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Expenditure Performance and Tax Effectiveness of Kediri Regency

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Abstract

Purpose: The purpose of this study was to determine how the performance of local expenditure and local tax revenue in Kediri Regency.
Methodology: The research method used is descriptive-quantitative, using secondary data in the form of financial reports and local government budgets from the Kediri District Statistics Agency and the Ministry of Finance for 2018-2023.
Findings: The results showed that Kediri District's expenditure growth for 6 years was classified as unfavorable because the average revenue growth was smaller than the average expenditure growth. Meanwhile, the performance of operational expenditure to total expenditure shows good results because operational expenditure is less than 90%. The performance of capital expenditure on total expenditure also shows good results with a percentage of more than 5%. And the performance of direct expenditure and indirect expenditure on total expenditure shows good results, with the average direct expenditure greater than the average indirect expenditure. In terms of local tax performance, Kediri Regency from 2018-2023 shows very effective results where each ratio value is more than 100%.
Novelty: This study analyzes 5 ratios of expenditure performance and local taxes in Kediri Regency for the last 6 years, starting from 2018 to 2023.

Keywords: Expenditure growth ratio, tax effectiveness, Kediri District

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Introduction

Territorial autonomy involves the rights, powers and responsibilities of autonomous regions in organizing and managing their local governments and communities in accordance with legal provisions. Regional autonomy allows local governments to control their own territory, including in terms of the economy. This is so that local governments can better understand their region, and develop it through the application of regional autonomy. Development focuses intensively on an area with the aim of advancing the region, especially in the economic realm that exists in the area. Although in reality, local governments still need the assistance of the central government in managing their administration. (Ristanti and Eko, 2017).

The implementation of regional autonomy is described in Law No. 32/2004 on Regional Government together with Law No. 23/2014. Under the concept of territorial autonomy, provinces are broken down into districts and cities, which then have their own local governments. Local governments manage all affairs that are their responsibility, except those that are considered national affairs and are regulated by law.

In running a region, the implementation of the regional revenue and expenditure budget is a benchmark used to evaluate the progress of the implementation of policy implementation and regional financial management, with the aim of improving the quality of optimal public services and encouraging economic growth in the region which if each region does it effectively and efficiently the benefits felt not only in the region but will also have an impact on the country. Budget implementation and spending patterns reflect the commitment of local governments to the priorities set (Sasuwuk, et al, 2016).

In managing the regional expenditure budget, Kediri Regency has good expenditure performance and effectiveness, as well as optimal taxes, but expenditure growth still shows weaknesses because expenditure growth tends to be greater than revenue growth. Where expenditure and regional income have a mutually influencing relationship, an ineffective rate of expenditure growth can indicate that a region's economic performance is slowing down. This could be attributed to budget cuts resulting from declining regional revenues or increasing regional debt. In addition, the government does not seem to be able to allocate budget funds effectively and efficiently. Not only that, local taxes also have an effect on increasing revenue and financing government spending aimed at improving public services as well as developing the regional economy itself. The level of tax effectiveness shows the ability of the region to receive and obtain taxes according to the set tax target.

Based on the discussion above, this study aims to analyze the performance of expenditure and tax effectiveness in Kediri Regency using the ratio of expenditure compatibility, namely the ratio of expenditure growth, the ratio of operational expenditure to total expenditure, the ratio of capital expenditure to total expenditure, the ratio of direct expenditure and indirect expenditure, and the ratio of regional tax effectiveness for 6 years from 2018 to 2023 through a descriptive quantitative approach. It is hoped that the results of this study will provide a better understanding of the financial performance of local governments, especially related to local spending and local taxes. Moreover, the hope is that the results of this study can be useful for the decision-making policies of the Kediri Regency government.

Literature Review

Regional Revenue and Expenditure Budget

Article 1(8) of Law No.17 of 2003 regulates state finances in relation to the APBD, also known as the regional revenue and expenditure plan. The provincial government annually implements this plan, a division of the financial budget, with approval from the provincial legislature. The regional budget plays a crucial role in accommodating the diverse interests of the community, which is achieved through the implementation of various programs and activities for local welfare. Local financial management and local budgets are important areas of local government that must be carefully monitored. The main policy instrument of local government in the local budget is the master budget, which plays a crucial role in improving the capacity and efficiency of local government. The regional income and expenditure budget should be used as a tool to account for revenues and expenditures, assist in decision-making, and plan future expenditures. In addition, it serves as a mechanism to regulate all activities in the region.

