



What Determines Budget Absorption in Local Government? Evidence from Aceh Province, Indonesia

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Abstract

Objective –This research aims to examine the factors affecting budget absorption in a local government taking the context of Aceh Province, Indonesia, which consistently falls below 100 percent from 2018 to 2020. This indicates that the level of budget absorption has not yet reached the targeted achievement, highlighting the need to investigate factors affecting effective utilization of allocated funds within Aceh province.

Design/Methodology –We use a group analysis unit consisted of 23 districts/cities in Aceh Province and collect data from 2018 to 2020. This research uses a time horizon, in panel data form, which is a combination of time series and cross section data. We use census method where the entire study population is observed. We collect data from secondary data sources; Indonesia Central Agency on Statistics (BPS), local government financial reports (LKPD), and local government budget (APBD).

Results –The result shows that the remaining budget for of previous year, the size of the local government, and the timing of budgeting had an effect on budget absorption in district/city governments in Aceh Province. Thus, it is very important for local government to control these variables in order to increase the absorption level of the budget.

Research limitations/implications –The findings of this study have important implications for government, as they suggest that government should control the influencing variables, especially the remaining budget of the previous year and the budgeting timing, in order to increase the absorption level of the budget.

Novelty/Originality –This study uses census method where the entire study population is observed. Previous studies used samples to represent study population.

Keywords: Remaining budget of the previous year, size of local government, budget timing, budget absorption

1. Introduction

The budget is a financial activity plan that contains all forms of financing regarding the implementation of government tasks and the development of an area (Abdullah and Muthia, 2017). Local governments are responsible for the preparation, planning, and implementation of the APBD (local government budget) in each year (Abdullah et al., 2019). In this case, the government is required to carry out every budgeting activity carefully and on time so the budget can be absorbed properly in the current fiscal year. All forms of revenue or expenditure from a region must be regulated in the APBD. Therefore, the APBD is used as the basis for monitoring, examining, and controlling regional finances (Wulandari and Fauzihardani, 2022).

The indicator to measure the performance of district/city financial management is through the absorption level of the district/city budget. Budget absorption can be defined as a benchmark for local governments to achieve the planned targets in accordance with what has been designed for one fiscal year (Abdullah et al., 2019). This

illustrates the ability and success of an area in realizing each activity as planned. The level of budget absorption, when optimized in the implementation of activities, leads to a greater provision of public services and facilities that can be enjoyed by society (Fajar & Arfan, 2017). The level of budget absorption achieved by local governments in districts/cities in Aceh Province from 2018 to 2020 can be seen in Table 1.

Table 1.
Data on the
percentage of
districts/cities
budget absorption
in Aceh province in
2018-2020

No	Districts/Cities	Percentage		
		2018	2019	2020
1	Aceh Barat	91.79	90.59	89.92
2	Aceh Barat Daya	67.58	85.87	88.65
3	Aceh Besar	89.06	90.56	91.17
4	Aceh Jaya	92.28	89.71	91.69
5	Aceh Selatan	93.61	94.39	96.47
6	Aceh Singkil	92.27	94.62	96.99
7	Aceh Tamiang	92.45	94.52	95.01
8	Aceh Tengah	93.63	93.27	95.09
9	Aceh Tenggara	98.16	92.01	95.10
10	Aceh Timur	87.96	93.31	90.60
11	Aceh Utara	94.26	94.20	93.93
12	Bener Meriah	91.92	94.87	95.24
13	Bireun	92.51	92.98	93.74
14	Gayo Lues	92.28	92.27	98.63
15	Nagan Raya	86.73	84.32	91.63
16	Pidie	85.76	88.36	90.25
17	Pidie Jaya	91.02	93.55	94.51
18	Simeulue	86.47	90.04	83.80
19	Banda Aceh	90.76	92.10	92.63
20	Langsa	118.35	92.67	92.69
21	Lhokseumawe	90.26	92.09	89.81
22	Sabang	88.70	86.77	84.67
23	Subussalam	96.57	91.08	84.50

Despite there is no regional regulation that regulate the percentage of the budget absorption that must be achieved by local governments, but at the end of the fiscal year, the district/city always tries to increase budget absorption to close to 100 percent so it is not said to be low (BPKP, 2011). Table 1 shows that the average percentage of budget absorption from 2018 to 2020 is below 100 percent, so it can be said that the level of budget absorption is still below the achievement target. During these three years, the lowest budget absorption occurred in Aceh Barat Daya District in 2018 at 67,58 percent, far below the target to be achieved, which is 100 percent.

