

The Influence of Locally Generated Revenue, Public Allocation Funds and Specific To Financial Performance of The Region in The City/Regency Government in Aceh Province

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Abstract

The purpose of this research are: (1). To know how the condition of region own source revenue, the general allocation fund, special allocation fund and regional financial performance , (2). To find out the influence of region own source revenue, the general allocation fund, special allocation fund to the region financial performance, (3). To know the influence of region own source revenue to the region financial performance, (4). To find out the influence of the general allocation fund to the region financial performance, (5). to know the effect of the special allocation fund toward region financial performance. The data used in this research is a secondary data obtained from the office of BPK RI Aceh province Representative. The data collected in the form of pooling data in period of 2008-2012. The entire population in this research are sampled as many as 23 regencies / cities in Aceh province. In analyzing the data using multiple linear regression models. The results showed that: (1). Regencies / cities in Aceh province the category of of region finance ability is "very less" and the category of Region Finance Independence is "very low" with a pattern of "instructive" relationship, (2). The financial performance of the region show a decreasing trend in the span of 2008-2012 , (3). The variable of region own source revenue, general allocation fund, special allocation fund simultaneously influential and significant to the variable of regional financial performance , (4). Partially only variable of general allocation fund and variable of special allocation fund that influence and significant toward the variable of regional financial performance, whereas the variable of region own source revenue does not influence significantly to the variable of regional financial performance.

JEL Classification: H20, H50, P50

Key words: *The General Allocation Fund, The Region Own Source Revenue, The Regional Financial Performance, The Special Allocation Fund*

1. INTRODUCTION

Based on law no 11/2006 about the government of Aceh or what is known as the Government of Aceh law there are several important points that are mandated regarding on the management of regional finance which are:

- a. The government of Aceh and the government of regencies/cities manage the Aceh Spending Budget Income/Regency Spending Budget Income orderly, following rules of laws, efficient, economical, effective and responsible by showing a sense of justice, order and benefit for the people (Article 190 clause

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- (1) Law no 11/2006).
- b. The allocation of spending budgets for public service in the Aceh Spending Budget Income/Regency Spending Budget Income is larger than the allocation of spending budgets for the aGovernmentRegulationaratus. (Article 190 clause (3) Law no 11/2006).

In the national context, related with the management of national finance, in Law no. 17/2003 about National Finance, article 3 clause (1) it is stated that national finance is managed orderly, follows rules of laws, efficient, economic, effective, transparent, and responsible by showing a sense of justice and order. Then in the explanation of the mentioned law, it is stated that the aGovernmentRegulationlied budgeting in the public sector are budgets based on work achievement.

What is meant by budgeting based on work achievement is budgeting that is implemented by paying attention to the relation between funding with spending that is expected from lawivities and results and benefits that are expected including efficiency in reaching the mentioned results and output. This implementation of performance based funding has a purpose for forming a government that is good and clean. And the performance of the regional governmentwill increase if the financial management is implemented well in accordance with the rules that are assigned.

Realistically, the management of regional finance in Aceh Province is not yet optimal as what has already been mandated by laws. There are many bad news released in the mass media about the mismanagement of finance in Aceh, beginning from corruption, misuse of budgets, up to bad financial performance.

According to Abdullah (2011), that the quality of regional finance management indirectly is able to be seen from opinions from the Financial Examining Body of the Republic of Indonesia. So the better the opinion of the financial report given by the Financial Examining Body of the Republic of Indonesia, it indirectly reflects a good financial performance. In Aceh Province that has 23 regency/city governments, in 2011 the ones that obtained a Proper Without Exception opinion from the Financial Examining Body of the Republic of Indonesia is only 2 regencies/cities (9%), which are Nagan Raya Regency and Banda Aceh City. While in 2012 it increased to become 7 regencies/cities that obtained a Proper Without Exception opinion (30%), which are, Banda Aceh City, Sabang City, Subulussalam City, Aceh Besar Regency, Aceh Jaya Regency, Nagan Raya Regency and Central Aceh Regency.