Analysis of Expenditure Growth Ratio

The extent to which the success achieved by local governments can be maintained and increased spending from one period to the next can be seen from the level of expenditure growth that increases or decreases as stated by Rahman, et al (2014). Where this expenditure growth ratio can also provide information related to what kind of government a region allocates and utilizes the budget for regional expenditure needs. This regional expenditure growth ratio can be measured by the formula:

$$Expenditure\ Growth\ = \frac{Expenditure\ for\ The\ Year\ After\ -\ Expenditure\ for\ tThe\ Year\ Before}{Expenditure\ for\ The\ Year\ After} \times 100\%$$

With predetermined criteria:

1. Expenditure growth that is less than revenue growth indicates good expenditure performance.
2. Expenditure growth that is greater than revenue growth indicates poor expenditure performance.

Ratio of Operating Expenditure to Total Expenditure

The study by Selvi and Hapsari (2023) calculates the operating cost ratio as the ratio between operating costs and total costs. This ratio shows where the government concentrates its attention - on the distribution and running expenses. This ratio aids report readers in understanding the allocation of local expenditure towards operational costs. Operating costs are expenses that provide advantages to all communities in the area within a single fiscal year. According to Fathah (2017), these expenses are temporary and typically occur on a regular basis. Operating expenses compared to total expenses ratio have a specific criteria as; When the Operating Expense to Total Expenditure ratio is equal to or less than 90%, it indicates effective spending. If the Operating Expense to Total Expenditure ratio equals or exceeds 90%, it indicates high operating costs.

$$Ratio\ of\ Operating\ Expenditure\ to\ Total\ Expenditure = \frac{Realization\ of\ Operating\ Expenditure}{Regional\ Expenditure\ Target} \times 100\%$$

Ratio of Capital Expenditure to Total Expenditure

There is one more ratio to consider, which is the capital expenditure matching ratio. This ratio is calculated by comparing the total capital expenditure actually made with the total expenditure of the relevant local authority area in the same financial year. This capital expenditure compatibility measurement helps the reader to see how much is allocated for investment in the form of capital expenditure to increase the wealth of regional assets during one year. (Mahmudi, 2010)

$$Ratio\ of\ Capital\ Expanditure\ to\ Total\ Expanditure = \frac{Realization\ of\ Capital\ Expenditure}{Regional\ Expenditure\ Targets} \times 100\%$$

Therefore, the criteria of the ratio of capital expenditure to total expenditure consist of:

1. If the ratio of capital expenditure to total expenditure exceeds 5%, it suggests that operating costs are being efficiently managed.
2. If the capital expenditure to total expenditure ratio is less than 5%, it suggests that operating costs may not be at the optimal level.

Ratio of Direct and Indirect Expenses

To determine the expenditure compatibility of Kediri Regency, we can use a comparison between direct and indirect expenditure. Firstly, the ratio of direct expenditure, which is useful for assessing how much of the budgetary appropriation for employee spending is from the regional revenue and expenditure budget. The higher the ratio, the greater the share of the regional revenue and expenditure budget devoted to employee spending. Conversely, the smaller the ratio, the less part of the regional revenue and expenditure budget is devoted to workers, the directorate general of financial balance. (2011). *Second*, the indirect expenditure ratio, describes the amount of regional expenditure earmarked for the payment of public servants' salaries. The higher this ratio, the greater the regional expenditure required to pay the salaries of regional workers, and vice versa. The formula that can be used to calculate the direct cost and indirect cost ratio is as follows (Pilet and Morasa, 2017):

$$Ratio\ of\ Direct\ Expanditure = \frac{Total\ direct\ expenses}{Regional\ Expenditure\ Total} \times 100\%$$

$$Ratio\ of\ Indirect\ Expanditure = \frac{Total\ Indirect\ Expanses}{Regional\ Expanditure\ Total} \times 100\%$$

With the standard ratios established:

1. The direct expense ratio surpasses the indirect expense ratio, suggesting that the direct expenses are functioning seamlessly.
2. The direct expense ratio is lower than the indirect expense ratio, suggesting that the direct expenses are not performing at their best..