Based on budget absorption data from 2018 to 2020, it can be seen that the realization of the budget has never reached 100 percent. Langsa is the only city that exceeded the target in 2018. For example, Subulussalam in 2018 had a percentage of 96,57 percent, then in 2019 it decreased by 5,49 percent to 91,08 percent, and in 2020, it also decreased by 6,58 percent to 84,50 percent. This situation shows that there are still problems regarding budget absorption that have not been optimal in districts/cities in Aceh Province. This lack of budget absorption can have implications for the lack of employment and will increase the poverty rate in Aceh Province (Abdullah et al., 2019).

Previous studies indicated several factors that affect budget absorption, including the remaining budget from the previous year, the size of the local government, and the timing of budgeting (Abdullah et al., 2019; Ahn & Jang, 2022; Zainuddin et al., 2020). The amount of the remaining budget will add to the burden on local governments in the following year. The high remaining budget can be caused by the government realizing revenue above the set target (Mauliansyah, 2017; Abdullah et al.,

2019; Juliani and Sholihin, 2014). This can be a reflection of inaccuracies in the budgeting process, causing low budget absorption. Research conducted by Darma (2014) showed that the remaining budget from the previous year has a negative effect on increasing budget absorption. However, it is different from the research conducted by Wulandari & Fauzihardani (2022), which showed that the remaining budget of the previous year has a significant positive effect on budget absorption.

In addition to the remaining budget of the previous year, the size of the local government can also be a factor that affects budget absorption. One indicator that can be used as a measure of a local government is the population. The more the population of an area, the greater the need to provide public facilities. If an area with a large population can improve public services, of course, it is also made the realization of the budget in that area is large. This shows that the size of the local government can affect the absorption of the budget from a region. Research conducted by Liando & Hermanto (2017) showed that a larger population will require a larger budget so it affects regional spending, which can be a boosted of increasing regional budget absorption.

Another cause of low budget absorption is the problem of delays in budgeting time. The timing of budgeting is one of the important things in budgeting. A late set budget can make the process of implementing activities unable to be carried out at the beginning of the fiscal year, so the planned implementation time is not carried out in one fiscal year. This can hinder the implementation of the activities that have been determined in accordance with the initial plan due to time constraints so it can be used as one of the causes of low budget absorption. This is in line with research conducted by Arif (2012) which stated that the slow budget approval can be the most dominating factor in the lack of budget absorption. However, contrary to these studies, Erlina *et al.* (2017) stated that the timing of budgeting has no effect on budget absorption.

Due to apparent evidence gap in the prior research concerning the effect of previous year remaining budget and budget timing on budget absorption, we aim to examine those factors in Aceh Province, Indonesia. We consider Aceh as one of unexplored local governments in Indonesia in the context of budget absorption level. An investigation in Aceh is also important because Aceh's budget absorption level consistently falls below 100 percent from 2018 to 2020. Thus, the objective of this paper is to examine the effects of previous year remaining budget, local government size, and the budget timing on budget absorption in districts and cities in Aceh Province. The rest of this paper is presented as follows: Section two reviews empirical literature that describe the effects of previous year remaining budget, local government size, and the budget timing on budget absorption. Section three describes the research method. Section four considers the results and discussion of the findings, and section five concludes and discusses policy implications.

2. Literature Review, Theoretical Framework, and Hypothesis Development

2.1 Absorption of Local Government Budget

Abdullah & Muthia (2017) stated that budget absorption is an achievement that can be seen based on the budget realization for a local government during one budget period. Budget absorption can be defined as the ability of the local government to realize its budget in accordance with the targets that have been set for one budget period (Hanif & Suparno, 2017). Budget absorption can be a determinant of the success or failure of local governments in carrying out their programs and policies. Good public welfare can be seen from the increased level of budget absorption. Absorption of regional budgets can describe the performance of budget execution and accuracy in determining the budget targets of a region (Abdullah *et al.*, 2019). Juliani & Sholihin (2014) state that low budget absorption, especially for local governments, can slow regional economic progress.