In article 1 clause (5) law no.32/2004 about Regional Governments, it is explained that regional autonomy is a right, authority and obligation of the autonomic region to manage and handle governmental affairs and people interests itself in accordance with the rules of laws. So in order to undergo the mentioned autonomy the regional government needs sources of income. The regional government's sources of income consists of locally generated revenue, equalization funds, and other regional incomes that are valid (article 57 law No.32/2004). The regional government is stated to succeed in autonomy if the mentioned regional government is able to be more independent in financing government lawivities and development in their region, which is by digging the economic potential in their region through locally generated revenue. Then in article 2 clause (4 and 5) law No.32/2004 about Regional Governments, it is stated that regional governments in organizing governmental affairs have a relation with

the central government. One of the relations is the financial relation. Where the mentioned financial relation is proven by the presence of transferring equalization funds from the central government to regional governments, as what is mandated in Law No.33/2004 about Financial Equalization between the Central Government and Regional Governments.

Based on the 2008 financial report released by the Financial Examining Body of the Republic of Indonesia, it was known that regional governments in Aceh Province are still dependent on extern funds (central government). This is able to be seen from the contribution of equalization funds and locally generated revenue to local revenue where equalization funds have a very large contribution to local revenue.

As an example in 2011 the total local revenue of the Aceh Provincial Government was as large as Rp.7,610,320,147,037.19 from the mentioned number the locally generated revenue is only as large as Rp.802,840,173,817.19 (10.55%). The equalization fund is as large as Rp. 2,262,044,905,720.00 (29.72%) and the specific autonomy fund is as large as 4,510,656,496,500.00 (59.27%). In 2012 from the total local revenue of the Aceh Provincial Government was as large as Rp.9,180,143,048,437.63. From the mentioned number locally generated revenue is only as large as Rp.901,720,376,620.63 (9.82%) while the equalization fund is as large as Rp.2,359,784,326,817.00 (25.71%). Then the specific autonomy fund is as large as Rp.5,476,288,764,000.00 (59.65%)

For the West Aceh regency government in 2011 the total local revenue is as large as Rp. 516,630,593,402.40. From the mentioned number the locally generated revenue is as large as Rp.21,042,866,954.40 (4.07%) and equalization funds as large as Rp.437,438,662,825.00 (84.67%). In 2012 the total local revenue from West Aceh Regency was as large as Rp.588,981,727,693.27. From the mentioned number local revenue was only as large as Rp.24,727,256,869.07 (4.20%) while the equalization fund was as large as Rp.514,476,288,760.00 (87.43%).

From the flaws submitted above, it is able to be known that lawually the financial performance of the regency/city government in Aceh Province is not yet optimal.

2. LITERATURE REVIEW

Definition of Regional Financial Performance

In article 1 clause (2) Government Regulation No8/2006 about Financial Reporting and Government Agency Performance, defines performance as an output/result from lawivities/programs that are going to be or have already been achieved in relation with the use of budgets with a measured quantity and quality.

Financial performance is a measure of performance that uses financial indicators. Financial performance analysis is basically implemented for rating performance in the past by implementing several analyses so a financial position that represents reality, entity and performance potential that will continue is obtained. (Batafor, 2011). Agustina (2013) states that the financial performance of regional governments is a level of achievement from a result of work in the regional finance field neither from the income side nor regional spending by using financial indicators. Nevertheless, the writer summarizes that what is meant by regional financial performance is the level of achievement from a work result in

the regional finance field by using financial indicators that are already assigned and based on financial reports published by regional governments.

Locally Generated Revenue

In article 1 clause (18) Law no.33/2004 about Financial Equalization between the Central Government and Regional Governments, explains about locally generated revenue as revenue that is obtained by regions that are levied based on regional regulations according to the rules of laws. Then in article 3 clause (1) of the same law, it is explained that locally generated revenue has a purpose to provide authority to regional governments for funding the implementation of regional autonomy in accordance with the regional potential as an embodiment of decentralization. Based on article 26 clause (1) Interior Minister Regulation No.13/2006 about the Guide to Managing Regional Finance, it is stated that groups of locally generated revenue are divided according to the types of revenue that consists of a). Regional tax, b). Regional retribution, c). Results of processing regional resources that are separated and d). other locally generated revenue that is valid.

Public Allocation Funds

According to article 1 clause (23) Government Regulation No.55/2005 about Equalization Funds, what is meant by public allocation funds is:

“Funds that are sourced from the income of the National Income Spending Budget that are allocated with the purpose of equalizing interregional financial abilities for funding regional needs in the event of decentralization implementation”.