Tax Effectiveness Ratio

In (Hapsari, 2022) in Indonesia, taxes are the largest contributor to the structure of the State Revenue and Expenditure Budget, which implies that the role of taxes is enormous for continuity of services and development. According to Nooraini and Yahya (2018), the tax effectiveness ratio describes the assessment of regional tax collection conducted by the local tax authority for a period of one year. The effectiveness of tax imposition can be seen from the extent to which the regional tax revenue achieves the set target. Mahmudi (2010) has set the following criteria for tax effectiveness performance:

$$Ratio\ of\ Tax\ Effectivities = \frac{Regional\ Tax\ Revenue\ Ratio}{Regional\ Tax\ Revenue\ Target} \times 100\%$$

Criteria for assessing tax effectiveness:

• If the percentage goes over 100%, it becomes highly efficient
• 100%, it is effective
• 90%, effectiveness makes it quite efficient.
• 75% to 89%, then less effective
• If the percentage is less than 75%, then it is ineffective (Mahmudi, 2010).

Research conducted by Katit and Pinatik in 2016 was entitled Analysis of Expenditure Performance in the Regional Government of Asmat Regency, Papua Province. The purpose of this study was to understand the extent of the efficiency of local government expenditure in Asmat district, Papua province, through the use of quantitative analysis. In the range of 2013 to 2016: a). Examination of variations in expenditure in 2013-2015, the variance of expenditure shows that the Asmat district government managed the budget efficiently by spending less than planned. b). Studying the development of Asmat district government expenditure increased every year, indicating an increase in local government performance in preparing the budget consistently. This increase in expenditure is influenced by the exchange rate and inflation. Analyzing the compatibility of spending. The Asmat District Government still spends more on operational expenditure than capital expenditure. Analysis of efficient spending, if you look at the efficiency ratio of spending, the Asmat Regency government has spent efficiently. The smaller the expenditure ratio, the higher the efficiency.

In the year 2022, a study conducted by Krismayanti and Mita entitled “Performance Analysis of Local Own Revenue in Baubau City Government During Fiscal Years 2017-2021”. The purpose of this study was to assess the performance of local revenue connected to local government expenditure in Baubau City by taking into account the ratio of independence, effectiveness, compatibility of expenditure, and efficiency between 2017 and 2021. Based on the results of the research and data analysis that has been carried out, it is concluded that although the current performance of Baubau City's local revenue is still relatively low in terms of the level of independence, there is an increasing trend. During the 2017-2021 timeframe, the average level of independence of local revenue reached 23.14 percent. The performance of Baubau City's own-source revenue shows a fairly harmonious level in general. It can be seen that the performance of local revenue in the indirect expenditure category is almost parallel to direct expenditure. Baubau City's own-source revenue performance can be said to be good because local revenue continues to increase every year, showing that it is going well. The results of research that has been conducted in the Asmat Regency and Baubau City regions related to spending performance provide a reason for conducting research on spending performance and tax effectiveness in the Kediri Regency area to determine the performance of spending and the effectiveness of Kediri Regency tax revenue from 2018 to 2023.

