

**THE CAUSES OF LOCAL REVENUE DAN EXPENDITURE BUDGET DEFICIT AND  
ALTERNATIVE FINANCING TO SOLVE IT  
CASE STUDY LOCAL GOVERNMENT OF JAMBI PROVINCE YEAR 2016**

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**ABSTRACT**

*This study aims to examine the cause of occurrence of budget deficits and financing alternatives that can be chosen by the Government of Jambi Province in addressing the budget deficit in fiscal year 2016 so that the implementation of development can continue and can be funded in the current budget year. This is a qualitative study using the related literature and Data Summary of purely Revenue and Expenditure Budget (APBD) and APBD changes Jambi Province Government fiscal year 2016, then the data is interpreted in accordance to the literatures in respect of the results obtained and the conclusions. Based on the research we concluded that the cause of the budget deficit on the Jambi Province Government 2016 budget year is the amount of total revenue targeted Jambi Province Government smaller than the share of total development, besides it also delays and a decrease in the amount of funds transferred to the regions of the Central Government. So, to cover the resulting deficit Jambi Province Government to do some alternative financing options including using the Rest Over Last Year's Budget (Silpa), the disbursement of reserves, increase Locally-Generated Revenue (PAD), a policy of rationalizing the budget, Asset Sales Regions separated, make loans regional and local bond issuance. Of all the alternative options above are most likely to be done by the Provincial Government of Jambi today is by increasing the amount of revenue and budget rationalization.*

**Keywords:** Local Revenue and Expenditure Budget (APBD), Funds Transfer, Regional Revenue (PAD), Budget Deficit, Budget Rationalisation

**I. Introduction**

1.1. The Cause of Budget Deficit in the Provincial Government of Jambi

As we know so far each area in need of funds to finance development is no exception also for the province of Jambi. Financing for development is reflected in Local Revenue and Expenditure Budget (APBD) which are set annually. The amount of funds for such financing in the pure Local Revenue and Expenditure Budget (APBD) Jambi Province fiscal year 2016 budgeted IDR 3.7 trillion, as seen in the table below.

**Table 1**  
**Summary of Pure Local Revenue and Expenditure Budget (APBD) of Jambi Province Government**  
**Fiscal year 2016**

<b>Commentary</b>	<b>Amount (Rp)</b>
<b>Revenue</b>	<b>3.441.962.712.618,00</b>
<b>Locally-Generated Avenue (PAD)</b>	<b>1.273.892.966.618,00</b>
Local Tax Revenue	1.062.315.000.000,00
Result of Area Retribution	20.609.508.602,00
Results of Regional Wealth Management Separated	33.503.058.016,00
Other Legitimate Local Revenue	157.465.400.000,00
<b>Transfer Revenue</b>	<b>1.549.917.106.000,00</b>
Sharing of Tax Revenue / Non-Tax Revenue	324.825.208.000,00
General Fund Allocation	1.070.452.478.000,00
Special Fund Allocation	154.639.420.000,00
<b>Other Legitimate Local Revenue</b>	<b>618.152.640.000,00</b>
Grant Revenue	1.339.440.000,00
Special Autonomy and Adjustment Fund	616.813.200.000,00

<b>Expenditure</b>	<b>3.742.023.057.866,00</b>
<b>Indirect Expenditure</b>	<b>1.738.498.552.823,00</b>
Employee Expenditure	607.547.807.575,00
Subsidy Expenditure	0.00
Grant Expenditure	633.863.200.000,00
Expenditure of Profit Sharing of Province/District/City	481.755.700.000,00
Financial Assistance Expenditure to Province/District/City	10.231.845.248,00
Unexpected Expenditure	5.100.000.000,00
<b>Direct Expenditure</b>	<b>2.003.524.505.043,00</b>
Employee Expenditure	149.339.146.143,66
Goods and Services Expenditure	766.805.438.424,34
Capital Expenditure	1.087.379.920.475,00
<b>Surplus/(Defisit)</b>	<b>(300.060.345.248,00)</b>
<b>Regional Funding</b>	
<b>Acceptance of Regional Funding</b>	<b>300.060.345.248,00</b>
Remaining of Previous Budget (Silpa)	300.060.345.248,00
<b>Netto Funding</b>	<b>300.060.345.248,00</b>

Source : Recapitulation of Pure APBD Jambi Provincial Government 2016

In the table above we can conclude Jambi province's total income of fiscal year 2016 amounted to IDR 3.4 trillion, while total expenditure amounted to IDR 3.7 trillion, so it can be said that the province of Jambi in the fiscal year 2016 budget deficit of IDR 300 billion, so necessary efforts to cover such deficit is needed.

