

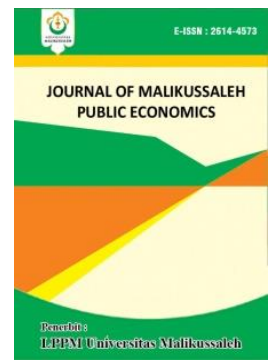
# The Effect of Local Original Revenue, General Allocation Funds, Special Allocation Funds and Profit Sharing Funds on Regional Expenditures in Aceh Province

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## ARTICLE INFORMATION

## ABSTRACT

### Keywords:

**Regional Expenditures, Own-source Revenues, General Allocation Funds, Special Allocation Funds, Revenue Sharing Funds.**

*This study aims to determine the effect of local original Revenues, General Allocation Funds, and Profit Sharing Funds on the Regional Expenditures of Regencies/Cities in Aceh Province, Indonesia. This study uses panel data covering 23 Regencies/Cities in the Province of Aceh during 2013-2017. The Method of data analysis is Panel data regression. The results of the study partially indicated that local original revenue, general allocation funds, special allocation funds, and profit sharing funds have a positive and significant effect on the Expenditures of Regencies/cities in Aceh Province. Simultaneously, local original revenues, general allocation funds, special allocation funds, and profit sharing funds have a positive and significant effect on the Expenditures of Regencies/across in Aceh Province.*

## 1. INTRODUCTION

The relationship between the central government and regional governments in Indonesia has changed since the reformation era in 1998, Indonesian previously state embraces a centralized government policy to decentralization, namely the delegation of some authority to the regions. In its implementation, the regional autonomy policy is supported by Act 32 of 2004 concerning Regional Government and act 33 of 2004 concerning Fiscal Balance between the Center and the Regions. This is closely related to the granting of power, authority and discretion to regional governments in controlling and determining the use of funds in carrying out their regional affairs where the funds obtains from the Regional Budget (APBD).

Regional financial sources consist of Local Original Revenue (PAD) and balancing funds

consisting of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Profit Sharing Funds (DBH) which related to the construction and balance of Expenditures and revenue at District / city (Armawaddin et al, 2017). When comparing government Expenditures, we can conclude that if local regional revenue is greater than general allocation funds, the area becomes an independent region, and vice versa if the PAD contribution is smaller than the DAU then the area is one of the regions that is highly independent (Eliza and Jatmiko, 2016)

Several studies on the implementation of decentralization in Indonesia have been studied by several previous researchers including, Mimunah, 2006, examines the effect of PAD and DAU on Regional Expenditures by taking samples of Regencies / Cities in Sumatra and analyzes by utilizing panel data regression models Rasyid,

(2015), looks at the effect of DAU, DAK, DBH and PAD on districts / cities in Central Sulawesi province, using a panel data linear regression model. Devita, 2014, studies the Effects of PAD, DAU and Population on Regency / City Spending in Jambi Province. Using multiple linear regression model.

The realization of distribution of PAD to Regional Expenditures from 2013 to 2017 continues to increase, but the figure is classified as consisting a minimal level to the independence of regional finances, especially for regional spending, because the realization of PAD to Aceh Province Budget (APBA) is still below 25 percent where regional financial independence can be classified as very low if the the values are between, low (25-50%), moderate (50-75%) and high (above 75%) (BPS Catalog, 2013-2017).

The realization of DAU from 2013-2017 fluctuates, where in 2013-2016 the DAU increase but in 2017 it drops to Rp 16,914 billion. It is lower than the value of the DAU in 2016 whose value is Rp 18,018 billion while regional spending increases from 2013 until 2017.

If the DAU value is much higher than the PAD value, it shows that the regional government is much more dependent on its transfer funds without optimizing the potential of PAD.

DAK and Regional Expenditures in Aceh Province districts / cities in 2013 to 2016 increase, but the DAK in 2017 decrease. Regional Expenditures from 2013 to 2017 continues to increase, where when DAK decreases in 2017. The Government Expenditures is not consistent.

DBH and Regional Expenditures of districts / cities in Aceh Province show that DBH in 2013 to 2017 experiences a fluctuating decline, where the lowest value is in 2016. This study aims to describe the Effect of Local Revenue, General Allocation Funds, Special Allocation Funds and Profit Sharing Funds for District / City Spending in Aceh Province. Part two of this study describe the literature review. Research methodology can be discussed in part three. In part four, the results and discussions will be presented. Finally, the conclusion and recommendation will be explain in part five of the study.