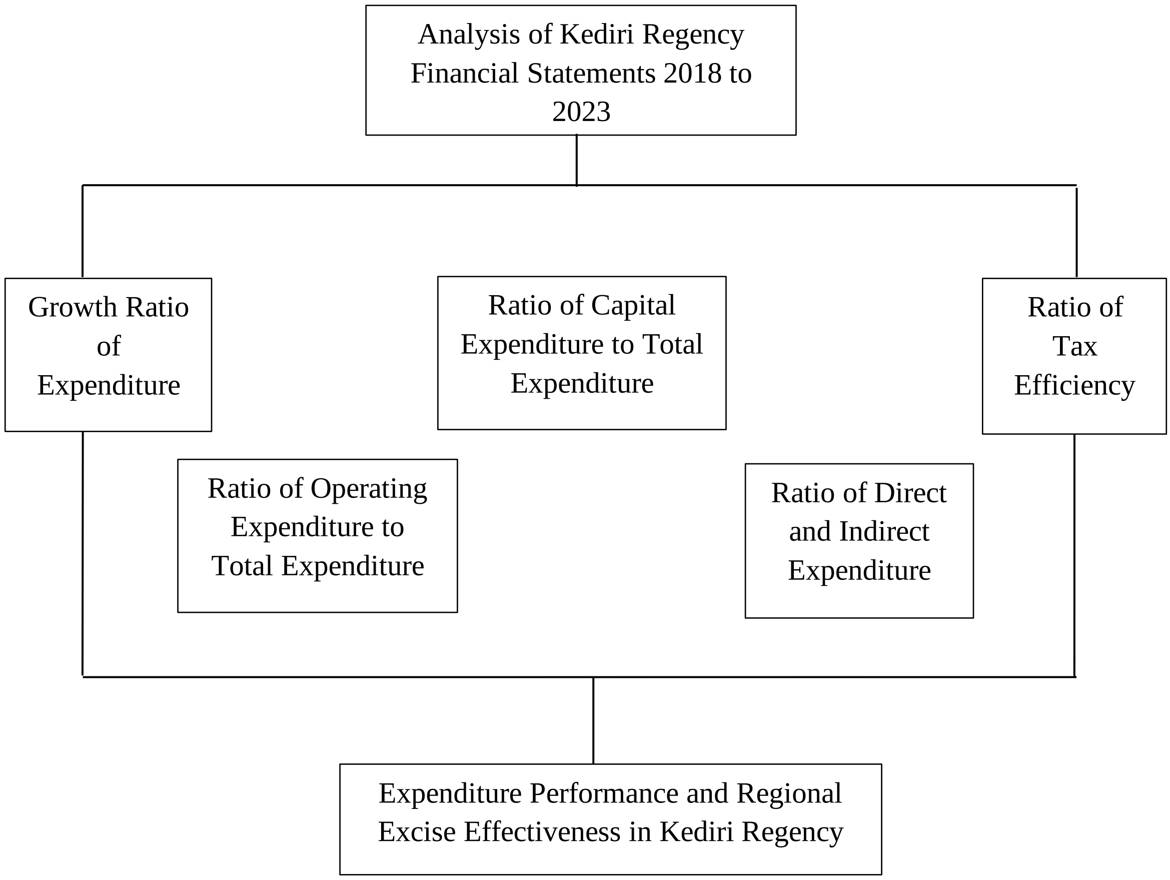

Figure 1. Research Framework

Methodology

This study aims to use the ratio of expenditure compatibility and the ratio of local tax effectiveness in measuring expenditure performance and local tax effectiveness in Kediri Regency. The research method used is descriptive-quantitative to provide an objective picture of the performance of expenditure and the effectiveness of regional excise in Kediri Regency. Numerical data that has been registered with statistical agencies and guaranteed to be valid is used. The population used includes the financial statements of Kediri Regency from 2018 to 2023 and consists of financial statements related to realization and expenditure budgets, as well as realization and tax targets set by the local government of Kediri Regency. This research will provide information related to research methodology, the variety of data used, data sources, and various techniques applied in data collection, where the data that has been collected will be used and calculated so that it can be processed into an analysis of regional expenditure performance ratios. The data in this research is obtained from the type of secondary data that comes from the Kediri Regency Central Statistics Agency and the Ministry of Finance of the Kediri Regency Region during the 2018-2023 periods to know the budget and tax revenue obtained in the period 2018 to 2023 by Kediri Regency.

Results and Discussion

Expenditure Growth Ratio

This expenditure growth ratio is used to assess whether or not a region's economic growth is showing a positive direction. Within six years, regional expenditure growth in Kediri Regency reached the best percentage in 2022.

Table 1. The Expenditure Growth Ratio of Kediri Regency from 2018 to 2023

Year	Expenditure (Billion)	Revenue Growth (%)	Expenditure Growth (%)	Performance
2017	2.768,99	-	-	-
2018	2.738,31	-10,69%	-1,10%	Less Good
2019	2.991,17	-4,01%	9,23%	Less Good
2020	2.832,28	8,00%	-5,32%	Good
2021	2.937,42	3,91%	3,71%	Good
2022	3.154,10	26,44%	7,37%	Good
2023	3.204,31	-12,22%	1,59%	Less Good
Average	2.946,65	11,34%	15,48%	Lesee Good

Source: Kediri Regency Central Statistics Agency 2018 to 2023

The data in the table shows that the performance of expenditure growth in Kediri District is unsatisfactory or poor. This is evident because the average revenue growth rate is lower than expenditure growth at 11.34% compared to 15.48%. Expenditure growth in Kediri District in 2022 shows very good performance, with expenditure growth lower than revenue by 7.37% compared to 26.44%. In 2018, Kediri District experienced a decrease in revenue growth of 10.69% and a decrease in expenditure growth of 1.10% due to a declining revenue growth rate.

