

Research Paper

The Impact of Budget Planning and Budget Implementation on the Absorption of Regional Work Units (SKPD) in Indonesia

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Abstract.

Budget performance, which is an embodiment of the principles of state financial reform, has not been fully implemented. There are signs that the budget absorption is not being used efficiently as possible, with attention still being directed toward the year's end. The ability of the community to benefit will allegedly be delayed as a result. This study aims to analyze how SKPD Regional Work Units (regional administrative bodies) in Indonesia used its allocated funds. In this study, we employed secondary data collection methods. This study will discuss about all SKPD that work in the Indonesian provincial government. Multiple-linear regression was the method used for data analysis. The hypothesis testing table demonstrates that the budget planning variable has little bearing on how much money is spent. Budget absorption is significantly impacted by the budget implementation variable.

Keywords: budget absorption, budget implementation, budget planning

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1. Introduction

Planning is something that is needed by every organization, both companies and agencies in carrying out their activities. Planning is reflected in the draft budget that has been prepared by an organization in both the private and public sectors. Budget planning is created to ensure the connections between planning, budgeting, and monitoring (Rahayu, 2021). According to Mardiasmo (2018), the public sector budget is an activity plan that is presented in the form of a revenue and expenditure acquisition plan in a monetary unit. So budget planning is an important factor in budget management. This planning document includes the steps required to fully establish development performance targets in the form of a work plan, which is a regulatory and financial framework. Because of the mismatch between the budget planning and program of activities to be implemented, planning that is not mature in establishing the budget

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presented will have an impact on the work program that does not go well, being one of the parts that causes the budget not to be absorbed properly.

The state revenue and expenditure budget (APBN) and the regional revenue and expenditure budget (APBD) cycles include budget implementation. One of the most critical indicators in determining the efficiency of the APBN and APBD is the level of use of the budget in budget execution. The success of achieving budget targets is determined by the effectiveness of budget implementation, which is reflected in the implementation of the APBD. This falls under Abdullah's research. (2019), which states that budget absorption measures the success of city governments and regional work units in fulfilling the approved budget. Thus it can be concluded that the absorption of the budget will determine the efficiency of absorption of the budget in the implementation of the APBD/ APBN.

The classic problem that still often occurs in Indonesia and is experienced by many government agencies and institutions at the central and regional levels is the realization of budget absorption that has yet to be on target and still seems slow. The need for a benchmark for measuring a region's budget absorption percentage by the central and regional governments means that this problem persists year after year. According to Patiran (2018), over the last ten years, Ministry/Agency spending has resulted in a spending pattern with low absorption characteristics in the first half of the fiscal year and piled up at the end of the fiscal year. This pattern occurs at the Central and Regional levels, so it will interfere with the APBN/APBD policy plans carried out by many Ministries/Agencies but have yet to impact them significantly. Therefore, a new pattern is required so that budget absorption can be spread out for the year rather than building up at the end of the year.

The local government's ability to carry out and account for each scheduled activity is shown by the absorption of its budget. Budget absorption will be improved if the implementation is on schedule. Budgeting reform in Indonesia is mandated by Law Number 17 of 2003 concerning State Finance, which states that the preparation of the government's budget must be based on a performance approach that emphasizes the effectiveness and efficiency of the performance targets of each ministry/agency. However, this goal has yet to be fully achieved. One of the main reasons is budget use, which could be better and more focused at the end of the fiscal year. It takes longer for the community to reap and enjoy the benefits (Ferdinan et al., 2020). Therefore a commitment is required to carry out the budget according to a predetermined schedule so that budget objectives can be achieved optimally.

Several factors that influence budget absorption include budget planning and budget implementation, as the results of previous research conducted by Purwati et. Al. (2021) stated that budget planning and implementation had a positive effect on budget absorption. From the results of research conducted by Silalahi et. Al. (2021) found that budget planning and budget execution have a positive correlation with budget absorption. Meanwhile, in another study conducted by Ferdinand et. Al. (2020) found that budget planning has a significant positive effect on budget absorption, while budget execution does not have a positive effect on budget absorption. At the same time, the organizational commitment variable does not moderate the relationship between budget planning and budget execution on budget absorption. In addition, the results of research conducted by Ulandari et al. (2021) and Wardayani et al. (2022) also show that the budget planning factor does not significantly affect the absorption of the budget. Several previous studies did not find the same thing, so this study was done to determine what effect budget planning and implementation have on budget absorption.

