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The Influence of Local Government Financial Factors on the 2021 Budget Forecast Error: Studies on Local Governments in Indonesia

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ABSTRACT

The APBD aims to coordinate financing within local government and create transparency in local government budgets. The components of the APBD consist of regional income, regional spending and budget financing . In the process of preparing the APBD, the structure and contents of the APBD are adjusted to the needs of government administration and regional government revenues within one fiscal year. This type of research uses a quantitative approach with a research design of hypothesis testing studies . In sample research, this research uses purposive sampling with the aim of obtaining a representative sample according to the criteria, namely the Provincial Government which has the highest SILPA in 2021. The dependent variable Budget Forecast Errors has an average of 1.39 and a maximum value of 9.45. The minimum value is 0.91 and the standard deviation value is 1.79. These results can be explained that the Regional Original Income variable has a high average value when compared to the standard deviation, which is 103.74 greater than 12.84. The independent variable Balancing Fund has an average value of 100.62, a maximum value of 106.85, a minimum value of 95.66, and a standard deviation value of 3.26. These results can be explained that the average value of the Other Legal Regional Income variables is relatively high when compared to the standard deviation, which is 114.74 greater than 43.78. The independent variable Direct Spending has an average value of 91.21, a maximum value of 115.34, a minimum value of 58.88, and a standard deviation value of 13.42

Keywords: Local Government Financial*, Budget Forecast Error, Government Financial Factors*

INTRODUCTION

Regulation of the Minister of Home Affairs (PERMENDAGRI) Number 33 of 2017 concerning Guidelines for Compiling the Regional Revenue and Expenditure Budget for the 2018 Fiscal Year. The Regional Revenue and Expenditure Budget (APBD) is the regional government's annual financial plan stipulated by regional regulations. Guidelines for preparing the APBD are policy points as guidelines and directions for Regional Governments in the preparation, discussion and determination of the APBD. Regional Government is the Regional Head as an element of the Regional Government administrator who leads the implementation of government affairs which become the authority of the autonomous region. The APBD aims to coordinate financing within local government and create transparency in local government budgets. The components of the APBD consist of regional income, regional spending and budget financing (UU No. 33 of 2004). In the process of preparing the APBD, the structure and contents of the APBD are adjusted to the needs of government administration and regional government revenues within one fiscal year (Kusuma and Sutaryo, 2015).

The first component of the APBD is regional revenue. Regional income in the APBD is divided into regional original income (PAD), balancing funds and other legal regional income. In making budget decisions, it is very dependent on income. Predicted income may not match the actual income received. This income may exceed or be less than previously predicted

income, resulting in inaccuracies. According to Yuliana (2018), budget forecast errors in setting budget targets in the budget preparation process are due to inaccuracies as indicated by the difference between the revenue budget and revenue realization. The second component of the APBD is regional spending.

The second APBD component is regional spending. According to Law Number 58 of 2005 concerning regional financial management "Regional expenditure is the obligation of the regional government which is recognized as a reduction in the value of net worth". In the APBD regional expenditures are grouped into Direct Expenditure (BL) and Indirect Expenditure (BTL). Budget projection errors (Budget Forecast Error) in regional spending in the fiscal year will occur if the realization of the budget in regional expenditure in the fiscal year is greater than the previous projection or forecast (Blanchard and Leigh, 2013).

Financial factors related to the budget can influence and allow for Budget Forecast Errors to occur (Kusuma and Sutaryo, 2015). These financial factors can be seen in the APBD which includes regional income which consists of regional original income, balancing funds and other legitimate regional income. regional spending which consists of direct spending and indirect spending and the last is regional financing. Budget Forecast Error is caused by a difference in the budget with a predetermined budget estimate. The difference can be in the form of Less Remaining Budget Calculation (SIKPA) and Remaining Over Budget Calculation (SiLPA). The phenomenon of the last few years in Indonesia shows that in regional financial management SiLPA often occurs. This can be seen in the report on the realization of the local government budget which shows SiLPA. SiLPA can occur due to budgets that are not fully absorbed, budget adjustments that are not on target/wasteful, increase in local revenue, activities that are not carried out, savings and efficiency, Permendagri regulations regarding grants, delays in completing work by goods/service providers, transfers of aid budgets from the local government which is carried out at the end of the year (Susanti and Siregar, 2018).