In the data released by the Central Statistics Agency of Kediri District in 2018, there is the fact that there is a gradual decline in the agriculture, forestry, and fisheries sectors. This is due to the reduction in land area in this sector due to land use change, as well as the construction sector, which also experienced a decline. In addition, other parts of the economy reached less than 5%, which caused Kediri District's revenue growth and expenditure growth in 2018 to decline.

Operating Expenditure to Total Expenditure Ratio

This ratio can serve as one of the important indicators in assessing the financial health of an area. A good operating expense ratio shows that the region is able to manage its operating budget by allocating funds proportionally to finance various activities. This operating expenditure includes four categories, namely employee expenditure, goods and services expenditure, grant expenditure, and social assistance expenditure.(Srinangsih, et al. 2021).

Table 2. the Operational Expenditure to Total Expeniture Ratio of Kediri Regency 2018 to 2023

Year	Operational Expenditure (Billion)	Total Expenditure (Billion)	Operating Expenditure to Total Expenditure (%)	Performance
2018	1.738,85 B	2.738,31 B	63,50%	Good
2019	1.876,82 B	2.991,17 B	62,75%	Good
2020	1.820,41 B	2.832,28 B	64,27%	Good
2021	1.994,57 B	2.937,42 B	67,90%	Good
2022	2.146,48 B	3.154,10 B	68,05%	Good
2023	2.154,86 B	3.204,31 B	67,25%	Good
Average	1.955,33 B	2.976,27 B	65,62%	Good

Source: Kediri Regency Central Statistics Agency 2018 to 2023

The data in the table shows that the ratio of operational expenditure to total expenditure in Kediri District from 2018 to 2023 is relatively good, which is below 90%. From 2018 to 2019, the figure decreased from 63.50% to 62.75%. During the period 2020-2022, there was a steady increase each year, with successive increases of 64.72%, 67.90%, and 68.05%. However, in 2023, the amount dropped again to 67.25%. The performance of the ratio of operational expenditure to total expenditure of Kediri District from 2018 to 2023 has been good. This is reflected in the average ratio of 65.62%. This means that the local government of Kediri District has managed its finances well over the past 6 years.

Capital Expenditure to Total Expenditure Ratio

Capital expenditure is a type of expenditure used to acquire fixed assets and other assets that provide interest for more than one accounting period. This type of capital expenditure includes the acquisition of land, buildings, equipment, and intangible assets, as explained by Srinangsih and colleagues (2021). A good level of capital expenditure ratio indicates that local governments are investing for the future, while a weak capital expenditure ratio indicates that government attention is more focused on operating expenses. From 2018 to 2023, the local government of Kediri Regency is seen to have managed capital expenditure well.

Table 3. The Capital Expenditure to Total Expenditure Ratio of Kediri Regency 2018 to 2023

Year	Capital Expenditure (Billion)	Total Expenditure (Billion)	Capital Expenditure to Total Expenditure Ratio (%)	Performance
2018	547.12 B	2.738,31 M	19,98%	Good
2019	577.46 B	2.991,17 M	19,31%	Good
2020	400.75 B	2.832,28 M	14,15%	Good
2021	319.31 B	2.937,42 M	10,87%	Good
2022	370.83 B	3.154,10 M	11,76%	Good
2023	477.38 B	3.204,31 M	14,90%	Good
Average	448.81 B	2.976,27 M	15,08%	Good

Source: Kediri Regency Central Statistics Agency 2028 to 2023

Based on the table above, the ratio of capital expenditure to total expenditure in Kediri Regency from 2018-2023 shows good performance with a percentage of more than 5%. The meaning of it all is that the Kediri Regency local government has allocated the APBD effectively and efficiently in carrying out its daily activities.

Direct and Indirect Expenditure Ratio

The ratio of direct and indirect expenditure can be measured to provide information related to the fiscal policy of a region. If the direct expenditure ratio is higher, it means that the government is more focused on programs in the region, such as infrastructure development and public services. On the other hand, if indirect spending is at a high level, the government focuses more attention on programs outside the region, such as inter-regional transfers, subsidies, and social assistance. For six years, the government of Kediri Regency has shown a good direct expenditure ratio.