2. Literature Review

2.1. Budget Absorption

Absorption of the budget shows the ability of local governments to carry out and report on every activity that has been planned. This stage of budget absorption begins when the DPR passes the Law on the State Budget (APBN). To equalize understanding and steps to be taken in implementing activities, the government as the implementer of the APBN Law then issues a Presidential Decree (Keppres) concerning Guidelines for Implementation of the State Revenue and Expenditure Budget as the legal basis for implementing the APBN (Purba, 2017).

According to Abdullah and Nazry (2015), budget absorption is the percentage of the realization of the expenditure budget that has been determined to be later accounted for by the regional head/ SKPD to DPRD in the form of a finance report called the budget realization report (LRA). The difference between the amount of the budget set and the amount of the budget used or realized can be seen as an error in the budget estimate. The smaller the budget variance, the greater the budget absorption. Based on the above understanding, the absorption of the budget illustrates the government's ability in the form of a percentage of the realization of the budget that has been determined for a certain period.

Many factors affect budget absorption, including budget planning and budget implementation, and other factors. According to Sukadi (2012), around 73.50 percent of budget absorption is influenced by four factors: budget planning, budget implementation, procurement of goods and services, and internal work units. Meanwhile, according to Mutmainna and Iqbal (2017), other factors influencing budget absorption are leadership changes, planning documents, HR competencies, and procurement documents, which significantly affect budget absorption. This study focused only on planning and budgeting implementation factors to see their effect on budget absorption. These two factors are the main factors, so solutions can be found to improve the performance of these factors in budget absorption.

2.2. Budget Planning

Budget planning is an important part of an organization. Planning determines all the activities needed and carried out to achieve the goal. Realization of planning requires a budget that will be used to determine priorities and financial needs. According to Saprudin (2018), budget planning is an important factor in budget management. Meanwhile, according to Mardiasmo (2009) in Ferdinand et. Al. (2020), budget planning is a statement regarding estimated performance to be achieved during a specific period expressed in financial terms. Budget planning is important in managing the budget that must be met for a certain period.

Planning in the budget ensures two things, namely the linkage and consistency between planning, budgeting, implementation, and monitoring. The planning document contains the activities required to produce development performance results in targets in the form of a regulatory framework and a budgetary framework known as a work plan. Suppose planning needs to be more mature in determining the budget. In that case, it will impact work programs that could be better because there is a misalignment between budget planning and work programs being implemented, which becomes one of the factors causing the lack of budget absorption.

2.3. Budget Implementation

Implementation is an action or effort to implement all the plans and policies formulated and determined. The difference between the budget and its implementation illustrates the variability of the budget, which indirectly illustrates the government's inability to achieve development goals achieved through budget execution. The budget execution

process involves determining what funds will be used, who will implement them, how they will be implemented when they will be implemented, and where they will be implemented. The budget implementation process is identical to the payment process at the expense of the APBD, so controlled management is important in budget execution. High budget absorption indirectly indicates that the remaining budget (budget variation) at the end of the year is small, indicating the government's ability to meet the budget that has been set. In other words, budget utilization is positively correlated with budget planning accuracy or quality (Abdullah & Nazry, 2015).

Budget implementation is an activity carried out which is related to the use of the budget (funds) owned by each SKPD listed in the SKPD Budget Implementation Document (DPA SKPD). Following Permendagri Number 13 of 2006 Articles 137 to 153, the budget needed for regional financing comes from a) the remaining excess from the calculation of the previous fiscal year, 2) reserve funds, 3) investment, 4) regional loans/bonds, and 5) regional receivables.

1. The remainder of the calculation of the previous year's budget

Budget Calculation Excess, here in after abbreviated as SiLPA, is the excess difference in the realization of budget revenues and expenditures during one period of the fiscal year. The previous year's SiLPA was a financing receipt that could be used to cover the budget deficit if the revenue realization was less than the regional expenditure realization, funded the implementation of follow-up activities at the expense of direct expenditure, and funded other obligations that had not been completed until the end of the fiscal year.