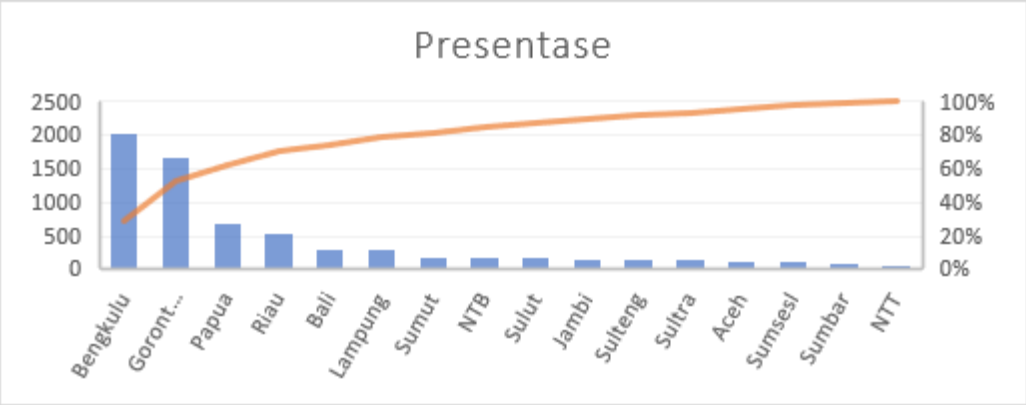

Figure 1.1
Percentage of SILPA in 2021

Based on Figure 1.1, it is known that the Bengkulu Regional Government has the largest SILPA in 2021, followed by the Gorontalo and Papua Regional Governments. In preparing financial reports for local governments, there are often differences in estimates between the budget and the actual budget, which are called budget forecast errors. Forecasting is the art and science of predicting future events by taking historical data and projecting it into the future using some form of mathematical model (Render and Heizer, 2001). Forecasting is made to minimize the effect of uncertainty on a problem, so that in forecasting, efforts are made to avoid forecast errors. In forecasting, a country may not necessarily be able to project or predict the level of income and expenditure accurately and precisely, this can affect state finances (Wagner and Garrett, 2004). Projecting or forecasting the budget is used to reduce uncertainty in determining the amount of the budget (Brogan, 2012). This research is based on Safitri's

research (2020) concerning the Influence of Financial Factors on Local Government Budget Forecast Errors in Indonesia. The difference between this study and previous research is in the data and research samples. The focus of this research is the Budget Forecast Error for Local Governments in Indonesia that will occur in 2021 which will see SILPA or SIKPA due to the co-pandemic in 2020.

Based on the description of the background above, the problems that will be discussed are formulated as follows: (1) Do local revenues affect the budget forecast errors of local governments in Indonesia?; (2) Do balancing funds affect local government budget forecast errors in Indonesia?; (3) Do other legitimate local revenues affect local government budget forecast errors in Indonesia?; (4) Does direct spending affect local government budget forecast errors in Indonesia?; (5) Does indirect expenditure affect local government budget forecast errors in Indonesia?.

METHOD

This type of research uses a quantitative approach with a research design of hypothesis testing studies (hypothesis study). In this study using secondary data from the website of the Directorate General of Fiscal Balance of the Ministry of Finance:www.djpk.kemenkeu.go.id. The population in this study is all provincial governments in Indonesia in 2021. In sample research, this research uses purposive sampling with the aim of obtaining a representative sample according to the criteria, namely the Provincial Government which has the highest SILPA in 2021. The sample obtained in this study as many as 22 samples. The analysis in this study uses the classical assumption test and hypothesis testing of multiple linear regression analysis with the F test, t test, and the coefficient of determination.

RESULT and DICUSSION

Descriptive Statistics

Table 1
Descriptive Statistics

Variable	N	Minimum	Maximum	Means	Std Deviation
Budget Forecast Error	22	0.91	9.45	1.39	1.79
Local Own Revenue (PAD)	22	84.54	135.49	103.74	12.84
Balancing Fund	22	95.66	106.85	100.62	3.26
Legitimate other income	22	31.47	210.91	114.74	43.78
Shop Direct	22	58.88	115.34	91.21	13.42
Indirect shopping	22	73.44	251.61	103.26	37.97

Source: Processed data, 2022

Based on table 1 above, the results of the analysis using descriptive statistics are explained as follows:

1. The dependent variable Budget Forecast Errors (BFE) has an average of 1.39 and a maximum value of 9.45. The minimum value is 0.91 and the standard deviation value is 1.79. This can be explained that the Budget Forecast Errors variable has a low average value when compared to the standard deviation, which is 1.39, which is less than 1.79.
2. The independent variable Local Original Income (PAD) has an average of 103.74, a maximum value of 135.49, a minimum value of 84.54 and a standard deviation value of 12.84. These results can be explained that the Regional Original Income variable has a high average value when compared to the standard deviation, which is 103.74 greater than 12.84.
3. The independent variable Balancing Fund has an average value of 100.62, a maximum value of 106.85, a minimum value of 95.66, and a standard deviation value of 3.26. These results can be explained that

the average value of the Balancing Fund variable has a high average value when compared to the standard deviation, which is 100.62 greater than 3.26.