The whole number of public allocation funds is assigned to at least 26% of the net domestic product that is assigned in the National Income Spending Budget. The net domestic product is the national income that originates from tax and non-tax after being subtrawled from the national income which the results are divided to regions (Yani, 2002 : 143). The proportion of Public Allocation Funds between provinces and regencies/cities is counted from a comparison between the burden of government affairs that becomes the authority of provinces and regencies/cities. In the determination of proportions it is not yet able to be counted quantitatively, the proportion of Public Allocation Funds between provinces and regencies/cities is assigned with a balance of 10% and 90%.

Specific Allocation Funds

Based on article 1 clause 24 Government Regulation No.55/2005 about Equalization Funds, what is meant by specific allocation funds is:

”Funds that are sourced from the income of the National Income Spending Budget that are allocated to certain regions with the purpose of helping to fund specific lawivities that are the affairs of regions and in accordance with national priority”.

Specific Allocation Funds are allocated to certain regions for funding specific lawivities that are parts of programs that become national priorities becoming regional affairs. Certain regions are regions that are able to obtain Specific Allocation Funds based on public criteria, specific criteria and technical criteria. Public criteria is processed based on regional financial abilities that are reflected from public Regional Income Spending Budget after being subtrawled from the spending of public civil servants. According to Yani (2002: 166) specific lawivities that are assigned by the government prioritizes development lawivities and/or providing and/or increasing and/or improving physical infrastructure of basic

people service with a long economical age, including providing physical infrastructure.

3. RESEARCH METHOD

Location and Research Object

For obtaining data that is needed in this research, the writer holds research for 23 regency/city governments in Aceh Province through the Financial Examining Body of the Republic of Indonesia Aceh Province representative. As for the research objects are locally generated revenue, public allocation funds, specific allocation funds and regional finance performance.

Hypothesis

Based on theoretical study and empirical proof that was already explained above, the hypothesis of this research is as the following:

- The regional financial situation in 23 regencies/cities in Aceh Province is not yet optimal.
- Ha₁: Locally generated revenue, public allocated funds, and specific allocated funds simultaneously influence the regional financial performance.
- Ha₂: Locally generated revenue has an influence to regional financial performance.
- Ha₃: Public allocation funds have an influence to regional financial performance.
- Ha₄: Specific allocation funds have an influence to regional financial performance.

Population and Sample

In this research the writer uses the whole population as a sample which are the whole regencies/cities in Aceh Province that consists of 18 regencies and 5 cities. This research takes a time duration from the years 2008-2012 (as long as 5 years). So the total population (N) that is studied total at 115 populations (23 regencies/cities x 5 years).

Data Analysis Method

For answering problems in this research the analysis uses a double linear regression model analysis with an equation as the following:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e \quad (1)$$

Where :

- Y = Regional financial performance
- β = Slope or regression coefficient
- X₁ = Locally generated revenue
- X₂ = Public allocation funds
- X₃ = Specific allocation funds
- e = Error term

4. RESULT AND DISCUSSION

The Situation of Locally Generated Revenue in 23 Regencies/Cities in Aceh Province

The average locally generated revenue in 23 regencies/cities in Aceh Province that was counted in the time period of 2008-2012 is as large as Rp.19,980,919,435.52. There are as many as 9 regencies/cities whose locally generated revenue is above average which are West Aceh, Aceh Besar, South Aceh, Central Aceh, North Aceh, Bireun, Pidie, Banda Aceh, and Lhokseumawe. While the rest as many as 13 regencies/cities the locally generated revenue is below average which are Southwest Aceh, Aceh Jaya, Aceh Singkil, Aceh Tamiang, Southeast Aceh, East Aceh, BenerMeriah, GayoLues, Nagan Raya, Pidie Jaya, Simeulue, Langsa, Sabang and Subulussalam.

The ability of regional finance that is seen from the percentage of locally generated revenue to the total local revenue, it was known that from 23 regencies/cities in Aceh province only Banda Aceh city that has a financial ability category of “deficient” because the percentage of locally generated revenue to the total local revenue is as large as 11.06% in the interval of 10.01%-20.00%. While the other 22 regencies/cities’ regional financial abilities are categorized as “very deficient” because the percentage of locally generated revenue to the total local revenue is in the interval of 0.00%-10.00%. Other than that to know the level of regional financial independence, it is able to be seen in the locally generated revenue percentage number to the transfer funds from the central, province, and loans. The average locally generated revenue percentage to transfer funds from the central, province and loans for 23 regencies/cities in Aceh Province is as large as 4.25% in the interval of 0.00%-25.00% category “very low” with an “instructive” relation pattern.