2.2 *Remaining Budget of the Previous Year*

In Indonesia, previous year remaining budget is called SiLPA which is considered a burden in the formulation of the following year's budget (Abdullah et al., 2019). SiLPA can be used to continue activities or programs that have not been completed in the past year and can also finance new activities that are not budgeted for in the pure APBD (Abdullah, 2013). Thus, SiLPA can contribute to the allocation of regional expenditures. On the other hand, the formation of SiLPA can show the inaccuracy of the local government in managing the budget that has been set.

The amount of the remaining budget will add to the burden on local governments in the following year. The high remaining budget can be caused by the government realizing revenue above the set target (Mauliansyah, 2017; Abdullah et al., 2019; Juliani and Sholihin, 2014). This can be a reflection of inaccuracies in the budgeting process, causing low budget absorption. Research conducted by Darma (2014) showed that the remaining budget from the previous year has a negative effect on increasing budget absorption. However, it is different from the research conducted by Wulandari & Fauzihardani (2022), which showed that the remaining budget of the previous year has a significant positive effect on budget absorption.

H1: The remaining budget of the previous year has an effect on the budget absorption at the district/city governments in Aceh Province.

2.3 *Size of Local Government*

Maulina et al. (2021) stated that the size of a local government shows information about how big or small a local government is. The size of the local government is an illustration of the area coverage, authority, and community served by the local government (Abdullah et al., 2019). So, the larger the size of the regional government, the greater the authority and burden borne. The size of the local government can be seen from the total population of an area (Abdullah et al., 2019). Population can play an important role in development, this is in line with the assumption that population can affect the economic growth of an area. Astuti & Astika (2016) stated that the population can support development in development because the population owned is quite large with the role of producers or consumers in the production of goods and services so they can contribute to increasing regional income. Residents can also play an important role in formulating development policies that can improve the welfare of the community.

One indicator that can be used as a measure of a local government is the population. The more the population of an area, the greater the need to provide public facilities. If an area with a large population can improve public services, of course, it is also made the realization of the budget in that area is large. This shows that the size of the local government can affect the absorption of the budget from a region. Research conducted by Liando & Hermanto (2017) showed that a larger population will require a larger budget so it affects regional spending, which can be a boosted of increasing regional budget absorption.

H2: size of the local government affects the budget absorption at the district/city governments in Aceh Province.

2.4 *Budget Timing*

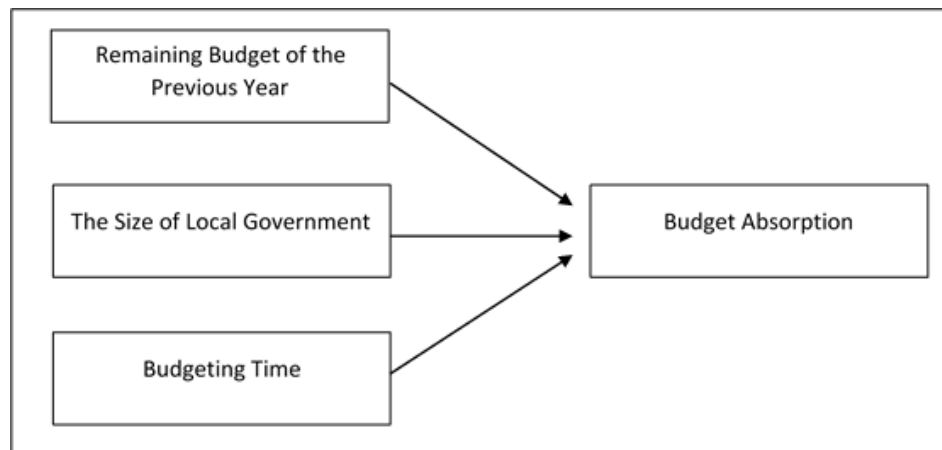
The preparation of the APBD must be based on a previously determined plan related to the activities to be carried out. Budgeting must be done in a timely manner. Therefore, it is obligatory for the local government to properly prepare a plan that is outlined in the APBD so, the activity or program can be realized properly. Joint approval of the APBD must be made one month before the start of that fiscal year. The Stipulation of the draft regional regulation on the APBD and the draft regional head regulation on the elaboration of the APBD is carried at least on December 31 of the previous year in accordance with Permendagri No. 64 of 2020. In fact, many regions have passed this

time limit, causing delays in submitting budget data. Timeliness in determining APBD is very important because it affects the realization of regional development and programs. Budgeting that is done late can result in delays in the implementation of administrative processes and local government activities in the relevant fiscal year, so it will disrupt all plans in implementing the budget. This will have an impact on improving the welfare of the local community.