## **2. THEORITICAL REVIEW**

### **Local Regional Revenue (PAD)**

Local Original Revenue is revenue that is obtained and collected by the regional government supported by the determined legislation, which is used for regional needs in financing its activities. PAD consists of local taxes, regional levies, revenue of regionally owned companies and management of separated regional assets, and other legitimate local original revenues (Prahasta, 2016)

### **General Allocation Funds (DAU)**

The General Allocation Funds (DAU) is an aid budget that is transferred by the central government to each region in Indonesia. General Allocation Funds are used as funds to meet regional needs that exceed the regional income potential (Puspitasari, puput, 2017).

### **Special Allocation Funds (DAK)**

In essence, DAK is a budget sourced from the State Budget Expenditures (APBN) given to the regions as an assistance to finance the needs of a region's specific activities and in accordance with national priorities. The purpose of the needs of a region is not the same as the needs of other regions, for example the needs of transmigration areas, the desires for new investments or infrastructure and the desires according to national responsibilities or preferences (Armawaddin, Rumbia and Afiat, 2017).

### **Profit Sharing Funds (DBH)**

Profit Sharing Funds are budgets derived from APBN. The amount of DBH based on a certain percentage to finance regional needs in implementing decentralization (Rasyid, 2015). The sourced of the budget is obtained from the ability of a region to produce goods and services.

### **Regional Expenditures**

Regional Expenditures is an obligatory for the Regional Government to determine the minimum value of net assets in a certain budget period (Gorahe, 2012). According to the Minister of Domestic Affairs Regulation No. 13 of 2006 concerning the direction of Regional Financial

Management, Regional Expenditures are all Expenditures from regional general cash accounts which reduce the equity funds.

### Conceptual Framework

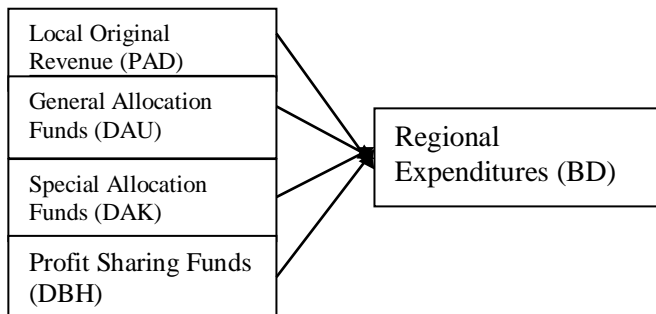


Figure 1

### Conceptual Framework

From the figure 1 above we can see that each of variables partially and simultaneously affect the government Expenditures. The effect can be proven by utilizing hypothesis test.

### 3. RESEARCH METHODOLOGY

This study uses a panel data linear regression model. To see the influence of PAD, DAU, DAK and DBH on Regional Expenditures in Aceh Province we can assume that the disparity occurs across Aceh Province. the utilizing panel data during 2013-2017 will show the result of across 23 Regencies / Cities in Aceh Province.

#### Panel Data Equation Model

The use of panel data in an observation has several advantages. first, panel data which is a combination of time series data and cross sections that are able to provide more data so as to produce greater Idegree of freedom. secondly, collecting files from time series data and cross sections can solve problems when omitted variables occur.

Panel data equation model is as follows:

$$BD_{it} = \alpha + \beta_1 PAD_{it} + \beta_2 DAU_{it} + \beta_3 DAK_{it} + \beta_4 DBH_{it}$$

where:

$BD_{it}$  = Government Expenditures

$PAD_{it}$  = Local Original Revenue

$DAU_{it}$  = General Allocation

$DAK_{it}$  = Special Allocation Funds

$DBH_{it}$  = Profit Sharing Funds

$t$  = Entity  $i$

$t$  = period  $i$

### 4. RESULTS AND DISCUSSION

#### Classical assumption test

##### Multicollinearity Test

Multicollinearity means that there is a perfect or certain linear relationship between some or all independent variables that explain the regression model. To know the presence or absence of multicollinearity can be seen from the correlation coefficient of each independent variable. As in the table below.

