The Influence of Fiscal Balance Funds and Regional Own-Source Revenues on Regional Expenditures

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ABSTRACT

The purpose of this study is to examine the relationship between regional original income and general allocation funds as well as the spending patterns of regency and municipal administrations in West Sumatra Province from 2018 to 2022. Twenty regencies/cities and West Sumatra Province were selected for the sample using a comprehensive sampling technique within the allotted period. A t-test result of 7.788 and a significance level of 0.000 demonstrate that the General Allocation Fund does, in fact, have an effect on Regional Expenditures. There is a discrepancy between the calculated t-value (7.788) and the t-table value (1.987), which means that the significance value (0.000) is less than 0.05. There is no statistically significant relationship between regional original income and regional expenditures, as shown by the calculated t-test result of 1.389 and a significance value of 0.168. The comparison reveals that the calculated t-value (1.389) is lower than the t-table value (1.987), and that the significance value (0.168) is more than 0.05. However, Regional Expenditures are affected by both the General Allocation Fund and Regional Original Income, as shown by the F-test result of 51.233. This number is much lower than the 0.05 cutoff and higher than the 3.10 F-table value at the 0.000 level of significance.

Keywords: General Allocation Funds, Regional Original Income, Regional Expenditures

Introduction

A decentralised rather than a centralised structure has emerged within Indonesia’s government as it has progressed. This change has been driven by disparities in regional growth and has finally led to the need for regional autonomy programmes. Ensuring the well-being of every individual is the fundamental goal of this programme of regional autonomy. Autonomous areas are granted the authority to oversee and administer governance matters in compliance with applicable laws and regulations. They are also obligated to do so. The decentralisation phase in fiscal concerns began with Law Number 25 of 1999, which was subsequently revised by Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments. Local governments may be established by the use of Regional Original Revenue (PAD), General Allocation Fund (DAU), and other lawful resources, according to this legislation.

Padang Expres reported on December 25, 2021, that the budget of West Sumatra
Province for the fiscal year still heavily relies on federal government transfers. Data shows that Regional Original Revenue contributes 36.34% to West Sumatra Province's budget, while transfers from the central government reach 63.66%. The tendency of local governments to allocate only a small portion of their budget to activities directly contributing to economic growth is the main cause of the disparity between actual regional expenditures and planned regional expenditures.

A "regional expenditure" is defined as any commitment that a region records as a decrease in net wealth value in a certain fiscal year under Article 1, Paragraph 36 of Law Number 23 of 2014. Spending at the regional level is covered by a number of different funds, including the General Allocation Fund, the Special Allocation Fund, the Revenue Sharing Fund, and the Regional Autonomy Fund. Regional expenditures originate from two sources, namely direct and indirect sources. We can estimate future regional expenditures by examining actual expenditures from previous years. Kustianingsih et al. (2022) explain the process of determining total regional expenditures by summing up total direct expenditures and total indirect expenditures.

The purpose of the General Allocation Fund (DAU) in the State Budget (APBN) is to assist in the decentralization of financial resources by distributing or allocating funds that are insufficient in certain areas compared to others. A revenue-sharing method that considers the economic potential and needs of each region will be used to channel these funds. Due to the uneven distribution of DAU funds based on this principle, regions with high economic potential but low budgetary needs are likely to receive significantly less funding. According to Setiawan and Yogantara (2022), regions with low fiscal potential but high fiscal needs will receive a greater allocation.

Regional Original Revenue (PAD) is the money that an area gets from legal sources. This income can come from various sources, such as local taxes, levies, corporate profits, fees for managing separated regional wealth, and similar sources. As explained by Kurniati and Devi in 2022, PAD is the product of several different regional incomes, including local taxes, local levies, local business income, and other income legally recognized in Indonesia. Local governments often have to allocate a significant amount of money, especially to support development, when their areas experience rapid expansion. Therefore, substantial financial resources are needed to support regular retail positions and those associated with development.