Table 4. The Direct and Indirect Expenditure Ratio of Kediri Regency 2018 to 2023

Year	Direct Expenditure (Billion)	Indirect Expenditure (Billion)	Total (Billion)	Direct Expenditure Ratio (%)	Indirect Expenditure Ratio (%)	Performance
2018	2.190,83 B	547.47 B	2.738,31 B	80,01%	19,99%	Nice
2019	2.304,44 B	686.73 B	2.991,17 B	77,04%	22,96%	Nice
2020	1.998,74 B	833.55 B	2.832,28 B	70,57%	29,43%	Nice
2021	2.098,07 B	839.36 B	2.937,42 B	71,43%	28,57%	Nice
2022	2.236,41 B	917.69 B	3.154,10 B	70,90%	29,10%	Nice
2023	2.371,47 B	832.85 B	3.204,31 B	74,01%	25,99%	Nice
Average	2.199,99 B	776.28 B	2.976,27 B	73,92%	26,08%	Nice

Source: Kediri Regency Central Statistic Agency 2018 to 2023

Based on the table above, it shows that the ratio of direct expenditure and indirect expenditure of Kediri Regency during the 2018-2023 period has good performance; the calculation results show that the ratio of direct expenditure is greater than the ratio of indirect expenditure. The average BL ratio of 73.92% is greater than the average indirect expenditure of 6.08%, which means that during 2018-2023 the management of the Kediri Regency government is running effectively and efficiently. Where the most obvious difference is in 2018, which shows the percentage ratio of direct expenditure of local government reaching 80.10% compared to indirect expenditure of local government, which is only 19.99%.

Tax Effectivenes Ratio

This tax effectiveness ratio serves to assess the extent to which government regulations on taxes can achieve the targets that have been set. During the research period from 2018 to 2023, the Kediri Regency government showed success in implementing tax policies with very effective results.

Table 5. The Tax Effectiveness Ratio of Kediri Regency 2018 to 2023

Years	Provincial Taxes		Tax Effectiveness Ratio (%)	Kinerja
	Budget (Biliion)	Realzation (Billion)		
2018	160,41 B	265,27 B	165.37%	Impressive
2019	170,00 B	195,37 B	111.64%	Impressive
2020	195,53 B	215,50 B	110.11%	Impressive
2021	210,02 B	211,90 B	100.89%	Impressive
2022	204,40 B	249,54 B	122.09%	Impressive
2023	240,71 B	250,87 B	104.22%	Impressive
Average			119.05%	Impressive

Source: Ministry of Finance, Directorate of Head of Financial Balance of Kediri Regency 2018 to 2023.

From the previous calculations, we can see that the tax effectiveness in Kediri Regency has proven to be very effective where each ratio value is more than 100%, which shows that the local government is able to get and obtain taxes in accordance with the provisions that have been determined. It can be said that the tax revenue of Kediri Regency is very effective, as can also be seen from the average level of the ratio from 2018-2023, which has an average of 119.05%.

Conclusions

It can be concluded that the findings of this study show: 1) The average growth of Kediri District's expenditures from 201 to 2023 shows an unsatisfactory performance, namely 15.48%, where this value is greater than the growth of revenue, which is only 11.34%. 2) The performance of the average ratio of operational expenditure to total expenditure is good with a percentage of 65.62%. 3) Based on the average ratio of capital expenditure to total expenditure in Kediri District, the results are good because the percentage is less than 5%. 4) Based on the ratio of direct expenditure and indirect expenditure in Kediri District over the last six years, it can be said that Kediri District has shown good performance. This can be seen from the fact that the percentage of direct expenditure reached 73.92%, higher than the percentage of indirect expenditure of 26.08%. 5) The Kediri District tax effectiveness ratio in 2018-223 showed a very effective performance, with each ratio having a value of more than 100% each year. From this expenditure compatibility study, it is hoped that the Kediri Regency government can increase the growth of expenditure in its region. Regional growth can be one of the indicators of positive economic performance, characterized by an increase in economic activity, investment, and production in an area. In addition, the results of the study on the effectiveness of regional taxes in Kediri Regency expect transparency from the local government on the total percentage of regional taxes collected. This could also be one of the motivations for future research to explore the extent of the tax efficiency received by the Kediri Regency government from the community and businesses in the area, for the welfare of the people of Kediri Regency.

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