A late set budget can make the process of implementing activities unable to be carried out at the beginning of the fiscal year, so the planned implementation time is not carried out in one fiscal year. This can hinder the implementation of the activities that have been determined in accordance with the initial plan due to time constraints so it can be used as one of the causes of low budget absorption. This is in line with research conducted by Arif (2012) which stated that the slow budget approval can be the most dominating factor in the lack of budget absorption. However, contrary to these studies, Erlina *et al.* (2017) stated that the timing of budgeting has no effect on budget absorption.

H3: The budgeting time has an effect on budget absorption in district/city governments in Aceh Province.

The conceptual framework in this research can be seen in Figure 2.1.



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Figure 1. Conceptual framework

3. Research Method

This research is a causality study which aimed to establish the relationship between various variables. We use a group analysis unit consisted of 23 districts/cities in Aceh Province and collect data from 2018 to 2020. This research uses a time horizon, in panel data form, which is a combination of time series and cross section data. We use census method where the entire study population is observed. We collect data from secondary data sources; Indonesia Central Agency on Statistics (BPS), local government financial reports (LKPD), and local government budget (APBD).

The dependent variable used in the study was budget absorption. Budget absorption is the ability of the local government to realize the budget in accordance with the targets that have been set for one fiscal period with the proxy used was based on the realization percentage of the regional budget (Hanif & Suparno, 2017).

The independent variables in this research are remaining budget of the previous year (X_1), size of local government (X_2), and timing of budgeting (X_3). Excess Budget Calculation (SiLPA) of the previous year, which was the excess of the realization of budget revenues and expenditures in the previous year's period (Kementerian Keuangan Republik Indonesia, 2017). The SiLPA indicator used the natural logarithm of the remaining budget of the previous year calculations in the APBD changes (Darma, 2014). By using the natural logarithm, the number of previous year's SiLPA with large values can be simplified without changing the proportion of the actual value.

The size of the local government is a measure that shows how big an area, is the responsibility of the local government (Abdullah *et al.*, 2019). The size of the local government can be measured using the natural logarithm of the population of an area (Abdullah *et al.*, 2019).

Timing of Budgeting is the date on which the APBD is determined for one fiscal period (Erlina *et al.*, 2017). The indicator used for budgeting time is said to be late if the budget is set after December 31 and is said to be not too late if the budget is set before December 31 (Darma, 2014).

This research used multiple linear regression analysis. The regression model in this research is as follows:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \dots \dots \dots (1)$$

Where:

Y_{it} = Budget absorption i in year t
 α = Constant
 $\beta_1, \beta_2, \beta_3$ = Regression coefficient of independent variable
 X_{1it} = Remaining budget of previous year i in year t
 X_{2it} = Size of local government i in year t
 X_{3it} = Timing of Budgeting i in year t
 ϵ = Error term

This research used the census method, so there was no significance test. The results of the study were seen based on the value of the regression coefficient of each research variable and the value of the coefficient of determination.

4. Results

Based on Table 2, it can be seen that the minimum, maximum, mean, and standard deviation values of each research variable for the 2018-2020 period with the number of observations of 69. The first independent variable was the remaining budget of the previous year with the highest value of 26.77 in Pidie Jaya District in 2018, while the lowest value was 21.23 in Bener Meriah District in 2019. The average value obtained was 24.3256 and the standard deviation obtained was 1.16804.

The second independent variable was the size of the local government with the population indicator having the highest value of 13.35 in Aceh Utara District in 2020, while the lowest value of 10.45 in Sabang City in 2018. The average value obtained of 12.1581 and the standard deviation obtained was 0.66925.

The third independent variable was the timing of budgeting for districts/cities that are late in making budgeting decisions were coded 0 and for districts/cities that are not late in making budgeting decisions were coded 1, so the highest value was 1 and the lowest value was 0. The average value obtained was 0.86 and the standard deviation obtained was 0.355.