This context allows us to formulate research topics as follows: (1) In West Sumatra Province, what is the influence of the General Allocation Fund (DAU) on regional expenditures in districts and cities? (2) What is the relationship between the Regional Original Revenue (PAD) of West Sumatra Province and Regional Expenditures at the district/city level? (3) How do the General Allocation Fund (DAU) and Regional Original Revenue (PAD) influence regional expenditures at the district/city level in West Sumatra Province?

Theoretical Review
General Allocation Fund

Distributing or transferring money to other regions ensures that they have equal financial resources to support decentralization initiatives. This is accomplished via the General Allocation Fund (DAU) under the State Budget (APBN). Allocating these monies is done via a revenue-sharing system, which takes into consideration the requirements and economic capacities of each area. As a consequence, there are frequently inequalities across regions. In 2022, Setiawan and Yogantara clarified that areas with low fiscal requirements but high fiscal potential would get a somewhat smaller DAU allocation, whereas regions with low fiscal potential but high fiscal needs will receive a greater allocation.

Local Own-Source Revenue

Revenue received by a region from various legitimate sources, including local taxes, levies, corporate profits, management of regional wealth, and similar sources, is referred to as Local Own-Source Revenue (PAD). PAD is a combined local revenue system that integrates various income sources recognized as legitimate in Indonesia. These sources include local taxes, local levies, local business income, and similar
If local governments do not have enough money to provide services and carry out development, then Riwu Kaho is correct: they cannot perform their duties properly. One of the most fundamental ways to measure a region's self-sufficiency is by looking at its financial situation. According to Kurniati and Devi (2022), Local Own-Source Revenue is money derived from various local economic sources. As a manifestation of the decentralization concept, this aims to empower regions in gathering finances for the implementation of regional autonomy.

### Regional Expenditures

The term "regional expenditures" is defined in Article 1, Paragraph 36 of Law No. 23 of 2014 as any obligation that a region identifies as a decrease in net wealth value for a certain fiscal year. To pay for regional expenses, many different kinds of budgets are used. These include the General Allocation Fund, the Special Allocation Fund, the Revenue Sharing Fund, and the Regional Autonomy Fund. Expenditures in an area come from both direct and indirect sources. Reviewing actual expenditures from previous years allows someone to make forecasts of regional expenditures. According to the explanation by Kustianingsih and colleagues in 2022, total regional expenditures are calculated by summing up total direct expenditures and total indirect expenditures.

### RESEARCH METHODOLOGY

#### Research Type

The applied research method is quantitative research, which is based on numerical data.

#### Population and Sample

The population of this research is based on the fiscal years 2018–2022, covering the districts and cities in West Sumatra Province. Sampling of documents related to the realization of district and city APBDs (Regional Budgets) in West Sumatra Province for the fiscal years 2018–2022 was conducted using a complete sampling technique. This research involves a total of 100 participants using this method.

#### Data Type and Data Collection Technique

In this research, secondary sources were used. Secondary data is derived from information published by the Directorate General of Fiscal Balance (DJPK) on the following topics: regional expenditures of districts and cities (DJE), regional original revenue (PAD) amounts, and funding allocation for West Sumatra Province (DAU) from 2018 to 2022. To extract information from these secondary sources, techniques like document analysis and observation are used. Data from the Directorate General of Fiscal Balance, namely DAU, PAD, and Regional Expenditures, are necessary for the study of this research.

#### Research Variables

1. **Independent Variables**

   The term "independent variable" is often used in Indonesian to describe what is essentially a "stimulus," "predictor," or "precursor" factor. The study's independent variables are the General Allocation Fund (X1) and Regional Original Revenue (X2).

2. **Dependent Variables**

   When a variable influences another variable, then both variables are said to be dependent. The amount of money spent in various regions is known as the dependent variable in this study.