4. The independent variable Other Legal Regional Income (LLPD) has an average value of 114.74, a maximum value of 210.91, a minimum value of 31.47, and a standard deviation value of 43.78. These results can be explained that the average value of the Other Legal Regional Income variables is relatively high when compared to the standard deviation, which is 114.74 greater than 43.78.
5. The independent variable Direct Spending (BL) has an average value of 91.21, a maximum value of 115.34, a minimum value of 58.88, and a standard deviation value of 13.42. These results can be explained that the average value of the Direct Expenditures variable is high when compared to the standard deviation, which is 91.21 greater than 13.42.
6. The independent variable Indirect Spending (BTL) has an average value of 103.26, a maximum value of 251.61, a minimum value of 73.44, and a standard deviation value of 37.97. These results can be explained that the average value of the Indirect Expenditure variable is high when compared to the standard deviation, which is 103.26 greater than 37.97

Determination Coefficient Test

Table 2
Koefi Test ResultsDetermination cient

R-Square	0.42673

Source: Processed data, 2022

The coefficient of determination is 0.4267, meaning that variations in changes in the Budget Forecast Errors variable can be explained by the variables PAD, Balancing Funds, Other legitimate PAD, Direct Expenditure and Indirect Expenditure by 43% while 57% is explained by other variables outside the model in this study.

Hypothesis Test - t test

Table 3
Hypothesis Test Results

Variable	t Count	Sig level	Information
Locally-generated revenue	0.08	0.1	Significant influence
Balancing Fund	0.9	0.1	No significant effect
Other legal PAD	0.02	0.1	Significant influence
Shop Direct	0.23	0.1	No significant effect
Indirect Shopping	0.92	0.1	No significant effect

Source: Processed data, 2022

Table 3 shows that the independent variables Balancing Funds, Direct Expenditures and Indirect Expenditures have significant values of 0.90, 0.23 and 0.92 respectively so that the independent variables Balancing Funds, Direct Expenditures and Indirect Expenditures do not have a significant effect on the dependent variable budget forecast errors in α = 10% thus H2, H4 and H5 are rejected. While the independent variable Local Original Income (PAD) and other independent variables valid PAD have significance values of 0.08 and 0.02 where these values are smaller than 0.10 so that H1 and H3 are accepted.

Effect of Regional Original Income on Budget Forecast Errors

Based on the results of statistical analysis in this study, it was found that hypothesis 1 in this study was "accepted" and it can be concluded that the higher the Regional Original Income, the higher the Regional Government's Budget Forecast Errors. This is because the Regional Original Income in the year concerned is high which is indicated by the minimum value of 84.54. This low regional original income means that the regional government has not been able to produce maximum PAD so that it can be said that the level of dependence of the regional government on the central government is high, so that the regional government cannot

implement its policies optimally in managing regional income. So it can be said that there is no possibility of Budget Forecast Errors. From the results of the t-test, regional income has an effect on budget forecast errors or errors in local government budget projections. The results of this study are in accordance with the explanation in developing the hypothesis that the higher the regional income, the higher the budget forecast errors or errors in local government budget projections.

Figure 2
Realization of Provincial Government PAD in Indonesia in 2021

The figure above shows that all provincial governments in Indonesia have high local revenue (PAD) in 2021. The highest PAD in 2021 is the Regional Government of Central Sulawesi Province with a total PAD of IDR 1,494.25 billion, followed by the Regional Government of Gorontalo Province and Southeast Sulawesi. The NTT Provincial Government has the lowest PAD compared to Regional Governments from other Provinces, with the NTT Provincial Government's PAD in 2021 amounting to IDR 1,238 billion with the percentage of PAD realization to the PAD budget in the same year being 60.88%.

Effect of Balancing Fund on Budget Forecast Error

Based on the results of statistical analysis in this study, it was found that hypothesis 2 in this study was "rejected". This means that the balancing fund variable has no significant effect on the Budget Forecast Error. This result is different from the hypothesis that the Balancing Fund has an effect on the Budget Forecast Error. This is because the dependence of local governments on the central government is still high because the use of Balancing Funds in local governments is high which is indicated by an average of 99.94. The higher the dependency of the regional government on the central government, the smaller the possibility of Budget Forecast Errors occurring because the regional government cannot be independent in allocating regional income. The results of this study support research conducted by Safitri (2020).

Figure 3
Realization of Provincial Government Balancing Funds in Indonesia in 2021

The Influence of Other Legitimate Regional Revenues on the Budget Forecast Error

Based on the results of statistical analysis in this study, it was found that hypothesis 3 in this study was "accepted" and it can be concluded that the higher the other legitimate PAD, the higher the local government's Budget Forecast Errors. This is because Other Legitimate Regional Revenues are regional revenues which include grants and emergency funds. Where Grants are sourced from abroad through the central government while Emergency Funds are allocated by the central government where the funds come from the APBN so that it can be said that if the use of Other Legitimate Regional Income is low then the dependence of local governments on the central government is low so that the level of independence of local governments in carrying out its policies. The high independence of local governments in implementing their policies will cause a high possibility of Budget Forecast Errors. So it can be concluded that Other Legitimate Regional Revenues affect the Budget Forecast Error. The results of this study support research conducted by Safitri (2020), which states that other legitimate PAD have an effect on the Budget Forecast Error.