Table 2.
Descriptive
statistical results

	N	Minimum	Maximum	Mean	Std. Deviation
Remaining Budget of the Previous Year	69	21.23	26.77	24.3256	1.16804
Size of Local Government	69	10.45	13.35	12.1581	.66925
Timing of Budgeting	69	0	1	.86	.355
Budget Absorption	69	67.58	118.35	91.6703	5.45993
Valid N (listwise)	69				

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Table 3.
Results of multiple
linear regression
analysis

The dependent variable was budget absorption with the highest value of 118.35 in Langsa City in 2018, while the lowest value of 67.58 in Aceh Barat Daya District in 2018. The average value obtained was 91.6703 and the standard deviation obtained was 5.45993. The four variables had a smaller standard deviation than the average value, which means that the data in this research showed good results because the standard deviation which reflected the level of deviation from the variable data was low.

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	114.698	15.313		7.490	.000
	Remaining Budget of Previous Year	-2.002	.529	-.428	-3.781	.000
	Size of Local Government	2.001	.922	.245	2.170	.034
	Timing of Budgeting	1.579	1.711	.103	.923	.359

a. Dependent Variable: Budget Absorption

The multiple linear regression equations obtained based on the results of statistical calculations using the SPSS program as shown in Table 3 are:

$$Y = 114.698 - 2.002X_1 + 2.001X_2 + 1.579X_3 + \varepsilon$$

From the regression equation above, it can be seen that the constant value (α) was 114,698. This means that if the remaining budget of the previous year, the size of the local government, and the timing of budgeting were considered constant, then the amount of budget absorption was 114,698. The regression coefficient value for X_1 was -2,002, which means it had an inverse effect, while X_2 and X_3 gave positive results, which means they had a unidirectional relationship where if the independent increased by a percentage unit, the dependent variable also increased by the percentage unit.

The coefficient obtained for the remaining budget of the previous year variable was -2,002 where the figure was not equal to zero. Based on the formulation of the hypothesis, the requirement to state that the remaining budget of the previous year (X_1) had an effect on increasing budget absorption if $\beta X_1 \neq 0$. Thus, it can be stated that the remaining budget of the previous year had an effect on increasing budget absorption in district/city local governments in Aceh Province.

The coefficient obtained for the size of local government variable was 2,001 where the number was not equal to zero. Based on the formulation of the hypothesis, the requirement to state that the size of the local government (X_2) had an effect on increasing budget absorption if $\beta X_2 \neq 0$. Thus, it can be stated that the size of the local government had an effect on increasing budget absorption in district/city governments in Aceh Province.

The coefficient obtained for the variable of budgeting time was 1,579 where the number was not equal to zero. Based on the formulation of the hypothesis, the requirement to state that the timing of budgeting (X_3) had an effect on increasing budget absorption if $\beta X_3 \neq 0$. Thus, it can be stated that the timing of budgeting does not significantly affect budget absorption in district/city governments in Aceh Province.

Table 4.
Results of the
coefficient of
determination (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.746 ^a	.556	.530	1.83105
a. Predictors: (Constant), Timing of Budgeting, The Remaining Budget of the Previous Year, Size of Local Government				
b. Dependent Variable: Budget Absorption				

Based on Table 4, it can be seen that the value of the coefficient of determination (R^2) was 0,556. This means that 0,556 or 55,6 percent of the independent variables were

able to explain the budget absorption variable. While the rest of 0,444 or 44,4 percent was influenced by other variables that were not used in this research.

4.1 *Effect of the Remaining Budget of the Previous Year on Budget Absorption*

Based on the hypothesis testing results, the variable remaining budget of the previous year had an effect on budget absorption in district/city governments in Aceh Province. The regression coefficient value for the remaining budget of the previous year variable was -2,002. This means that the remaining budget of the previous year had a negative effect on the budget absorption at the district/city governments in Aceh Province. The higher the remaining budget of the previous year, the less budget was absorbed, and vice versa. The remaining budget at the end of the year was used as a source of revenue for the following year's APBD. As a result, local governments might find it difficult to meet regional spending targets in the current budget year, so the absorption rate of regional budgets was low. According to agency theory, budgetary gaps can arise as a result of information asymmetry that occurred between the executive and the legislature. Budget gaps can lead to remaining budget of the end of the fiscal year, which could have a negative effect on regional budgets in the following fiscal year. The results of this research were in line with the research by Erlina *et al.* (2017); Darma (2014) which states that the remaining budget had a negative effect on budget absorption. However, the results of this research were not consistent with the research of Wulandari & Fauzihardani (2022) that the remaining budget of the previous year had a significant positive effect on budget absorption.