On average in the last three years the total income received by the Provincial Government of Jambi was smaller than the total amount spent on development, however Jambi provincial government continues its efforts to continue to increase the total revenues are primarily in terms of Regional Revenue (PAD), Revenue of Transfer Centers and other legitimate PAD.

Apart from the Regional Revenue (PAD) fund for development is also highly dependent on the Income Transfers from the Central Government even during the total income from the transfer of funds is very helpful in the implementation of the financing of development in the province of Jambi, because if it only relies on the sources of revenue, it has been very clearly insufficient, it can be seen proportion of Funds Transfers on Regional Budget (APBD) Jambi Province in 2016 was 45% greater than the proportion of revenue that only 37% of its course and the rest is the proportion of the other legitimate PAD by 18%. Based on these facts clearly our dependence on the transfer of funds is still quite high.

Fund transfers are funds received by the region sourced from the State Budget (APBN) in the form of Revenue Sharing (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK). In 2016, the number of transfer funds received by the regions experiencing delays, cuts and significant declines in line with the issuance of Presidential Decree No. 66 of 2016 on State Budget 2016 on 29 July 2016. In the attached regulation details on the amount of funds received by the local government either provincial and district / city is no exception Jambi Province also affected by the decline, delays and cuts. Here is the data transfer revenues received subsequent to the Jambi provincial government cuts by the central government on the Fiscal Year 2016 of Local Revenue and Expenditure Budget (APBD) changes.

**Table 2**  
**Recapitulation Funds Transfer at Pure APBD and APBD-P Jambi Provincial Government for Fiscal Year 2016**  
**(In IDR. 000)**

<b>Commentary</b>	<b>Original</b>	<b>Changes</b>	<b>+ /(-)</b>	<b>(%)</b>
<b>Transfer Revenue</b>	<b>1.549.917.106</b>	<b>1.493.838.758</b>	(56.078.348)	(3,62)
Sharing of Tax Revenue / Non-Tax Revenue	324.825.208	283.840.226	(40.984.982)	(12,62)
General Fund Allocation	1.070.452.478	1.070.452.478	-	-
Special Fund Allocation	154.639.420	139.546.054	(15.093.366)	(9,76)

Source : Summary of APBD-P Jambi Province Year 2016

According to the table above shows a decrease in the number of transfer funds to the Provincial Government of Jambi IDR. 56.07 billion or 3.62%, with the largest decrease in DBH tax / no tax of 12.62% and the fund at 9.76%. No cutting / decrease in due to the DAU as the DAU Jambi Province only delayed by the central government.

The decrease, delay, and cutting transfer funds to this area is one of the policies of the central government as a result of a number of state revenues have decreased significantly, especially on the revenue derived from the tax in the past two years experienced a shortfall (sharp decline) is on 2014 amounting to IDR 100 trillion and collapsed deeper in 2015 to IDR 248.8 trillion. As a result

of this reduction in the state budget of participate trimmed 133.8 trillion, unfortunately the budget cut is the budget for the ministry of IDR 65 trillion and the allocation of funds transfers to the regions of IDR 68.8 trillion.

Jambi province as one of the areas to be affected from these budget cuts are cuts fund at 10% and the delay in DAU. As a result of delays and cuts in funding the transfer of Jambi Provincial Budget deficit is quite large. Surely this deficit situation will disrupt the funding of ongoing development, so the government must find ways to cover the deficit meant that implementation of development can still be continued.

Based on the description above we can conclude that what the cause of the budget deficit on the Jambi provincial government in budget year 2016, so that writers interested in researching alternative financing what could be selected by the Provincial Government of Jambi to tackle the budget deficit so that the implementation of development continues and still be funded in the current budget year.

## 1.2. Problem Formulation

Based on the explanation above, the problem can be formulated as follows:

What financing alternatives that can be selected by the Jambi provincial government in addressing the budget deficit in the budget year 2016 in order to continue the execution of development and can be funded in the current budget year?

## 1.3. Purposes of Research

The purpose of this study is: To investigate what could be alternative financing options by the Jambi Provincial Government in addressing the budget deficit in fiscal year 2016 for the implementation of development persists and can be funded in the current budget year.

## 1.4. Review of Literature

Basically the budget is a plan drawn up in the form of quantitative monetary units for a period. Budget period is usually within a period of one year. From the budget we can know what to do management, priorities, targets and how to meet those targets. (Abdul Halim and Iqbal, 2012)

According to Jones and Pendlebury (1996) that budget is the government's work that is manifested in the form of money during a certain period (one year). The budget is used as a tool to determine the amount of expenditures, helps making decisions and development planning, authorizing expenditure in times to come, the source of the development of standard measures for evaluating the performance and as a means to motivate employees and coordination tools for all the activities of the various work unit.

