

Factors Affecting the Budget of SKPD Maintenance at the Government of Medan City

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ABSTRACT

The purpose of this study was to analyze and test the effect of the realization of capital expenditure, fixed asset book value, and the realization of maintenance expenditure on the SKPD maintenance budget in the City Government of Medan. This type of research is causal research. The population in this study were 34 SKPD within the Medan City Government. The method of data collection is done by documentation techniques using secondary data. The sampling method uses a saturated sampling technique (census) where all population members are used as research samples. Hypothesis testing using multiple linear regression analysis. The results of this study indicate that simultaneously the realization of capital expenditure, fixed asset book value, and realization of maintenance expenditure have a significant effect on the Maintenance Budget. Partially, the variable book value of fixed assets and the realization of maintenance expenditure significantly positively affect the Maintenance Budget. In contrast, capital expenditure does not affect the Maintenance Budget.

Keywords: Realization of Capital Expenditure, Fixed Assets Book Value, Realization of Maintenance Expenditure, Maintenance Budget.

INTRODUCTION

The regional administration is heavily influenced by regional autonomy law. The allocation of national development in an equitable manner between the centre and the regions is the objective of implementing the regional autonomy policy. Transparency and public accountability as a local

government public accountability system, including regional financial management, the regional government must uphold regional autonomy, which provides an opportunity for each region to regulate and manage government affairs and the interests of the people in their area.

A budget consists of estimates of work in revenues and costs expressed in monetary units and intended to be completed within a certain period. It also includes historical data as a method of performance control and evaluation. According to Halim and Kusufi (2017), the regional government budgeting tool is the Regional Revenue and Expenditure Budget (APBD). One year's estimates of revenues and expenses, represented in quantitative units, are included in the APBD. Budgeting procedures are one of the components of a development strategy with the primary objective of increasing the welfare of the community as the owner of capital. As a result, all budget plans included in the APBD must be changed to meet the community's needs. The upcoming APBN budget reform will introduce a performance-based budgeting system.

The three main categories of expenditure allocation in APBD are expenditures for capital and purchases of products and services. When preparing the APBD, it is crucial to consider how resources are distributed to purchase and maintain fixed assets. As well as serving as a basis for public services, purchases of fixed assets

are often driven by political objectives. After the capital expenditure budget is met, the value of fixed assets must increase. The Maintenance Budget must increase in the following fiscal year to respond to the increase in fixed asset value. However, in practice, the preparation of the maintenance cost budget is not carried out after the realization of capital expenditure in the form of an increase in the value of fixed assets. Togatorop (2009) states that the assets of the North Sumatra Regional Government still need to be better managed. The local government buys vehicles, but purchasing new fixed assets shows that the situation varies by location. Furthermore, the realization of capital expenditure was not followed by the inclusion of fixed assets. Nasution (2015) argues that the budget planning stage is the most likely for APBD fraud to occur. Program expenditures, including capital expenditures and purchases of products and services, are often wasted because program designs often need to match community needs.

Apart from capital expenditures, maintenance costs for goods and services expenditures are one of the largest areas of the budget. (Sidabutar & Sinaga, 2012). Since purchases of products and services do not require tangible evidence, unlike capital expenditures, maintenance spending has the potential to be an area of diversion. Faulty maintenance expenditure accountability is often found. Even though the budget for maintenance costs is often almost met every year, it is common to find assets that are abandoned, no longer functioning, or even lost.

Theoretically, there is a strong relationship between capital investment and maintenance costs. However, maintenance costs will only arise if fixed assets need to be maintained and there is "anything" that needs to be maintained. Fulfilment of capital expenditure in the government budget generally results in the emergence of these fixed assets. However, not all the government's fixed assets are obtained

through the realization of the APBN/APBD. Fixed assets can be obtained through APBN/APBD from APBN/APBD sources. Fixed assets obtained independently from the APBN/APBD are gifts from other parties, such as the community and the government. This method of obtaining fixed assets will not burden the APBN/APBD in the capital expenditure category. However, organizations responsible for maintenance expenditures will still be under heavy fiscal pressure. In realize regional autonomy that is complete, genuine, and responsible, the Regional Revenue and Expenditure Budget (APBD), ratified jointly by the local government under regional laws and regulations, is a mechanism for improving public services and improving people's welfare. The budget helps purchase fixed assets, and funds for purchasing assets will make it easier and more focused on carrying out various activities that serve the public interest (Kurniawan, 2021).