#### Data Analysis Technique

Data analysis is carried out by the researcher using SPSS version 22. Within SPSS's data processing technologies, you'll find tools like Multiple Regression Analysis, Coefficient of Determination, Classical Assumptions, and Hypotheses.
Research Results and Discussion

Research Findings

Multiple Linear Regression Analysis

Table 1. Multiple Linear Regression Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-.955</td>
<td>.849</td>
<td>-1.124</td>
<td>.267</td>
</tr>
<tr>
<td>LNX1</td>
<td>1.043</td>
<td>.077</td>
<td>.854</td>
<td>13.497</td>
</tr>
<tr>
<td>LNX2</td>
<td>.114</td>
<td>.030</td>
<td>.243</td>
<td>3.845</td>
</tr>
</tbody>
</table>

a. Dependent Variable: LNY

Based on the provided table, we can formulate the multiple linear regression model as follows:

\[ Y = -0.955 + 1.043X_1 + 0.114X_2 \]

Here’s an explanation of the results of the regression equation above:

As shown by the constant number, Regional Expenditures (Y) are -0.955 when both the General Allocation Fund (X1) and Regional Original Revenue (X2) are equal to 0. Based on the positive coefficient of the General Allocation Fund (X1), a one-unit increase in X1 would lead to a 1.043 rupiah rise in Regional Expenditures (Y) when Regional Original Revenue is kept constant or equal to zero. According to the positive coefficient of the Regional Original Revenue (X2), if the General Allocation Fund stays the same or is equal to zero, a one-unit increase in Regional Original Revenue would lead to a 0.114 rupiah increase in Regional Expenditures (Y).

Hypothesis Testing

Table 2. t-Test

<table>
<thead>
<tr>
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<td>.243</td>
<td>3.845</td>
</tr>
</tbody>
</table>

a. Dependent Variable: LNY

Based on Table above, we can conclude the following:

1. The General Allocation Fund’s Effect on Local Budgets: For the General Allocation Fund variable in the data analysis, the derived t-value is 13.497 with a significance level of 0.000. After comparing the crucial t-value of 2.011 with the computed t-value (13.497 > 2.011), we find that the former is larger, while the latter’s significance value (0.000) is lower than the target significance level (0.05). The correlation between Regional Expenditures and the General Allocation Fund variable is statistically significant. As a result, we may accept the null hypothesis (H1) that the General Allocation Fund has no effect on regional expenditures.

2. Factors Affecting Regional Spending from Regional Original Revenue: The data analysis reveals that the Regional Original Revenue variable has a t-value of 3.845, which is statistically significant at the 0.000 level. As
a result of the estimated t-value (3.845 > 2.011) and the significance value (0.000 < 0.05), it can be inferred that the Regional Original Revenue variable has a considerable impact on Regional Expenditures. That being the case, we may accept the null hypothesis (H2) that states there is no link between regional original revenue and regional expenditures.

**F-Test**

*Table 3. F-Test (Simultaneous Significance Test)*

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>1.513</td>
<td>2</td>
<td>.757</td>
<td>102.427</td>
<td>.000b</td>
</tr>
<tr>
<td>Residual</td>
<td>.340</td>
<td>46</td>
<td>.007</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1.853</td>
<td>48</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: LNY
b. Predictors: (Constant), LNX2, LNX1

With a significance level of 0.000, the calculated F-value of 102.427 is observed in the data analysis above. The calculated F-value (102.427 > 3.20) is higher than the critical F-value of 3.20, and the significance level (0.000) is lower than the stated significance level (0.05), based on the comparison. Therefore, it can be said that the General Allocation Fund (DAU) and Regional Original Revenue (X2) both have a significant influence on the Regional Expenditures (Y) variable, individually and jointly. Hence, we adopt the third hypothesis indicating that Regional Expenditures are influenced by the combined effects of the General Allocation Fund and Regional Original Revenue.

**Coefficient of Determination Test**

*Table 4. Coefficient of Determination Test*

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.904a</td>
<td>.817</td>
<td>.809</td>
<td>.08595</td>
<td>1.423</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), LNX2, LNX1
b. Dependent Variable: LNY

The results shown in the table above lead us to believe that the R-squared value is 0.817. Regional Original Revenue and General Allocation Fund are the two independent variables that explain around 81.7% of the variation in Regional Expenditures, according to this research. The remaining 18.3% is attributable to other factors that were not included in this research.