The Situation of Public Allocation Funds in 23 Regencies/Cities in Aceh Province

The average public allocation funds in 23 regencies/cities in Aceh Province that are counted in the time period of 2008-2012 is as large as Rp.310,543,570,046.26. There are 11 regencies/cities which the public allocation funds are above average which are West Aceh, Aceh Besar, South Aceh, Central Aceh, Southeast Aceh, East Aceh, North Aceh, Bireun, Nagan Raya, Pidie, and Banda Aceh. While the rest as many as 12 regencies/cities the public allocation funds are below average which are Southwest Aceh, Aceh Jaya, Aceh Singkil, Aceh Tamiang, BenerMeriah, GayoLues, Pidie Jaya, Simeulue, Langsa, Lhokseumawe, Sabang and Subulussalam.

The Situation of Specific Allocation Funds in 23 Regencies/Cities in Aceh Province

The average specific allocation funds in 23 regencies/cities in Aceh Province that are counted in the time period of 2008-2012 is as large as Rp.38,852,129,946.23. There are 12 regencies/cities which the specific allocation funds are above average which are West Aceh, Southwest Aceh, Aceh Besar, South Aceh, Aceh Singkil, Aceh Tamiang, Central Aceh, East Aceh, North Aceh, Bireun, Pidie, and Simeulue. While the rest as many as 11 regencies/cities the specific allocation funds are below average which are Aceh Jaya, Southeast Aceh, BenerMeriah, GayoLues, Nagan Raya, Pidie Jaya, Banda Aceh, Langsa, Lhokseumawe, Sabang, and Subulussalam.

The Situation of Regional Financial Performance in 23 Regencies/Cities in Aceh Province

The average regional financial performance that was seen from the percentage aspect of capital spending allocation for 23 regencies/cities in Aceh Province that was counted in the time period of 2008-2012 is as large as 19.85%. There are as many as 12 regencies/cities which their regional financial performance is above average which are Southwest Aceh, Aceh Jaya, Aceh Singkil, Central Aceh, North Aceh, BenerMeriah, GayoLues, Nagan Raya, Pidie Jaya, Simeulue, Sabang, and Subulussalam. While the rest as many as 11 regencies/cities their financial performance is below average which are Aceh Besar, West Aceh, South Aceh, Aceh Tamiang, Southeast Aceh, East Aceh, Bireun, Pidie, Banda Aceh, Langsa, and Lhokseumawe.

The average regional financial performance seen from the percentage of capital spending allocation in 23 regencies/cities in Aceh Province per year from 2008-2012 is able to be seen in the table below:

Table 1 Average Regional Financial Performance in 23 Regencies/Cities in Aceh Province Per Year

Year	Capital Spending Allocation (%)
2008	23.28
2009	19.87
2010	19.93
2011	20.53
2012	15.62

If compared with government regulations, the average percentage of capital spending allocation for regencies/cities in Aceh Province per year such as seen in the table above that from the years 2008-2012 has not yet fulfilled the minimal requirements of capital spending allocation required by the government at all. The government requires so that the capital spending allocation increases continuously every year. In 2008 the minimal allocation was 24% for capital spending, while what occurred was only as large as 23.28. In 2009 the minimal was 25% allocation for capital spending, while what occurred was only as large as 19.87%. In 2010 the minimal was 26% allocation for capital spending, while what occurred was only as large as 19.93%. In 2011 the minimal was 27% allocation for capital spending, while what occurred was only as large as 20.53%. And in 2012 the minimal was 28% allocation for capital spending, while what occurred was only as large as 15.62%.

Results of Statistical Test

From research results a coefficient correlation (R) as large as 0.620 shows that the degree of relation (correlation) between independent variables with dependent variables as large as 62%. Which means that locally generated revenue, public allocation funds, and specific allocation funds have a strong relation to regional financial performance. Other than that it is also known that the determination coefficient (Adjusted R Square R²) is as large as 0.367. Which means that regional financial performance as large as 36.7% is influenced by locally generated revenue, public allocation funds, and specific allocation funds.