Local Revenue and Expenditure Budget (APBD) is a form of financial management which are set each year by the Regional Regulation, comprised of budget revenue, expenditure and financing. Local revenue consists of Regional Revenue (PAD), DBH and other legitimate income. Budgets are prepared in accordance with the need for the regional governments and local revenue capability. (Renowijoyo, 2010)

According to Abdul Halim and Iqbal (2012) Local Revenue and Expenditure Budget (APBD) has great significance because it includes aspects as follows: (1) The budget is a tool for local governments to steer and ensure the sustainability of development as well as improving quality of life, (2) budget is necessary for their needs and desires of people who are not unlimited and growing while resources are limited. Budget is necessary because of the lack of resources (scarcity of resources), selection (choice), and trade offs.

Regional Revenue (PAD) is the revenue collected by the regions concerned in accordance with regional regulations that have been established. The size of the PAD will affect local autonomy in implementing policies, the greater the PAD, the ability of the greater region and dependence on central government wane. While the transfer of funds is the revenue that comes from the central government in the region.

Indirect expenditure is the expenditure of budget which is not affected directly by the proposed program or activity. This expenditure is budgeted expenditure each month in the fiscal year as the consequence of the obligation of local governments on a periodic basis to employees are fixed (Payment of salaries and allowances) or obligations for expenses generally required periodically.

Indirect expenditure is expenditure budgeting is influenced directly by the proposed program or activity. This expenditure is budgeted expenditure as a consequence of the proposed programs and activities.

The difference between the budget income and expenditure area may result in surplus or deficit. Budget surplus occurs when the revenue budget is greater than the area of regional budget. Instead the budget deficit occurs when the revenue budget area smaller than the state budget. A maximum limit budget deficits for each financial year based on the determination of the maximum limit of the budget deficit by the finance minister.

In the case of Local Revenue and Expenditure Budget's (APBD) deficit, sources of financing to cover the deficit of which can be sourced from the substantial amount of the previous fiscal year, the disbursement of reserves, the sale of the wealth of separated areas, borrowing, and readmission providing loans or receivables.

In terms of controlling the deficit, finance minister set a limit on the number of cumulative budget deficit does not exceed 3% of gross domestic product concerned in the relevant year. (Anggraini and Hendra, 2010).

Based on the standard government accounting definition of finance (financing is any admission that need to be repaid and / or expenses that the readmission, both in the fiscal year concerned or the years of the next budget in government budgeting is mainly intended to cover the deficit or making use of the budget surplus. (Mahmudi, 2016).

Basically, if viewed from the source of the funds, local government financing can be categorized two: (1) internal financing, and (2) external financing. Internal financing is an acceptance that comes from internal financing local governments such as:

- The Usage of Last Year's Budget (Silpa)
- The Usage of the Reserved Fund
- Asset Sales separated

Meanwhile, external financing constitutes acceptance of funding from the outside of the local government include:

- Sales of local government bonds
- State Loans
- Sales of separated regional assets (divestment)
- Privatization of regional companies

## II. Research Methods

This is a qualitative study using Summary Data of Recapitulation of Local Revenue and Expenditure Budget (APBD) Jambi Province for Fiscal Year 2016 and related literature. Then the data recapitulation is interpreted in accordance with the literature pertaining to obtain the desired results and conclusions.

## III. Discussion

What alternative financing could be selected by the Jambi province government in addressing the budget deficit in fiscal year 2016 for the implementation of development persists and can be funded in the current budget year.

As an alternative option that can be done by the local government of Jambi province in the budget deficit of the first is to utilize Surplus Funding Budget (Silpa) the previous year only Silpa targeted by 2016 this number is higher than Silpa last year's IDR 300 billion while last year's Silpa was a smaller number and the inspection of the Financial Statements year 2015 by the Supreme Audit Agency (BPK) Silpa last year have been corrected to only IDR 177.91 billion from the initial target of IDR 474.5 billion. It means last year's Silpa had not been able to cover the deficit of this year even deficit increased again to IDR 122.15 billion, which means that the first alternative is not likely to be chosen.

The second alternative is to use reserve funds that have been targeted in the budget for 2016, but unfortunately this year the Jambi province government did not establish a reserve fund for all development projects can be executed based on the targets set each year, after the establishment of the reserve fund is devoted to certain projects that are multi-year and the use and disbursement should refer to the local regulations that have been set, so it can be concluded that the deficit with a reserve fund in 2016 is not the right choice.