Table 1

#### Multicollinearity Test Results

	PAD	DAU	DAK	DBH
PAD	1.000000	0.771827	0.421004	0.300264
DAU	0.771827	1.000000	0.466096	0.352839
DAK	0.421004	0.466096	1.000000	-0.021509
DBH	0.300264	0.352839	-0.021509	1.000000

Source: Processed Data, 2019

In the table 1 above, it can be seen that the correlation matrix value is not more than 0.8, which means that there are no symptoms of multicollinearity. With the fulfillment of multicollinearity test, this regression model does not find any perfect linear correlation between each independent variable.

##### Heteroscedasticity Test

Heteroscedasticity can be tested using glacier test as in Table 2 below:

Table 2

#### Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	26240.39	21933.02	1.196388	0.2348
PAD	-0.093961	0.128354	-0.732045	0.4661
DAU	0.000353	0.059922	0.005889	0.9953
DAK	0.003985	0.016817	0.236994	0.8132
DBH	-0.109086	0.100259	-1.088048	0.2795

Source: Processed Data, 2019

From the above table using the glacier test it is found that there is no heteroscedasticity in the study data because the probability variables PAD,

DAU, DAK and DBH > 0.005, which means that it's free from heteroscedasticity problem.

## Panel Data Regression

### Fixed Effect Model

This model predicts differences in their intercepts. To see the Fixed Effects model panel data through dummy variable technique, we can pick up intercept differences. Intercept differences can occur if there are differences in work, managerial, and incentive culture.

**Table 3**

### Regression Results for the Fixed Effect Model (FEM) Method

Dependent Variable: BD  
Method: Panel Least Squares  
Date: 01/15/19 Time: 09:34  
Sample: 2013 2017  
Periods included: 5  
Cross-sections included: 23  
Total panel (balanced) observations: 115

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1073158.	167402.1	-6.410660	0.0000
PAD	2.462867	0.407642	6.041737	0.0000
DAU	3.244871	0.366199	8.860943	0.0000
DAK	1.245221	0.158607	7.850995	0.0000
DBH	1.166396	0.484633	2.406760	0.0182

#### Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.973354	Mean dependent var	1059837.
Adjusted R-squared	0.965482	S.D. dependent var	461912.5
S.E. of regression	85819.28	Akaike info criterion	25.75984
Sum squared resid	6.48E+11	Schwarz criterion	26.40431
Log likelihood	-1454.191	Hannan-Quinn criter.	26.02143
F-statistic	123.6381	Durbin-Watson stat	1.994422
Prob(F-statistic)	0.000000		

Source: Processed Data, 2019

After testing, the Fixed Effect Model (FEM) model is chosen as the right estimation model for estimating data, the equation of regression results can be obtained from Table 5. Which is as follows:

$$BD = -1073158 + 2,462867PAD + 3,244871DAU + 1,245221DAK + 1,166396DBH$$

From the equation above shows that the value of the constant is 1073158, meaning that if the variable Local Original Revenue (PAD), General Allocation Funds (DAU), Special

Allocation Fund (DAK) and Profit Sharing Funds (DBH) are considered constant then Regional Expenditures (BD) amounting to Rp -1073158 billion. The coefficient value of the PAD is 2,462867, meaning that if the PAD variable increases by 1 billion, it will increase Regional Expenditures by Rp 2,462867 billion, assuming the DAU, DAK and DBH variables are considered constant.

The coefficient value of the DAU variable is 3.244871, meaning that if the DAU variable increases by 1 billion, it will increase Regional Expenditures by Rp. 3.244871 billion, assuming the variable PAD, DAK and DBH are considered constant.

The coefficient value of the DAK variable is 1.245221, meaning that if the DAK variable increases by 1 billion, it will increase Regional Expenditures by Rp 1.245221 billion, assuming the PAD, DAU and DBH variables are considered constant.

The coefficient value of the DBH variable is 1,166396, meaning that if the DBH variable increases by 1 billion, it will increase Regional Expenditures by Rp 1,166396 billion, assuming the PAD, DAU and DAK variables are considered constant.

## Hypothesis testing

### Partial Hypothesis Testing

Testing uses a test with a level of confidence or  $\alpha = 0.05$  with the provisions, where the test used is with the decision criterion if t count > is greater than t table at  $\alpha = 5\%$  then hypotheses H1, H2, H3, and H4 can be accepted and can conclude that there is a significant effect on the dependent variable.

