficient of the independent variable of budgeting time is positive, but the significance value is not significant which means that it does not have any effect on budget absorption. The coefficient of budget surplus variable is negative and significant, which means that the relationship between budget surplus and budget absorption is inversely proportional, thus, the higher the budget surplus, the lower the budget absorption.

5.2. Discussion

5.2.1. *The effect of budgeting time on budget absorption*

The result of the t-statistic test on the effect of budgeting time variable on budget absorption shows that the budgeting time does not have any effect on budget absorption. This is in accordance with the research conducted by Abdullah, *et.al* (2015), on local governments of regencies/municipalities in Aceh, which stated that the budgeting time does not have any effect on budget absorption. However, it is in contrast to the research conducted by Arif and Halim (2013) on regencies/municipalities in Riau Province which stated that the slow progress in the approval of APBD is the most dominant factor in the minimum APBD/Regional Budget absorption and the research conducted by Maulana (2011) on the determination of APBD that is not in accordance with the stipulated deadline will have implications on the delay of budget absorption.

Theoretically, the delay in determining the budget will result in the delayed administrative process for the implementation of the activities. The *procurement* mechanism can not be executed on time, thus, contract signing with *suppliers* and third parties as contractors will also be late, while, on the other hand, the deadline for project completion cannot be postponed. Ultimately, there will be many activities and projects cannot be executed thoroughly by the end of the budget period or some of them have to be canceled since it is not possible to be completed in a short time. Thus, the delay in budgeting will have an effect on budget absorption by the end of the year (Abdullah, *et al*, 2015).

5.2.2. *The effect of budget surplus on budget absorption*

The result of the t-statistic test on the effect of the budget surplus variable on budget absorption indicates that the budget surplus has an effect on budget absorption as can be seen in the sig < á value. It can be stated that Ho is rejected and Ha is accepted, which means that, partially, the budget surplus has an effect on budget absorption. The coefficient value of budget surplus is negative, which means that the higher the budget surplus, the lower the absorption of local government budget. The result of this research is in line with research conducted by Abdullah, *et al.* (2015) which stated that, partially, the budget surplus has an effect on budget absorption. According to Abdullah (2013), the amount of budget surplus which will be paid in the current year will be a burden in the current budget year, especially for the launching (project)

activity. The result of this research indicates that the amount of budget surplus has a negative effect on budget absorption at the regency/municipal governments in North Sumatera Province in the following year. Therefore, the review of the components of budget surplus and its relation to SKPD capacity in carrying out its activities should be well established at the budgeting time, thereby reducing the risk of uncertainty in achieving the targets at the time of execution.

5.2.3. *The effect of local own-source revenue on budget absorption*

The result of the t-statistic test on the effect of the local own-source revenue variable on budget absorption shows that the own-source revenue of the region has an effect on budget absorption. The coefficient value of local own-source revenue is positively significant which means that the higher the local own-source revenue, the higher the absorption of local government budget. The result of this research is in line with the research conducted by Abdullah and Halim (2003) which showed that the Local Own-Source Revenue (PAD) which consists of local taxes, regional retributions, the separated regional wealth management and other legitimate local own-source revenue, has an effect on regional expenditure, where regional expenditure is all of regional cash disbursement/expenditure in the current year period or also called as budget absorption. In line with the research, the research conducted by Kurniawati (2010), stated that the Local Own-Source Revenue (PAD) has a positive and significant effect on regional expenditure. It indicates that the achievement of the target of the realization of local own-source revenue has a positive effect on budget absorption since the local own-source revenue is used as one of local funding sources to support the provision of the facilities and infrastructures in the region which will have an effect on the community welfare and is indicated by the increasing economy.

6. CONCLUSIONS AND SUGGESTIONS

6.1. Conclusions

1. Budgeting time, budget surplus, and local own-source revenue, simultaneously, have some significant effect on budget absorption in the regency/municipal governments in North Sumatera Province.

2. Partially, budgeting time does not have any effect on budget absorption, while budget surplus has a negative effect on budget absorption and the local own-source revenue has a positive effect on budget absorption in the regency/municipal governments in North Sumatera Province.

6.2. Suggestions

1. Increasing the length of observation.

2. Increasing the population used in the research, if possible, the population should include all regencies/municipalities in the Sumatera island or Indonesia.

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