A third alternative is the Jambi provincial government should increase the revenue sources of Regional Revenue (PAD) by the increase in revenue, one way is to explore the potential and resources new PAD. In the 2016 budget changes Jambi province government has been making efforts increase revenue targets from the previous target in pure APBD, it can be seen from the table comparison of the amount of income on the target pure APBD and after the APBD's amendment.

**Table 3**  
**Increasing of number and percentage of revenue after the APBD's amendment at Jambi Province**  
**Government for Fiscal Year 2016 (In IDR. 000)**

Commentary	Original	Changes	+ /(-)	(%)
<b>Locally-generated Revenue</b>	<b>1.273.892.967</b>	<b>1.319.267.908</b>	<b>45.374.942</b>	<b>3,56</b>
Local Tax Revenue	1.062.315.000	1.103.636.161	41.321.161	3,89
Area Retribution Revenue	20.609.509	20.305.909	(303.600)	(1,47)
The Results of Wealth Management in separating area	33.503.058	36.949.702	3.446.644	10,29
Other Legitimate PAD	157.465.400	158.376.137	910.737	0,58

Source : Summary of APBD-P Jambi Province Year 2016

Based on the above table, it can be concluded that the overall target of PAD increased from IDR 1.27 billion to IDR 1.32 billion, but the increase is insignificant and not proportional to the reduction in the transfer of funds received by the Provincial Government of Jambi. In other words, despite an increase in revenue, but the numbers are still very far to cover the financing of the construction that has already been underway this year, although the results are far from satisfactory, but at least this alternative could be an option to do.

The fourth alternative is to perform rationalization policy budget amendment in 2016, which the Jambi provincial government can do self blocking Fund (Standalone Fund) against the rest of the expenditure is still there and rationalization of all activities. Self blocking and rationalization are carried out independently by each of the regional work units (SKPD) in Environmental Jambi Province Government in regard to which activities are considered urgent and priority should be continued while maintaining the efficiency at each execution, while considered not a priority suspended or terminated prior to the next budget year. To self fund at year-end blocking can be used for DAU's payment which experiencing delays this year.

This budget rationalization policy alternatives most likely be done by the Provincial Government of Jambi to cover the budget deficit in 2016. Due to this budget rationalization policy more touches on the efficiency of business travel, consignment activities and Government building construction expenditures which have not yet considered a priority at this time. For Civil Servants (PNS), this means that the belt-tightening policy, which means in the last 3 years they have to be ready that their salaries will not rise, allowances will decrease and the facility may be drawn. But although currently it felt sick but so far they are still acceptable because we can still live and the economy can still be controlled by the government.

With this rationalization policy, it also makes the Jambi province government can cut the expenditure in 2016 that cost IDR. 130.2 billion, which can be seen in the following table.

**Table 4**  
**Amount and Percentage of Expenditure Efficiency after the APBD's amendment In Jambi Province Government for Fiscal Year 2016 (In IDR. 000)**

Commentary	Original	Changes	+ /(-)	(%)
<b>Expenditure</b>	<b>3.742.023.058</b>	<b>3.611.831.805</b>	<b>(130.191.253)</b>	<b>(3,48)</b>
<b>Indirect Expenditure</b>	<b>1.738.498.553</b>	<b>1.744.812.718</b>	<b>6.314.165</b>	<b>0,36</b>
Employee Expenditure	607.547.808	602.063.515	(5.484.292)	(0,90)
Subsidy Expenditure	0	0	0	0,00
Grant Expenditure	633.863.200	635.163.200	1.300.000	0,21
Expenditure of Profit Sharing of Province/District/City	481.755.700	493.324.810	11.569.110	2,40
Financial Assistance Expenditure of Prov/ Dist/ City	10.231.845	10.511.262	279.416	2,73
Unexpected Expenditure	5.100.000	3.749.931	(1.350.069)	(26,47)
<b>Direct Expenditure</b>	<b>2.003.524.505</b>	<b>1.867.019.087</b>	<b>(136.505.418)</b>	<b>(6,81)</b>
Employee Expenditure	149.339.146	138.344.416	(10.994.730)	(7,36)
Goods and Services Expenditure	766.805.438	717.856.482	(48.948.956)	(6,38)
Capital Expenditure	1.087.379.920	1.010.818.189	(76.561.732)	(7,04)
<b>Surplus/(Defisit)</b>	<b>(300.060.345)</b>	<b>(177.910.338)</b>	<b>122.150.007</b>	<b>(40,71)</b>
<b>Regional Funding</b>				
<b>Acceptance of Regional Funding</b>	<b>300.060.345</b>	<b>177.910.338</b>	<b>(122.150.007)</b>	<b>(40,71)</b>
Remaining of Previous Budget (Silpa)	300.060.345	177.910.338	(122.150.007)	(40,71)
<b>Netto Funding</b>	<b>300.060.345</b>	<b>177.910.338</b>	<b>(122.150.007)</b>	<b>(40,71)</b>

Source : Summary of APBD-P Jambi Province, Year 2016

Based on the above table, it can be seen after the rationalization of budget changes on almost all the expenditure experience or efficiency savings and rationalization in the total expenditure amounted to IDR 130.19 billion, so with this kind of efficiency the Government could cover the previously budgeted deficit of IDR 122.15 billion.