**Table 4**

### T-Statistics Test Results

Variabel	Coefficient	Std. Error	t-Statistik	Prob	Signifikansi
BD	-1073185	167402,1	-6,410660	0,0000	Signifikan
PAD	2,462867	0,407642	6,041737	0,0000	Signifikan
DAU	3,244871	0,366199	8,860943	0,0000	Signifikan
DAK	1,245221	0,158607	7,850995	0,0000	Signifikan
DBH	1,166396	0,484633	2,406760	0,0182	Signifikan

Source: Processed Data, 2019

From the it test results above based on Table 4 shows that:

1. PAD (X1) has a value of tcount 6,042 with a statistical probability value of 0.0000 and a table value with (df) = n - k (115-5 = 110) is equal to 1,982, at  $\alpha = 5\%$ . It can be concluded that tcount > ttable which 6,042 > 1,982, then the decision of hypothesis is accepted while hypothesis H0 is rejected, which means partially Local Original Revenue has positive and significant effect on Regional Expenditures.
2. DAU (X2) has a tcount of 8.861 with a statistical probability value of 0.0000 and a table value with (df) = n - k (115-5 = 110) is equal to 1,982, at  $\alpha = 5\%$ . It can be concluded that tcount > ttable which is 8.861 > 1.982, then the decision of hypothesis H2 is accepted while hypothesis H0 is rejected, which means that partially the General Allocation Funds have positive and significant effect on Regional Expenditures.
3. DAK (X3) has a tcount of 7.851 with a statistical probability value of 0.0000 and a ttable value with (df) = n - k (115-5 = 110) is equal to 11,82, at  $\alpha = 5\%$ . It can be concluded that tcount > ttable which is 7.851 > 1.982, then the decision of hypothesis H3 is accepted while hypothesis H0 is rejected, which means partially the Special Allocation Funds have positive and significant effect on Regional Expenditures.
4. DBH (X4) has a t-value of 2.407 with a statistical probability value of 0.0182 and a ttable value with (df) = n - k (115-5 = 110) is equal to 1,982, at  $\alpha = 5\%$ . It can be concluded that tcount > ttable which is 2.407 > 1.982, then the decision of hypothesis H4 is accepted while hypothesis H0 is rejected, which means that partially the General Allocation Funds have positive and significant effect on Regional Expenditures.

### Simultaneous Hypothesis Testing

F test is a test simultaneously or jointly between independent variables namely PAD,

DAU, DAK and DBH with the dependent variable namely Regional Expenditures.

To find out whether the independent variables simultaneously affect the dependent variable is to look at the value of statistical F. If the value of Fstatistik > Ftable value, then accept H1 and reject H0, meaning that together the independent variables affect the dependent variable. The following are the results of simultaneous testing.

**Table 5**  
**Simultaneous Testing Results (Test F)**

F Statistik	F Tabel	Probabilitas	Keterangan	Hipotesis
123,64	2,454	0,000	Signifikan	Terima H <sub>1</sub>

Source: Processed Data, 2019

Based on the results of hypothesis testing in table 5, it can be seen that the value of Fcount is 123,64 and the significance value of 0.000 at 95% confidence level, while Ftable df1 = n-k (115-5) = 110 and df2 = k-1 (5-1) = 4 is equal to 2,454. Obtained F value of 123.64 at  $\alpha$  0.05. Then it is known that the value of Fcount 123.64 > Ftable 2.454 or a significant value <0.05 which is (0.000 < 0.05), then H1 is accepted, it means that together the independent variables namely PAD, DAU, DAK and DBH influence and are significant to the dependent variable namely Regional Expenditures in Regency / City of Aceh Province.

### Results of Coefficient of Determination (R<sup>2</sup>)

Testing the coefficient of determination is done to see how much the relationship between independent variables, namely PAD, DAU, DAK and DBH to the dependent variable, namely the District / City Regional Spending in Aceh Province.

The Adjusted R-Squared value of 0.973354 shows that the relationship between the independent variable and the dependent variable in this study is 97% while the other 3% is influenced by other variables out of the study.