2. Reserved fund

Reserve funds are money placed aside to pay for things that need money and cannot be covered in one fiscal year.

3. Investment According to the provisions of Permendagri No. 13 of 2006, investment means using assets for financial gains, such as; interest, dividends, license fees, social grants, and other benefits to improve the ability of local governments to serve the community.

4. Regional loans/ bonds

Regional loans are all transactions that result in the region receiving a sum of money or receiving money-worth benefits from other parties so that the region is burdened with the obligation to repay the loan.

5. Regional receivables

Regional receivables are an amount of money that must be returned or repaid to the regional government and is a government rights that can be valued in money as a result of an agreement or other consequences based on statutory regulations or other legal consequences.

3. Data and Methodology

3.1. Hypothesis Development

1. The Impact of Budget Planning on Budget Absorption

Budget planning is an important part of an organization. Planning determines all the activities needed and carried out to achieve the goal. If in an organization the planning has been carried out properly and maturely, the implementation of future activity programs will be carried out well as well. Based on this description, the hypothesis proposed in this study is as follows:

H1: Budget planning has an impact on the level of budget absorption.

2. The Impact of Budget Implementation on Budget Absorption

Budget implementation is the implementation of budget planning that has been prepared and determined. Based on Law No. 1 of 2004, the budget year for the implementation of state and regional revenues and expenditures covers a period of one year from January 1 to December 31. If the budget implementation is carried out by a predetermined time, then the absorption of the budget will be effective and provide optimal benefits for the community. Based on this description, the hypothesis proposed in this study is as follows:

H2: Budget implementation affects the level of budget absorption.

This study uses secondary data and uses quantitative research to examine several variables that influence SKPD budget uptake in Indonesia. The data used in this study is from APBD data published in the ministry of finance or APBD reports for each region. This research is expected to be able to see the effect of budget planning and execution on budget absorption without any other variables.

The population in this study were Regional Work Units (SKPD) in regencies and cities in all provinces in Indonesia, which consisted of 36 provinces, 410 regencies and 96 cities. The data analysis method used is multiple linear regression analysis. The following is the data table used for this study:

TABLE 1: Data on Total Population.

Number of Provinces	Number of Districts	Number of Cities	Total Population
37	409	96	542

3.2. Definition of Operational Variables and Their Measurement

1. Budget Absorption variable (Y)

The Budget absorption is dependent Variable (Y) in this study. According to Noviwijaya and Rohman (2013) in Zaenur (2017), budget absorption is the proportion of work unit budgets that have been disbursed or realized in one fiscal year. Budget absorption data used is the percentage of budget absorption data taken from regional reports of each province and city district in Indonesia in 2016-2020.

2. Budget Planning Variable (X_1)

The budget planning variable used in this study is secondary data from planning and budgeting papers that include income plans, program spending plans, and SKPD activities as well as financing plans as the basis for creating APBD for each Province and Regency City. The data used is devoted to the Surplus/Deficit budget data

3. Budget Implementation Variable (X_2)

Budget implementation is the implementation of the budget planning that has been prepared. Budget implementation variable used in this study is the remaining budget data over the previous budget year's budget calculations.

4. Result and Discussion

4.1. F-test

The pooled least squares model or the fixed effect technique is selected using the F-test. The probability value of 0.000 indicates that the F-test produces significant findings, as can be seen from the output results. The fixed effect model should be used because the probability is less than the value of (0.05), which causes H_0 : PLS to be rejected and H_1 : FE to be accepted.

4.2. FEM dan REM (Uji Hausman)

This FEM assumes that the intercept of each individual is different while the slope between individuals is constant. Meanwhile, the Random Effect According to the model, each study object has a unique intercept, which is a random or stochastic variable.

The findings of the fixed effect estimation show that the variable X has no discernible impact on the dependent variable Y. The value of Prob>F smaller than then indicates a statistically significant F value, demonstrating that the independent factors together have a significant impact on the dependent variable. With an R-square of 0.0503, this model can account for 5.03 percent of the variation in the dependent variable, Y. It is evident from the Hausman test results that H0: RE is rejected and H1: FE is accepted, with a Prob>chi2 of 0.0000, which is less than 0.05. Therefore, the logical conclusion is to apply the fixed effect.