As for the regression equation is:

$$Y = -0,047X1 - 0,635X2 + 0,168X3 + e \tag{2}$$

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The mentioned equation is able to be interpreted that: the regression coefficient (β_1) as large as -0.047% shows that every increase in locally generated revenue as large as 1%, the regional financial performance decreases as large as 0.047%. The regression coefficient (β_2) as large as -0.635 shows that every increase in the acquisition of public allocation funds as large as 1%, the regional financial performance decreases as large as 0.0635%. The regression coefficient (β_3) as large as 0.168 shows that every increase in the acquisition of specific allocation funds as large as 1%, the regional financial performance increases as large as 0.168%.

Results of F Test

A simultaneous test is implemented for knowing if the independent variables that consists of locally generated revenue, public allocation funds, and specific allocation funds simultaneously influence the dependent variable which is regional finance performance. The simultaneous statistical test shows that value $F_{count} >$ value F_{table} ($23.054 > 2.686$), so H_{a1} is accepted (H_{01} rejected). Which means that the variables of locally generated revenue, public allocation funds, and specific allocation funds influence simultaneously and significantly to the variable regional finance performance. This significant influence is able to be seen from the larger probability than or the same with the Sig probability value. ($0.05 \geq 0.000$),

T-test

A partial test is implemented for knowing if each independent variable (locally generated revenue, public allocation funds, and specific allocation funds) influences the dependent variable (regional financial performance).

The influence of locally generated revenue to regional financial performance.

From research results a t_{count} value for locally generated revenue is smaller than the t_{table} ($-0.560 < -1.658$), so H_{02} is accepted. It means that there are no significant influences between the locally generated revenue variable and the regional financial performance variable. Even if the scale of the influence that is shown by the regression coefficient (β_1) as large as -0.047 or -4.7% is not significant, because the probability value is less than or the same with the Sig probability value. ($0.05 \leq 0.577$).

The influence of public allocation funds to regional financial performance.

From research results a t_{count} value for locally generated revenue is larger than the t_{table} ($-6.987 > -1.658$), so H_{a3} is accepted. It means that there are significant influences between the locally generated revenue variable and the regional financial performance variable. The scale of the influence that is shown by the regression coefficient (β_2) is as large as -0.635 or -63.5% and this is a significant influence, because the probability value is greater than or the same with the Sig probability value. ($0.05 \leq 0.000$).

The influence of specific allocation funds to regional financial performance.

From research results a t_{count} value for locally generated revenue is larger than the t_{table} ($2.076 > 1.658$), so H_{a4} is accepted. It means that there are significant influences between the locally generated revenue variable and the regional financial performance variable. The scale of the influence that is shown by the regression coefficient (β_3) is as large as 0.168 or 16.8% and this is a significant influence, because the probability value is greater than or the same with the Sig probability value. ($0.05 \leq 0.040$).

5. SUMMARY AND SUGGESTIONS

Summary

From research results it is able to be summarized that:

1. The regional financial ability in 23 regencies/cities in Aceh Province that was counted in the 2008-2012 time period are “very deficient” and the financial independence level is in the “very low” category with an “instructive” relation pattern that has a meaning that the role of the central government is more dominant than the independence of regional governments (regions are unable to implement regional autonomy financially).
2. Regional financial performance that is reviewed from the capital spending allocation shows a trend that decreases in the 2008-2012 time period. And regional governments are not yet able to fulfill the percentage of capital spending allocation that in every year is required to increase by the regulations of laws.
3. The locally generated revenue, public allocation funds, and specific allocation funds variables simultaneously take effect and significantly to the regional financial performance variable. Partially only the public allocation funds, and specific allocation funds variables that take effect and significantly to the regional financial performance variable. While the locally generated revenue variable partially does not take effect significantly to the regional financial performance variable.

Suggestions

Based on research that was already implemented, suggestions are proposed to the regency/city governments in Aceh Province as the following:

1. To continue to increase regional financial abilities and regional financial independence by increasing locally generated revenue. This is able to be implemented among others by optimization of regional tax revenue, with concrete efforts that are able to be reached in the form of:
 - a. Implementing a Government Regulation of the whole potential of regional tax including land and building tax and readjusting values of tax objects with the current situation.
 - b. Identify the regional tax-dodgers and to those that dodge regional tax are to be faced with the law.
2. Implement an a Government Regulation roach effort (lobby) intensively to the technical ministry so the specific allocation funds are able to be prioritized in accordance with proposed programs from regency/city governments in Aceh Province.
3. To continue to increase the capital spending allocation every year in the Regional Income Spending Budget minimal in accordance with what are required by laws. And every output from the realization of the mentioned capital spending have to be able to be functioned in accordance with what is planned.

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