The government's tendency to distribute maintenance spending without considering the value of its fixed assets is another problem that often arises in practice. It can be seen when the government draws up the APBN/APBD without using the value of fixed assets as the basis for calculating maintenance spending. There are even places where there is no initial balance sheet, which is the basis for knowing how much-fixed assets are owned. Many regions also save funds in their budgets to maintain assets that are no longer used (Abdullah, 2004).

The case of poor maintenance occurred in the Bengkulu City Government, where there are still assets belonging to the government worth tens of billions of rupiah that are neglected and sometimes claimed by the community as their own. These assets include buildings, land, and cars. Local governments do not take care of their assets because no funds are available for maintenance costs or because fixed assets are misused.

The phenomenon in the North Sumatra Provincial Government has deviated from

the purpose of using the budget for maintenance costs. According to information provided by the Head of the Langkat District Attorney's Office (Kajari), there have been allegations of misappropriation of provincial road funds in Langkat Regency, which were budgeted for in the North Sumatra Regional APBD of Langkat Regency for the 2020 Fiscal Year with a total of IDR 4,480,000,000 (IDR 4.48 billion) and realized of IDR 2,499,759,520 (IDR 2.9 billion). However, the work results found many additional irregularities during the implementation of these activities, as evidenced by the many inter-regional connecting roads in Langkat Regency that still needed repairs, changes to activity accountability documents, implementation of fictional works, and a decrease in the number of works. Distributed based on the actual value and condition of field fixed assets.

Another incident is the neglect of building assets by the Medan City Government, especially in the Kesawan Area, a historical area left by the Sultanate of Deli in Medan City, which is starting to lose its reputation (Tampubolon et al., 2020). According to Tegar's research (2017), an image is projected from the side of a building in the Kesawan neighbourhood, raising design standards to enhance the neighbourhood's reputation. The government needs to pay more attention and concern in using money to maintain regional assets, as shown by the abandonment of assets that the government should maintain. Meanwhile, the government publishes the budget realization, but buildings and other infrastructure still need to be addressed.

Another asset that has received little attention from the Medan City Government is the land of the former Ria Park, which has been abandoned for 11 years. There is now a clear plan for constructing the Jalan Gatot Subroto playground. In 2003, Pemko Medan and PT Smile, the developer, reached an agreement regarding the Right to Cultivate (HPL). The land belonging to Pemko Medan will be used by PT Smile for

25 years, or until 2028, according to the agreement. However, PT Smile has yet to realize the agreement after 11 years. As a result of the developers needing to keep their annual royalty promises, Pemko Medan suffered losses. Pemko Medan is entitled to get royalties starting from IDR 250 per year. However, because the construction of the children's playground has yet to be completed, Pemko Medan does not receive money from these third parties (SumutPos.co, 2014). The existence of these problems caused enormous losses for the Medan City Government and the government should have been firm in acting against PT Smile regarding the maintenance of the park.

The process of drafting a government organization's budget is one of the crucial processes in realizing regional development goals. Therefore, the government must review how its budget was realized in the previous period when compiling a budget to support regional or village development implementation. However, when preparing the budget, the legislator's political considerations result in a distorted allocation of capital expenditure, often ineffective in solving social problems. In rural areas, it is often a need that is not owned by the community but needs to be fulfilled.

In addition, things that are not in line with the implementation of the maintenance budget are not seeing the functions or benefits of a construction or maintenance being carried out, so this can be a factor of irregularities or abuse in the budget. According to Rohmah et al. (2021) said that maintenance costs incurred, even if they do not increase capacity, improve output quality, or extend the future useful life of fixed assets, are still classified as maintenance costs in the financial statements.

The LAKIP (Government Agency Performance Accountability Report) shows it, which is mostly still a formality and needs to provide measurable performance information. Even regional heads do not

understand the importance of a performance-based budgeting system; they only understand that SKPD's ability to spend the budget allocated for RKA without measuring performance achievements is a proxy for the successful implementation of development programs and activities (Nanda & Darwanis, 2019).

The current problem is that fixed asset reports presented in the Regional Government Financial Statements (LKPD) only sometimes accurately reflect the actual situation on the ground, including whether the fixed assets physically exist and, if so, in what condition. Appalling, substandard, badly damaged, or otherwise disadvantaged. Except for expressing an opinion on the North Sumatra LKPD for the 2019 Fiscal Year, the value of fixed and other assets in LKPD cannot be trusted because they need to be supported by adequate records and information and reflect conditions accurately.