4.3. Classic Assumption Test

4.3.1. Multicollinearity Test

The multicollinearity test is used to determine whether or not there is a relationship between the independent variables in the regression model. In the regression model there should be no correlation between variables. The requirements for passing this test are, If the Tolerance value (1/VIF) is more significant than 0.10 and the Variance Inflation Factor (VIF) value is less than 10, then the independent variable is said to be free from multicollinearity symptoms. Based on the calculations, it can be concluded that there is no relationship between the independent variables because the tolerance value is more significant than 0.10. The results of calculating the Variance Inflation Factor (VIF) show the same thing: none of the independent variables has a VIF value of more than 10. Therefore, the regression model does not show signs of multicollinearity between the independent variables.

Budget Planning on Budget Absorption

Estimation result of budget planning (X1) which is represented by the surplus/deficit value of a government budget has a positive not significant effect on budget absorption (Y). The significance value is 0.176 which is more than the alpha = 5%, or $0.176 > 0.05$, then H1 is rejected and H0 is accepted.

Budget Execution on Budget Absorption

The estimation result of budget execution (X2) represented by the surplus value of the previous budget year's budget calculation from a government budget has a significant positive effect on budget absorption (Y). The significance value is 0.000, which is less than the alpha value = 5%, or $0.000 < 0.05$, then H1 is accepted and H0 is rejected. The F count value is 121.28 with a significance of 0.000. Based on the results of the F test, the independent variables Budget Planning (X1) and Budget Execution (X2) have an influence on Budget Absorption (Y) as the dependent variable. The value of R-square shows $0.0503 = 5.03\%$. This means that the Budget Absorption variable (Y), which can be explained by the Budget Planning (X1) and Budget Execution (X2) variables, is 5.03%, and variables outside the model influence the remaining 94.97%.

5. Discussion

The results of the X1 variable, whose value is not significant, indicate that, based on the statistical test, the budget planning variable has a positive but insignificant effect on budget absorption. This can be because the indicators used to represent the Budget Planning are not on target. This could also be due to the fact that the Budget Planning carried out by the Regency/City Regional Government is not well targeted so that it does not have a significant effect on Budget Absorption. Furthermore, the results of the hypothesis test of the Budget Execution variable have a significance number of $0.000 < 0.05$. That is, it can be concluded that these variables have a positive effect on Budget Absorption. The new budget can be implemented in regional financial management if the Work Plan and Budget (RKA) are ratified into a Budget Implementation Document (DPA), where the action or implementation of a carefully and thoroughly prepared plan is characterized as the budget's implementation. Developing strategies to mitigate budgeting risks is an important element in budget implementation that influences the absorption of regional budgets.

The budget's implementation is also the budget planning's implementation. The most important aspect of budget execution is the budget implementation process itself. The internal work unit's scope of problems, the method of acquiring products and services, and the budget disbursement system are all parts of the budget implementation process. These three factors impact the degree of budget absorption. In agency theory, budget execution plays an important role, especially in how to implement it, when it is implemented, where it is implemented and who carries it out so that the target for budget absorption can be achieved because the better the implementation of the budget, the better the absorption of the budget. The described above will affect the

work unit's main tasks or job desk in line with organizational goals and as desired by the community (principals). The study's results (Malahayati., et. Al., 2015) showed a significant positive relationship between budget execution and budget absorption. In line with the research results (Sukadi, 2012), (Kuswoyo, 2011).

6. Conclusion

This research is to analyse budget planning and budget execution on budget absorption. Based on the hypothesis testing table shows that the budget planning variable has an insignificant effect on budget absorption. At the same time, the budget implementation variable significantly influences budget absorption.

Based on the results of hypothesis testing, it shows that the variables of Budget Planning (X1) and Budget Execution (X2) affect Budget Absorption (Y). The Budget Planning variable (X1) has a positive but not significant effect, while the Budget Execution variable (X2) has a positive and significant effect on Budget Absorption (Y).

Optimizing budget absorption has a social effect in the form of community welfare because if the budget can be optimized evenly every year, then the budget implementation will run well and provide optimal benefits to the budget. On the political side, budget absorption shows SKPD's performance in implementing budget planning. Hopefully, this research can be used as performance evaluation material for SKPD in implementing regional budgets to provide solutions for the government to improve budget performance and provide direct benefits to the community.

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