**Discussion**

**The Influence of the General Allocation Fund on Regional Expenditures**

The analysis of the data for the General Allocation Fund variable yields a t-value of 13.497 at a significance level of 0.000. After comparing the computed t-value (13.497) to the crucial t-value (2.011), we find that the significance value (0.000) is less than the predetermined significance threshold (0.05). The correlation between Regional Expenditures and the General Allocation Fund variable is statistically significant. The first hypothesis (H1), that the General Allocation Fund affects Regional Expenditures, may be accepted. The results of this research are in line with the goals of the General Allocation Fund, which is a component of the Regional Expenditures funded by the State Budget, even if Regional Original Revenue has a little impact. This bodes well for the continuation of regional spending, particularly...
in light of the Central Government's General Allocation Funds. We find no evidence that the General Allocation Fund negatively affects Regional Expenditures, which is in line with previous research (Fadilah & Helmayunita, 2020).

The Influence of Regional Original Revenue on Regional Expenditures

A t-value of 3.845 for the Regional Original Revenue variable indicates statistical significance at the 0.000 level, according to the data analysis. In comparing the critical t-value (2.011) with the computed t-value (3.845), we discover that the critical t-value is less than the established significance threshold (0.05) with a significance value of 0.000, while the calculated t-value is larger. There is a strong correlation between the Regional Original Revenue variable and Regional Expenditures. We therefore accept H2, the null hypothesis, which states that regional expenditures and original income do not relate to one another. Income that is created inside a region and is governed by local legislation is called Regional Original Revenue (PAD). This includes all lawful forms of revenue, such as local company profits, taxes, and levies. Different funds, such as the Main Allocation Fund (DAU), the Special Allocation Fund (DAK), and Regional Original Revenue (PAD), are used to support regional expenditures. Research using information from West Sumatra District/City Governments shows that Regional Original Revenue (PAD) is often insufficient or falling between 2018 and 2022. Consequently, regional spending equalization cannot be based on PAD income. Regional Expenditures are positively affected by Regional Original Revenue, which is in line with these findings and previous research (Armadani & Maryono, 2022).

The Influence of General Allocation Fund and Regional Original Revenue on Regional Expenditures

The findings of the study examining the influence of Regional Original Revenue (PAD) and General Allocation Fund (DAU) on Regional Expenditures in Districts and Cities in West Sumatra Province indicate that both variables have a combined and simultaneous effect on the variable. Based on the data, the F-value is 102.427, and the p-value is 0.000. There is a significant difference between the estimated F-value (102.427) and the critical F-value (3.19), as well as between the significance level (0.000) and the stated level (0.05). Therefore, it can be said that the General Allocation Fund (DAU) and Regional Original Revenue (PAD) variables have a significant combined influence on the Regional Expenditures variable. Thus, the third hypothesis is accepted, namely that Regional Expenditures are influenced by both the General Allocation Fund and Regional Original Revenue simultaneously. Consistent with other research (Fadilah & Helmayunita, 2020), this study also found that Regional Original Revenue, General Allocation Fund, and Revenue Sharing Fund have a significant effect on Provincial Expenditures in Indonesia.

Conclusion

Based on the analysis of the influence of Regional Original Revenue (PAD) and General Allocation Fund (DAU) on Regional Expenditures, the following conclusions can be drawn:

1. Regional Expenditures in the Districts and Cities of West Sumatra are significantly influenced by the General Allocation Fund from 2018 to 2022. Accordingly, it is clear that the General Allocation Fund, which receives its funding from the federal government, is vital in sustaining spending at the regional level.
2. Regional Expenditures are unaffected by Regional Original Revenue. This indicates that regional spending is not totally reliant on money coming in from the local level.
3. The General Allocation Fund, Regional Original Revenue, and Regional Expenditures are all closely related. This underscores the significance of both financing sources in sustaining local government operations, since both of these elements have an impact on regional spending as a whole.

References