4.2 *Effect of the Size of Local Government on Budget Absorption*

Based on the results of hypothesis testing, the size of the local government variable affected the budget absorption of the district/city government in Aceh Province. The regression coefficient value for the size of local government variable was 2,001. This means that the size of the local government had a positive effect on budget absorption in district/city governments in Aceh Province. The larger the size of a local government, the higher the absorption rate of the regional budget, and vice versa.

In this research, the size of the local government can be seen based on the population of an area. The larger the population, the larger the budget. This was due to the increasing need for public facilities and infrastructure used by the public. The required budget could also be used to promote better economic growth in order to achieve public welfare. The relationship with agency theory raised when the local government as an agent was given the authority to realize regional spending through meeting needs and services provided for the public interest as the principal. This could be a big pressure for local governments to realize higher regional expenditures if they had a large population. Thus, the development of the population can affect the increase in the realization of regional expenditures so the absorption of the budget became high.

The results of this research were supported by research by Liando & Hermanto (2017) which showed that an increasingly large population would require a large budget so it can be a driving force in increasing regional budget absorption. However, the results of this research were different from those of Abdullah *et al.* (2019) which stated that the size of the local government had no effect on budget performance.

4.3 *Effect of the Timing of the Budgeting Budget Absorption*

Based on the hypothesis testing results, the timing of budgeting variable had an effect on budget absorption in district/city governments in Aceh Province. The value of the regression coefficient for the timing of budgeting variable was 1,579. This means that the timing of budgeting had a positive effect on budget absorption in district/city governments in Aceh Province. The more punctual the district/city in setting the budget, the higher the budget absorption, and vice versa.

Based on the data obtained, it showed that the timing of budgeting in several districts/cities in Aceh Province during 2018-2020 was still experiencing delays.

Budgeting that was done late can cause the implementation of government activities in the fiscal year to be not optimal and caused low absorption of the regional budget. This was because the time for carrying out activities was not full in one budget year, so there was less time to realize the activities that had been planned until the end of the fiscal period. The results of this research were in accordance with the agency theory perspective of the differences in interests or goals between the executive and the legislature in budgeting which led to agency conflicts. This agency problem could hamper and complicate the budgeting process so there was a delay in the budgeting process and had an impact on the low absorption of a region's budget.

The results of this research were in line with research by Darma (2014); Mauliansyah (2017) which stated that the timing of budgeting has a positive effect on budget absorption. However, different with the research conducted by Erlina et al. (2017) which showed that the timing of budgeting has no effect on budget absorption.

5. Conclusion

This research aimed to examine factors influencing budget absorption in local government, specifically within Aceh Province, Indonesia. The study revealed that the remaining budget from the previous year and the size of the local government significantly affect budget absorption at the districts/cities in Aceh Province. However, the timing of budgeting was found to have no significant impact on budget absorption.

It is important to acknowledge the limitations of this study, which focused solely on districts/cities in Aceh Province and employed a relatively short observation period of three years. To obtain more robust and comprehensive results, future researchers should consider expanding the sample size to cover a wider geographic area and extend the observation period. Additionally, incorporating other variables related to budget absorption would contribute to a deeper understanding of low budget absorption phenomenon.

It is recommended that the Aceh local government pays closer attention to the timing of budgeting in their respective regions. Establishing a predetermined schedule for budget determination can help minimize the remaining budget from the previous year, thereby improving budget absorption at the end of each year. Furthermore, when formulating the local budget, the size of the local government should be taken into account, as it has a significant influence on budget absorption.

These conclusions provide valuable insights for both advanced researchers and general readers. By considering the suggestions outlined in this study, future researchers can expand upon the existing knowledge base by incorporating a wider geographical coverage, a longer observation period, and additional variables related to budget absorption.

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