LITERATURE REVIEW

Maintenance Budget

Dirgahayu et al. (2021) argue that public sector budgets serve as an accountability tool in managing public finances and implementing government-funded projects. A budget is a financial plan that includes all the elements and operations a public sector organization carries out in terms of income and expenditure in monetary units. A reasonable budget has four characteristics: fiscal discipline, efficient allocation of resources, technological efficiency, and transparency.

In preparing the Maintenance Budget, SKPD must be able to classify which expenditures are included in revenue expenditure and capital expenditure. Although not included in the cost of purchasing new fixed assets, actual capital expenditures will be added to the book value of these fixed assets to be included in the capital expenditure group. In the process of implementation, budget errors still frequently occur, and capital

expenditure to be capitalized is included in the maintenance expenditure group.

Actual maintenance expenditures for the current fiscal year are usually not considered when preparing the budget for the fiscal year. So, the maintenance budget does not need to be carried out and repeated. Heiling & Chan (2012) states that in developing the relationship between accounting and budgeting, preparing the upcoming fiscal year must pay attention to the financial accounting reports for the current fiscal year. Capital expenditure, the realization of fixed asset book value, and the realization of maintenance expenditure are essential for optimizing the process of preparing the maintenance budget.

Realization of Capital Expenditure

Capital expenditures issued by local governments are expenditures borne by the regions to provide services to the community whose benefits can be felt by the community directly or indirectly (Putri & Made, 2020). Considering the scope of regional development priorities, regional governments must manage capital expenditures following effectiveness, efficiency, transparency, and accountability principles. The main requirement for public services is that local governments have fixed assets due to capital expenditures. The regional government from the APBD distributes funding in the form of a capital expenditure budget to increase fixed assets.

Law Number 04 concerning Presentation and Disclosure of State Expenditures, an expenditure can be categorized as capital expenditure if:

1. Acquisition of fixed or other assets due to spending, adding to government assets.
2. Acquisition of fixed assets not intended for sale,
3. Spending on fixed or certain other assets that exceed the minimum capitalization limit in the local

government accounting policies.

The realization of capital expenditure is a term for allocating capital investment that has been issued previously. When capital expenditure is realized, fixed asset book value will increase. Maintenance costs are also affected by the purchase of fixed assets (Bland & Nunn, 1992).

Fixed Asset Book Value

In determining the budget amount for the purchase/procurement of fixed assets, the local government determines the Standard Unit Price and Standard Unit Cost each year which can be used as the maximum limit of fair prices in preparing the capital expenditure budget. Capital expenditure will be realized, which will increase fixed assets. The cost of acquiring fixed assets is calculated not only from the purchase price of fixed assets, the purchase price of fixed assets plus all additional costs incurred until the fixed assets are ready for use, such as transportation costs, trial costs, travel costs, and fees for services related to the acquisition of fixed assets. Other assets include planning consultant fees, supervisory consultant fees, software development costs, and installation.

Because accrual-based accounting uses depreciation, the value of fixed assets is sometimes different from when they were first purchased. The term "book value of fixed assets" refers to the value of fixed assets, also referred to as the carrying amount of fixed assets in accrual accounting. The value of the fixed assets minus the total cumulative depreciation is the book value. As a result of the actual capital expenditure, the book value of the newly acquired fixed assets equals their initial acquisition cost. Each fixed asset will depreciate over time, reducing the book value of the fixed asset. Fixed asset book value will only increase, and vice versa, after the capital expenditure is realized. Fixed asset book value will decrease yearly due to each fixed asset's loss over its useful life. Fixed asset book

value used in this study has a direct, positive, and significant effect on the maintenance budget.

Realization of Maintenance Expenditure

The direct expenditure category for goods and services expenditure items includes maintenance costs as one of the regional costs. Maintenance costs are incurred to maintain a current fixed asset or other assets in excellent operating condition, regardless of the amount incurred. Some examples of costs for maintaining facilities related to government administration include land maintenance, buildings and offices, official residences, official vehicles, repair of building facilities and infrastructure, roads, networks, irrigation, and machine tools.

After the purchase of fixed assets, additional costs must be incurred before the assets can be used, such as maintenance costs, renovation costs, replacement costs, and repair costs. After the acquisition, expenditures on fixed assets can be divided into two categories: Revenue expenditures are costs incurred to maintain the asset's functionality. Revenue expenditures are usually budgeted annually as routine expenses for maintenance, such as painting buildings, vehicles, and office equipment. Whereas capital expenditures are investments made after the initial purchase of fixed assets that increase financial returns in the future due to progress in production quality. Capital expenditure must be added to the book value of the fixed assets.