### Discussion

After processing and analyzing data using EVIEW9, a discussion of the results of the research is then conducted. This discussion refers

to the problem formulation that has been explained in part I. Based on the results of data analysis and hypothesis testing, several conclusions have been drawn as answers to some of the questions contained in the problem formulation that serve as a reference for the purpose of this study.

### **The Effect of Local Original Revenue on Regional Expenditures**

The results of the Panel Data Regression Analysis to examine how the influence of local Original Revenue on Regional Expenditures shows that government Original Revenue has a positive effect on government Expenditures in Regencies / Cities in Aceh Province. PAD aims to give authority to regional governments to finance the implementation of regional autonomy in accordance with the capabilities of the region as the implementation of decentralization. From the actual value of local Original Revenue from 2013-2017, it seems an increase in the realization of local Original Revenue in each district / city. Likewise, the case for the realization of Government Expenditures has increased in Government Expenditures in almost all Regencies / Cities in Aceh Province. Local Original Revenues are regional revenues that function as a source for government Expenditures carried out by the regional government in carrying out its administration. Local Original Revenues have a positive effect on Government Expenditures. It can be concluded that the more the value of Local Original Revenues in the Regency / City in the Province of Aceh will also increase the value of the realization of the Government Expenditures of the Regency / City in the Province of Aceh. High Local Revenue, of the government can allocate Government Expenditures as much as possible. However, if the Local Original Revenue is low, the government will difficult to implement maximum Government Expenditures.

This means that the average level of regional Expenditures in Aceh District / City governments is influenced by the level of PAD, which is in accordance with the PAD's objective to finance the implementation of regional autonomy in accordance with regional capabilities as the implementation of decentralization. From these

results, it means that this research is consistent with Rasyid's research (2014), Devita, et al (2014), Maimunah (2006) and supported by the research of Armawaddin (2016).

### **Effect of General Allocation Funds on Government Expenditures**

The results of the Panel Data Regression Analysis to examine how the influence of the General Allocation Funds on Government Expenditures shows that the General Allocation Funds have a positive effect on Regional Expenditures in Regencies / Cities in Aceh Province. This result is in accordance with Law No. 23 of 2014 concerning Inter-Regional Financial Balance where General Allocation Funds originating from APBN funds in the context of financing regional requirements to carry out Decentralization. The General Allocation Fund is used to close gaps that occur because regional needs exceed the potential of existing regional revenues (Law No. 23/2014, Article 288).

This finding is also in line with the research of Rasyid et al (2014) which states that the General Allocation Fund has a positive and significant effect on the allocation of Regional Expenditures.

### **Effect of Special Allocation Funds on Government Expenditures**

The results of the Panel Data Regression Analysis to examine how the influence of the Special Allocation Funds on Government Expenditures shows that the Special Allocation Funds have a positive effect on Government Expenditures in Regencies / Cities in Aceh Province.

Significant DAK and variable coefficients have a positive direction indicating that DAK allocation is in line with DAK objectives, namely special allocation fund interests for local government programs that are in line with national priority programs, specifically to finance the needs of basic public service facilities and infrastructure and to encourage accelerated development area. These results are consistent with research by Rasyid (2014) and Nugraeni (2011).

## The Effect of Profit Sharing Funds on Government Expenditures

The results of the Panel Data Regression Analysis to examine how the influence of Profit Sharing Funds on Government Expenditures shows that Profit Sharing Funds have a positive effect on Government Expenditures in Regencies / Cities in Aceh Province.

This finding is in accordance with the principle of decentralization No. 23 of 2014 Profit Sharing Fund (DBH) is a budget derived from the State Budget that is donated to the regions based on a percentage rate to finance regional needs in the context of implementing Decentralization. The results of this study are also in line with research conducted by Rasyid (2014) and Armawaddin (2013).

## 5. CONCLUSIONS AND SUGGESTIONS

### Conclusions

Based on the analysis of the discussion, the results of this study can be concluded as follows:

1. The Local Original Revenue has a positive and significant effect on District / City Government Expenditures in Aceh Province.
2. The General Allocation Fund has a positive and significant effect on Government Expenditures of District / City in Aceh Province.
3. The Special Allocation Fund has a positive and significant effect on Government Expenditures of District / City in Aceh Province.
4. The Revenue Sharing Fund positively and significantly influences the Government Expenditures of District / City in Aceh Province.

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