

INFLUENCE OF FISCAL STRESS AND LEGISLATURE SIZE ON EXPENDITURE CHANGE



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Abstract

The study aims to examine and analyze the effect of fiscal stress and legislative size on expenditure change in the district or city of West Java Province. The research method used is descriptive method and verification method. Data collection techniques are carried out through secondary data obtained from Supreme Audit Institution (BPK). The population of this study is all regencies and cities in West Java Province in the 2016-2018 fiscal year. The number of regencies and cities in West Java Province in the 2016-2018 fiscal year was 27. This research sample selection method uses Non Probability Sampling using saturated sampling with a total of 81 districts and cities. The results showed that fiscal stress negatively affected expenditure change, while the influence of the legislature size had a positive effect on expenditure change.

INTRODUCTION

Agency theory arises because of the relationship between the agent and the principal. Agents are contracted to perform certain tasks for the principal and have responsibility for the tasks assigned by the principal. While the principal has an obligation to reward the agent for the services that have been provided. The existence of differences in interests between the agent and the principal is what causes agency conflicts. Principal and agent also both try to avoid risk (Belkaoui, 2001).

The government that acts as an agent or manager of government must determine certain strategies in order to provide the best service to the public. Meanwhile, those who act as principals are the people who are represented by the DPRD. In this study, there were differences of interest between the DPRD and the government in the budgeting process. Where the government prioritizes achieving the objectives of activities that run successfully in the use of the budget. Meanwhile, the DPRD, which acts to oversee the running of the government, must ensure that the budget is used effectively and efficiently. With this difference in interests, the process of preparing and changing the budget, especially in expenditure posts, often causes debate between the government and the DPRD. If in the budget the government is unable to obtain sufficient income in the fiscal period to meet its expenditures, fiscal stress will occur. High fiscal stress will trigger changes in spending or expenditure changes due to spending growth from the previous year.

The budget is used to allocate financial resources and as a tool to maintain the balance of power from various interests in the government (Junita and Abdullah, 2017), therefore the budget is seen as an important accountability and governance tool in a country's economy. One aspect of local government that must be carefully regulated is the issue of local financial management and local budgets. Regional financial management must rely on the public interest. Like the process of preparing the APBD, the process of changing the budget is an important issue in regional financial management after the implementation of regional autonomy or fiscal decentralization in Indonesia. Political practice in determining APBD with regional regulations requires a compromise between budget actors who have different preferences. Various aspects can influence budget allocation decisions in local government, especially by the legislature (Junita and Abdullah, 2017) and fiscal stress (Chapman, 1999).

The following is the absorption of the APBD in the West Java Regional Government for the 2016-2018 Fiscal Year obtained from the report on the results of the examination of the Supreme Audit Agency (LHP BPK).

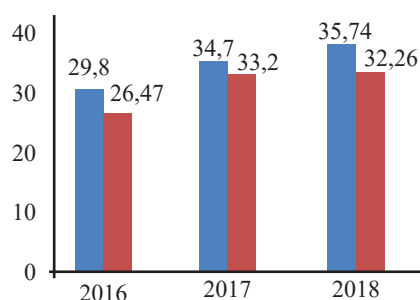


Figure 1. Absorption of 2016 – 2018 APBD in West Java Regional Government

The absorption of the APBD in the West Java Regional Government for the last 3 years has increased and decreased every year, from 2016 to 2018. In 2016 the West Java Regional Government targeted the absorption of the APBD budget of 93 percent (Wiyono et al., 2019). In 2017 the absorption of the West Java Regional Government budget increased from the previous year to 95.77 percent (Prasetyaningrum, 2014). In 2018 the absorption of the West Java Regional Government APBD decreased and was only absorbed by 90.22 percent (Solehuddin, 2019).

Budget changes in local governments are driven by technical problems. Each region makes changes to the budget to adjust the program to the budget, as well as to meet management needs for changing situations or environments (Marzalita et al., 2014). They emphasized that the need for rebudgeting is because every mid-year the needs of the community are always changing (Forrester and Mullins, 1992).