Previous Research Review

Research conducted by Jannah & Rivandi (2018) regarding the Effect of Maintenance Costs and Selling Prices on Income (Case Study at PT. Industry and Trade of the Karet Valley). This study shows that maintenance costs have no relationship with income at PT Industry and Trade Lembah Karet.

Research conducted by Sidabutar & Sinaga (2012) regarding the Effect of

Capital Expenditure and Fixed Asset Value on Maintenance Expenditures. This study shows that capital expenditure has a positive and significant direct effect on fixed asset value. Capital expenditure has a positive and significant direct effect on maintenance expenditure. The value of fixed assets has a positive and significant direct effect on maintenance spending. Capital expenditure has a positive and significant indirect effect and is greater than its direct effect on maintenance expenditure.

Solichin's research (2009) regarding the Effect of Regional Original Income and Transfer Income on the Relationship between Capital Expenditures and Maintenance Expenditures in the Regional Budget. This study shows that regional own-source revenue positively affects the relationship between capital expenditure for the current year and maintenance expenditure for the following year. Transfer income does not positively affect the relationship between capital expenditure for the current year and maintenance expenditure for the following year.

Research Rohmah et al. (2021) regarding the Effects of Capital Expenditures, Maintenance Expenditures and Goods and Services Expenditures on the Realization of the Village Government Budget. This study shows that capital expenditure significantly affects the Realization of Maintenance Expenditures. Expenditure on goods and services has no significant effect on Village Government Budget Realization.

Framework



Figure 1. Framework

H1: Realization of capital expenditure positively affects the maintenance budget.

H2: Realization of fixed asset book value positively affects the maintenance budget.

H3: Realization of maintenance expenditure positively affects the maintenance budget.

H4: Realization of capital expenditure, fixed asset book value and realization of maintenance expenditure simultaneously affect the maintenance budget.

MATERIALS & METHODS

The method used is causal research which aims to find out how the influence of the independent variables, namely the realization of capital expenditures, fixed asset book value, and the realization of maintenance expenditures on the dependent variable, namely the SKPD maintenance budget in the Medan city government by analyzing and testing quantitative data.

According to Sugiyono (2017), the population consists of items and people that match specific criteria set by researchers to be investigated to conclude. A saturated sampling strategy (census) is used to carry out the sample selection process because each member of the population is treated as a sample. In this study, the number of SKPD was 34 people x 4 years of research = 136 observations.

Information for this study was provided by the Financial Administration Section of the Medan City Secretariat, which collected all budget documents and Financial Reports of the Medan City SKPD. The data analysis used in this study is STATA version 12.

RESULT

Panel Data Regression Model Selection

variable of 83.49%. It explains 83.49% of the dependent variable, namely the Maintenance Budget. In contrast, the remaining 16.51% is influenced by other variables.

CONCLUSION

The results of this study provide several conclusions that can be drawn based on the discussion of the problems that have been carried out. The following are the conclusions that the author has summarized in this study:

1. In the City Government of Medan, SKPD Maintenance Budget is positively influenced by the Realization of Capital Expenditure.
2. In the City Government of Medan, SKPD Maintenance Budget is positively influenced by fixed asset book value.
3. In the City Government of Medan, SKPD Maintenance Budget is positively and significantly influenced by the Realization of Maintenance Expenditures.
4. The Realization of Capital Expenditure influences the Maintenance Budget for the Medan city government, Fixed Asset Book Value, and the Realization of Maintenance Expenditure simultaneously.

LIMITATIONS

The limitations that exist in this study are:

1. The realization of capital expenditure, fixed asset book value, and realization of maintenance expenditure are the independent variables examined in this study because the research is only limited to secondary data processing and does not conduct direct interviews with the parties involved.
2. The population studied was only SKPD in the City Government of Medan, with an observation period of 4 (four) years.

IMPLICATIONS

According to the research findings, the following conclusions can be made:

The notion of the Multi-Run Spending Framework (MTEF) states that when making capital expenditure decisions, the ability of local government and utility budgets to manage these assets in the long term must be considered. When capital expenditures are realized, an increase in the budget for maintenance costs is required. For these fixed assets to continue functioning at least during their useful life, it is also necessary to plan and calculate the realization of capital expenditures directly affecting the addition of fixed assets.

Declaration by Authors

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