The alternative choice fifth is by selling the assets of separated areas, but this fifth alternative choice is certainly not possible to be done because it requires a procedure and a very long time, whilst the remaining time is only a few months away, so it can be concluded that this is not the best alternative to be selected by the Jambi province government to cover this budget deficit in the year running.

The sixth alternative is Jambi Province Government may make loans to the third parties, but in making loan there are many requirements that must be met, as in the listed file from the Minister of Finance Regulation No. 153 / PMK.07 / 2015 that stated the requirements that must be met to fulfill the loan, that is the maximum limit of the budget deficit for fiscal year 2016 in the category of moderate regional income (Jambi province belong to this category) is the fiscal capacity of 4% of the local revenue forecast fiscal year 2016 and cumulative maximum limit of 0.3% of the area of the projected Gross Domestic Product (GDP) for Fiscal Year 2016. As for the province of Jambi, its deficit amount is IDR 300 billion greater than the limit specified fiscal capacity which is certainly not possible to make local loans, it means this alternative is not the right choice.

There is one last alternative that could be done by the government of Jambi province to cover the deficit if the all of the alternative options above cannot be done - Jambi province government may issue local bonds, these bonds only need processes and procedures which are very long. Based on the Minister of Finance Regulation No. 111 / PMK.07 / 2012 on procedures for issuing and publishing original Accountability Municipal Bonds - the local bonds can only be implemented by the local government last audit of the financial statements of Local Government Fair With Exceptions received opinion or unqualified, and the issuance of this bonds can only be used to finance activities or investment activities or infrastructure and facilities for the provision of public services, which means that not all activities can be financed from municipal bonds. And the most important is the issuance of municipal bonds must be approved by the Ministry of Finance with the evaluation and assessment prior to the completeness of the document proposed the issuance of municipal bonds.

The Evaluation and Assessment of the completeness of the document proposed the issuance of municipal bonds must also consider the ratio of the region's ability to repay the loan and the amount of budget deficit set by the Ministry of Finance as well as the time required for this is in two months' time - the longest, as for now it has reached the fourth quarter, so it can be concluded that it is not possible for the Jambi province government to issue local bonds within the span of three months' time, considering the time taken for the evaluation and assessment is only 2 months' old for publication and implementation, so the time remaining is only one month. Therefore it can also be concluded that the last alternative option is not possible.

#### **IV. Conclusions and Recommendations**

##### **4.1. Conclusions**

1. The cause of the budget's deficit in 2016 Jambi Province Government is the total number of targeted revenue Jambi provincial government smaller share of total financing for development and delays as well as a decrease in the number of transfer funds from the central government due to declining state revenues from taxes which impact on policy the central government to reduce the allocations of funds transfers to the regions.
2. To cover the budget deficit there are several financing alternatives that can be selected by the Provincial Government of Jambi such as using last year's Silpa, the Reserve Funds; the increase of Regional Revenue (PAD) to explore the potential and resources of new PAD, policy rationalization of budget, Asset Sales separated areas, borrow areas and publishing area obligation.
3. From all these alternative options available, there are two selected alternatives that can be done by the Provincial Government of Jambi in the budget's deficit in 2016, that is by increasing Regional Revenue (PAD) and the policy of rationalizing the budget to continue to prioritize the activities that are considered urgent and priority to efficiency in the implementation so that development activities can still be implemented in the current year.

##### **4.2. Suggestions**

1. In the future, Jambi province government are able to continue to increase the sources of income by continuing to improve the existing potential and exploring the sources of new revenue, so that the revenue can be increased and dependence on funds transfer center can decrease, if the budget deficit could be an alternative financing options to cover the budget deficit.
2. In order to do any of efficiency's expenditure and soon give priority to activities that are considered urgent, Jambi province government should give the impact on improving the welfare of society so that the realization of the use of development funds can be used effectively and efficiently.
3. In the future, Jambi province government, should make the financial management area more transparent and accountable because if the management is already transparent and accountable will show that the performance of the Jambi provincial government also is getting better.

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