Changes in the APBD, especially in expenditure posts or expenditures that occur in regencies and cities in West Java, are often found due to a budget deficit. Almost every district or city government makes changes to the APBD. For example, the APBD changes that occurred in the Kuningan Regency Government for the 2018 Fiscal Year in a written financial note that indirect spending increased. The indirect expenditure item that experienced a significant increase was personnel expenditure. There are also additional direct expenditures consisting of program expenditures and non-business activities, as well as program expenditures and business activities. If you look at these conditions, regional revenues are compared to regional expenditures so that they experience a budget deficit. Based on this description, it can be concluded that the change in spending is the largest portion in the APBD changes. Changes in spending in the APBD occur due to differences in the income target set with the realization of the income obtained, which is called fiscal stress.

Expenditures at the end of the fiscal year after rebudgeting tend to differ only slightly (more or less) from the initial allocation. When fiscal stress is high, the government tends to explore the potential for tax revenues to increase regional revenues (Shamsub and Akoto, 2004). Therefore, the high rate of tax effort can be identified with fiscal stress conditions. The tax effort (Tax Effort) is an effort to increase local taxes as measured by the comparison between the results of revenue (realization) from sources of Original Regional Revenue (PAD) with potential PAD sources (Septira and Prawira, 2019).

The budgeting process differs greatly in each country (Lienert, 2005); (Pelizzo and Frederick, 2011); (Wehner, 2006) but legislatures play a more active role in developing countries. For the implementation of good governance and for the realization of budget transparency, the involvement of the legislature is very much needed in the budget process. The DPRD budget function reflects the important role of DPRD members in regional budgeting (Junita and Abdullah, 2017). Regions that do not have the readiness to enter the era of autonomy can experience the same problem, fiscal pressure becomes higher due to demands for increased independence as indicated by increased own revenues to finance various existing expenditures. Therefore,

DPRD plays an important role in allocating expenditures used to finance programs and activities carried out by the Regional Government. This research aims to examine and analyze the effect of fiscal stress and legislative size on expenditure change in the district or city of West Java Province.

METHOD

The method used by the author is verification method. The type of Secondary data sourced from the Financial Statements for the 2016-2018 Fiscal Year of all Regencies/Cities in the West Java Province totaling 27 Regencies and Cities. Variable operationalization consists of: Fiscal Stress (X_1) as measured by the percentage of PAD realization against the PAD target, Legislature Size (X_2) calculated from the number of DPRD members from each Regency/City in West Java Province, Expenditure Change (Y) obtained from the difference in the budget in changes to the APBD with the budget in the pure APBD (Junita and Abdullah, 2017).

RESULT

The classical assumption test is carried out for the requirements of linear regression analysis, namely the best and unbiased estimator or often abbreviated as BLUE (Best Linear Unbias Estimate). There are several assumptions that must be met so that the conclusions from the test results are not biased, including the normality test, multicollinearity test (for multiple linear regression) and heteroscedasticity test.

Table 1. Normality Classical Assumption Test
One Sampel Kolmogorov-Smirnov Test

		Unstandardized Residual
N		51
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	2,22288400
Most Extreme Differences	Absolute	,061
	Positive	,061
	Negative	-,049
Test Statistic		,061
Asymp. Sig. (2-tailed)		,200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

The significance value (Asymp. Sig. (2-tailed)) of the Kolmogorov-Smirnov test is 0.200 and is greater than 0.05. Because the significance value of the Kolmogorov-Smirnov test is greater than 0.05, it can be concluded that the regression model has met the assumption of normality.

Tabel 2. Multicollinearity Classical Assumption Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error				Beta	Tolerance
1	(Constant)	27,959	3,364		8,310	,000		
	Fiscal Stress (X_1)	,112	,024	,504	4,632	,000	,988	1,012
	Legislature Size (X_2)	,198	,057	,378	3,475	,001	,988	1,012

a. Dependent Variable: Expenditure Change (Y)

Based on the data in Table 2 are as follows:

X_1 = Tolerance (0.988) > 0.100 and VIF (1.012) < 10.00

X_2 = Tolerance (0.988) > 0.100 and VIF (1.012) < 10.00

if the Tolerance value is > 0.100 and the VIF value is < 10.00, it can be concluded that there is no multicollinearity symptom for the two variables.