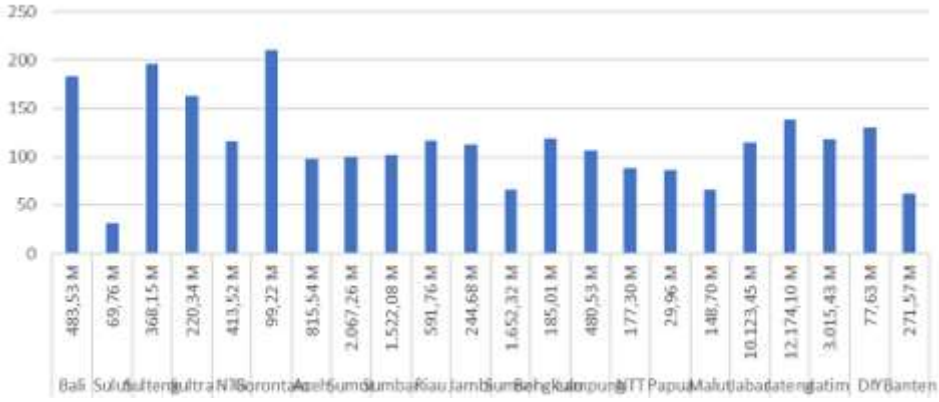

Figure 4
Realization of Other Legal PAD Provincial Governments in Indonesia in 2021

From Figure 4 above, it shows that all provincial governments in Indonesia have other legitimate regional income (PAD) that fluctuate. The highest other legitimate PAD in 2021 is the Regional Government of Gorontalo Province, followed by the Regional Governments of

Central Sulawesi and Bali, while the Regional Governments with the least other legitimate PAD are the Regional Governments of North Sulawesi Province.

Effect of Direct Spending on Budget Forecast Error

Based on the results of statistical analysis in this study, it was found that hypothesis 4 in this study was "rejected". This means that the direct expenditure variable has no significant effect on the Budget Forecast Error. This result is different from the hypothesis that direct spending has an effect on the Budget Forecast Error. This is due to the inability of direct spending to affect the Budget Forecast Error. This result is different from the hypothesis that direct spending has an effect on the Budget Forecast Error. The allocation of direct spending in the year concerned is high because the minimum value for direct spending is58,88. The high allocation of direct expenditure does not indicate the occurrence of Budget Forecast, because regional revenue receipts in the year in question are high, namely 135.49, causing the work plan in the year in question to be implemented so that the allocation of direct expenditure in the year in question does not indicate the occurrence of Budget Forecast Errors. The results of this study support research conducted by Safitri (2020), which states that direct spending has no effect on the Budget Forecast Error.

The Influence of Indirect Spending has an effect on the Budget Forecast Error

Based on the results of statistical analysis in this study, it was found that hypothesis 4 in this study was "rejected". This means that the Direct Expenditure variable has no significant effect on the Budget Forecast Error. This result is different from the hypothesis that direct spending has an effect on the Budget Forecast Error. This is due to the inability of direct spending to affect the Budget Forecast Error. This result is different from the hypothesis that direct spending has an effect on the Budget Forecast Error. The allocation of direct spending in the year concerned is high because the minimum value for direct spending is73.44. The high allocation of direct expenditure does not indicate the occurrence of Budget Forecast, because regional revenue receipts in the year in question are high, namely 135.49, causing the work plan in the year in question to be implemented so that the allocation of direct expenditure in the year in question does not indicate the occurrence of Budget Forecast Errors. The results of this study support research conducted by Safitri (2020), which states that direct spending has no effect on the Budget Forecast Error.

CONCLUSION

Based on the results of research that has been carried out regarding Regional Original Income, Balancing Funds, Other Legitimate Regional Revenues, Direct Expenditures and Indirect Expenditures on the Budget Forecast Errors of Local Governments in Indonesia in 2021, it can be concluded that the research results are as follows:

1. Regional Original Income Variable Local Government in Indonesia affects the Budget Forecast Error
2. The Regional Government Balancing Fund variable in Indonesia has no effect on the Budget Forecast Error
3. Other Variables Legitimate Regional Revenue Local Governments in Indonesia affect the Budget Forecast Error
4. The Local Government Direct Expenditure variable in Indonesia has no effect on the Budget Forecast Error.
5. Local Government Indirect Spending Variable in Indonesia has no effect on Budget Forecast Error.

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