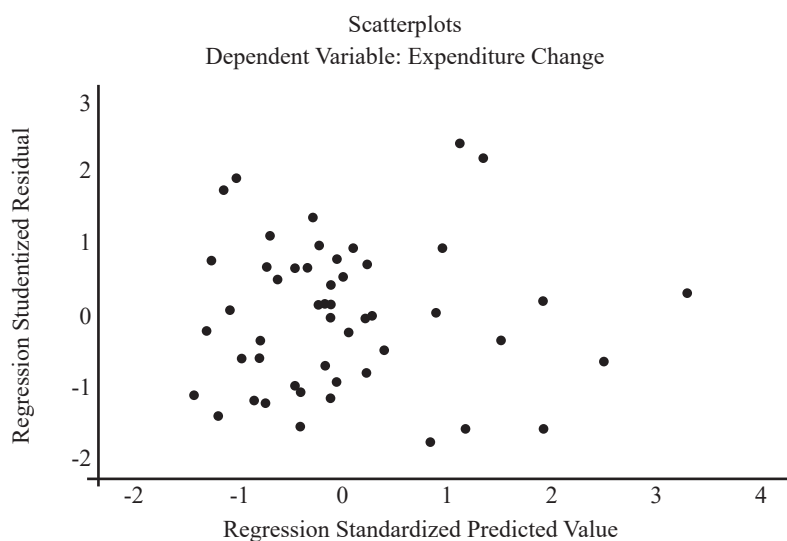


Figure 2. Classical Heteroscedasticity Assumption Test

Figure 2 shows that there is no clear pattern of wavy, widening and then narrowing in the scatterplots image. And the points spread above and below the number 0 on the Y axis. So it can be concluded that there are no signs of heteroscedasticity.

Tabel 3. Autocorrelation Classical Assumption Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,663 ^a	,439	,416	2,26872	1,995

a. Predictors: (Constant): Fiscal Stress (X_1), Legislature Size (X_2)

b. Dependent Variable: Expenditure Change (Y)

Based on the results of Table 3, the Durbin-Watson value is 1,995 with a total of 81 observations. There is no autocorrelation symptom, if the Durbin-Watson value lies between du to $(4-du)$ (Ghozali, 2016). The value of du is searched for the distribution of the Durbin-Watson table values based on $k(2)$ and $N(81)$ with a significance of 5%. So it can be concluded that the value of du (1.6898) $<$ Durbin-Watson (1.995) $<$ $4-du$ (2.3102) which means that there are no symptoms of autocorrelation in the regression model.

DISCUSSION

Districts/Cities in West Java Province in the 2016-2018 Fiscal Year had an average fiscal stress of 98.44% with Vulnerable criteria. This means that districts/cities in West Java Province in the 2016-2018 Fiscal Year were unable to achieve the PAD target so that the government experienced fiscal pressure. This happens because when government revenues decrease while spending continues to increase. According to (Chapman, 1999) fiscal stress occurs because when government revenues fall while spending continues to increase, when citizens increase demand for local services but local revenues cannot be increased, or when higher levels of government force lower levels to improve services without providing them. necessary funds as a form of responsibility to improve these services.

Legislature size in Regencies/Cities in West Java Province for the 2016-2018 Fiscal Year, an average of 47 DPRD members. This is not in accordance with the General Election Commission Regulation Number 17 of 2008 which regulates the allocation of seats and the electoral areas for members of the Provincial DPRD and Regency/City Regional People's Representative Council. The number of seats in the Regency/Municipal DPRD is based on the population of the Regency/City concerned with the provisions that a Regency/City with a population of more than 1,000,000 (one million) people shall receive an allocation of 50 (fifty) seats.

Expenditure change that occurred in the Regency/City in West Java Province during the 2016-2018 Fiscal Year was an average of 8.52% including the medium category which means that the Regency/City Government in West Java Province in the 2016-2018 Fiscal Year still pays attention to efficiency and effectiveness in making expenditure changes obtained from the difference between the pure budget and the change in the budget.

Based on the results of data processing, the form of the regression equation for the fiscal stress variable on expenditure change is as follows: $Y = 27.959 - 0.112X_1 + 0$ This means that changes in fiscal stress are inversely proportional to expenditure changes. If the fiscal stress increases by one unit while the other variables do not

change (constant), then the amount of expenditure change will decrease by 0.112. This means that this shows that local governments who experience fiscal stress have low discretion in budget adjustments. Fiscal stress (X_1) = T arithmetic value (-4.632) > (-1.99085) meaning that H_a is accepted, that is, fiscal stress has a negative effect on expenditure change. These results are in accordance with the criteria for testing the hypothesis that H_0 is rejected and H_a is accepted, meaning that it has a negative effect.

Fiscal stress describes the financial condition of local governments that lack resources to meet their spending needs. The total expenditure allocation shows the ability of the local government to accommodate the demands of public services proposed by the community and the operational needs of the local government itself. High fiscal pressure reflects the need for large expenditures, but is not matched by the ability to obtain a balanced income. This means that the flexibility of local governments in making adjustments to their spending is low in conditions of high fiscal pressure.

Several things that the government does in response to fiscal pressure, including increasing taxes, using reserve funds, and/or reducing spending (cuts) (Ghozali, 2016). Another way, for local governments, is to increase revenues from superior government. Adjustments in budget changes in conditions of high fiscal pressure become insignificant (significantly enough) so that they are not strategic in managing regional finances. This is illustrated by the lack of studies on this issue in the literature on public finance and budget politics.

Based on the results of data processing, the form of the regression equation for the fiscal stress variable on expenditure change is as follows: $Y = 27.959 + 0.198 X_2 + 0$. This means that changes in legislative size are directly proportional to expenditure changes. If the legislature size has increased by one unit while the other variables have not changed (constant), then the amount of expenditure change will increase by 0.198. This means that the results of data processing in this study indicate that the number of board members has a positive effect on the amount of changes or adjustments to expenditures in changes to the APBD. Legislature size (X_2) = T count value 3.475 > 1.99085, meaning that H_a is accepted, that is, legislature size has a positive effect on expenditure change. These results are in accordance with the criteria for testing the hypothesis that H_0 is rejected and H_a is accepted, meaning that it has a positive effect. R Square of 0.439 this value shows partially in contributing or influencing which is known as the Coefficient of Determination.

In theory, the DPRD agency acting to oversee the running of the government must ensure that the budget is used effectively and efficiently. DPRD members as representatives of voters, will try to maximize their discretionary power to influence the allocation of resources in the APBD, so that it is in line with their personal interests, namely fulfilling campaign promises and being able to be re-elected in the next election. Thus, the greater the number of DPRD members in a region, the greater the agency problem in regional budgeting. Therefore, DPRD members have an obligation to pay attention to efforts to improve people's welfare in the regions, absorb, collect, accommodate, and follow up on people's aspirations, and provide moral and political accountability to voters and their electoral districts. The results of this study are in accordance with previous research (Junita and Abdullah, 2017). This study shows that the number of board members has a positive effect on the amount of changes or adjustments in spending in APBD changes. Pure budget and change budget are two processes that cannot be separated. Therefore, the role of the legislature in the formulation of pure budgets and budget amendments is basically the same, namely that they have self-interest that can lead to fulfillment of promises to voters (voters) and fulfillment of financial needs (economic incentives). The legislature is not an institution that is free from various interests that may conflict with the interests of the voters it represents. The DPRD budget function reflects the important role of DPRD members in regional budgeting. The budget as the most important financial document in government will be the center of attention of budget actors in the formulation and discussion of the budget, because it becomes a place to accommodate long-term political interests. Such as to be re-elected as a member of the council through the fulfillment of political promises through the allocation of funds for projects according to the request of the voters.

CONCLUSIONS

Fiscal stress that occurred in Regencies/Cities in West Java Province during the 2016-2018 Fiscal Year, has a vulnerable category, meaning that the Government tends not to achieve the PAD target. This fiscal stress has a negative effect on expenditure change, so that if the Regency/City Government experiences fiscal stress, the expenditure change will decrease. For Regency/City Governments experiencing fiscal stress in the vulnerable category, they must have the ability to generate sufficient income to meet their expenditures by exploring revenue potentials that will increase regional tax/retribution sector revenues. Legislature size in Regencies/Cities in West Java Province is not in accordance with General Election Commission Regulation Number 17 of 2008. Legislature size has a positive effect on expenditure change, this means that the greater the number of DPRD members in an area, the greater the agency problem in regional budgeting that is able to influence the determination and amendment of the APBD.

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