



The Influence of Regional Original Income, General Allocation Funds and Regional Government Financial Performance on Capital Expenditures (Case Study in Districts and Cities in the South Sumatra Region)

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Abstract

This study aims to determine the effect of Local Own Revenue, General Allocation Funds and Regional Government Financial Performance on Capital Expenditures in districts and cities in the South Sumatra region. The object of this research is the district and city governments in the South Sumatra region, totaling 17 local governments and the research years from 2015 to 2019. The data used are secondary data and the research sample is a saturated sample because all research objects are sampled. The analysis technique uses multiple regression and the data is processed using SPSS software. The results showed that based on the simultaneous test, the variables of Regional Original Income, General Allocation Funds and Regional Government Financial Performance had a significant effect on capital expenditure. Based on the partial test, the variables of Regional Own-Owned Income and Regional Government Financial Performance as measured by the Level of Regional Wealth have a significant effect on Capital Expenditures while the General Allocation Fund variable has no significant effect on Capital Expenditures.

Keywords : local own revenue, general allocation fund, regional government financial performance and capital expenditure

1. Introduction

Law no. 23 of 2014 states that to implement Regional Government authority, the Central Government will transfer Balancing Funds consisting of General Allocation Funds (DAU), Special Allocation Funds (DAK) and Profit Sharing Funds (DBH) which are sourced from taxes and natural resources. Apart from these balancing funds, regional governments have their own funding sources in the form of Original Regional Income (PAD) and other income. Therefore, district/city governments are expected to be able to use regional funds effectively and efficiently in order to improve services to the community, accompanied by accountability for the use of these funds.

Regional Income according to Law Number 23 of 2014 is all regional rights that are recognized as an addition to the value of net assets in the relevant fiscal year period. Regional Income in the APBD structure is sourced from Original Regional Income (PAD), Balancing Funds and other Legitimate Income. The Regional Original Income (PAD) group is divided according to the type of income, consisting of regional taxes, regional levies, results of separated regional wealth management and other legitimate regional original income.

Each region has different financial capabilities in financing its activities, this creates fiscal imbalances between one region and another. Therefore, to overcome this problem, the government allocated funds sourced from the APBN to fund regional needs in implementing decentralization. One of the balancing funds from the government is the General Allocation



Fund. Capital Expenditure is part of regional expenditure which is also funded from the General Allocation Fund and is calculated by the regional government in the Regional Revenue and Expenditure Budget. This General Allocation Fund emphasizes aspects of equity and justice which are in line with the administration of government affairs. With this transfer from the center in the form of a General Allocation Fund, it is hoped that regional governments will be able to allocate the Regional Original Income obtained to finance Capital Expenditures in their regions (Karyadi, 2017)

2. Method

In this research, the data source used is secondary data obtained from annual reports at the Regency and City Regional Revenue Service Offices (Dispenda) in the Sumatra Region and then processed again by researchers. To meet data and information needs, researchers collected data using several data collection techniques, namely Documentation, namely written data issued by the relevant agency, in the case issued by the Palembang City Regional Revenue Service.

Population can also be defined as all units or individuals within the scope to be studied. The population in this research is the District Government in the South Sumatra region. According to (Sugiyono, 2015) the sample is part of the number and characteristics of the population and must be representative. The method used for sample selection in this research was saturated sampling. Saturated sampling is a sampling technique when all members of the population are used as samples. A saturated sample is also known as a census, where all members of the population are sampled. So in this study the samples were 17 (seventeen) district governments in the South Sumatra region as listed in the table above.

3. Results and Discussions

The Influence of Original Regional Income on Capital Expenditures

Based on the SPSS test results, a sig value of $0.000 < 0.05$ is obtained, so it can be said that the independent variable, namely Regional Original Income, has a significant effect on Capital Expenditure. According to Mahmudi's theory in Ari and Santi (2018: 1263), the higher a region's ability to obtain and explore its Original Regional Income, the higher the regional expenditure will be to increase its Original Regional Income which is in line with desires, needs and development. Based on the opinion above, it can be concluded that, Original Regional Income is income that is actually obtained and extracted from the potential income that exists in an area based on regional regulations and applicable laws where Original Regional Income is one of the sources used to finance implementation of regional government and regional development. This is also in accordance with Law Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments, Article 1 number 18, Original Regional Income is income obtained by regions and collected based on regional regulations in accordance with statutory regulations. Based on data from PAD research in the South Sumatra region in table 4.2, it can be seen that every year PAD experiences a significant increase, especially in Palembang City, MUBA Regency and Banyuasin Regency. This shows the regional government's ability to finance its expenditure, including capital expenditure. So that PAD supports the government in preparing regional funds and capabilities to spend capital expenditure.

The Influence of General Allocation Funds on Capital Expenditures

The SPSS test results obtained a sig value of $0.120 < 0.05$, so it can be said that the independent variable, namely the General Allocation Fund, has an effect but is not significant on Capital



Expenditures. According to Law no. 33 of 2004 explains that DAU is funds obtained through domestic revenues given from the center to regional governments with the hope of financial justice between regions which are used to finance spending needs to implement decentralization. The financial capacity of each region is different in carrying out activities, especially in fiscal decentralization. Due to this problem, the central government has made a transfer policy from the center to the regions. According to the DAU theory (Karyadi, 2017), it is a Block Grant transfer, meaning its use is handed over to the regions for improving services to the community in the context of implementing regional autonomy. DAU is allocated to provincial and district/city areas. The amount of DAU is set at at least 26% of the Net Domestic Income (PDN) specified in the APBN. The proportion of DAU for provincial and district/city areas is determined in accordance with the balance of authority between provinces and districts/cities. Based on the research results above in table 4.2, it can be seen that the DAU for districts/cities in the South Sumatra region has increased every year. The largest DAU is in Palembang City and the smallest DAU is in Penukal Abab Regency. However, the allocation of general allocation funds is mostly allocated for personnel expenditure so that capital expenditure is not a top priority for regional governments so that it does not become a special source of funds for capital expenditure. Therefore, the General Allocation Fund has an effect on Capital Expenditures but it is not significant, even for local governments in the South Sumatra region it has a negative effect.

The Influence of Regional Government Financial Performance (Regional Wealth Level) on Capital Expenditures

The SPSS test results obtained a sig value of $0.000 < 0.05$, so it can be said that the independent variable, namely the financial performance of the Regional Government as measured by the level of regional wealth, has a significant effect on Capital Expenditures. According to theory, whether regional financial performance is good or not according to Deni and Henny (2018: 4718) can be seen by conducting financial ratio analysis. Whether regional financial performance is good or not can be seen by conducting financial ratio analysis. The regional financial performance indicators used can be measured by the degree of fiscal decentralization ratio, financial independence ratio, PAD effectiveness ratio, regional wealth level (TKD) ratio, regional financial efficiency ratio, budget balance ratio, and BUMD contribution. In this study, regional wealth level variables were measured using PAD compared with total income as a proxy for measuring regional wealth levels. Based on the research results in table 4.3, it can be seen the capability or level of regional wealth. The higher the regional wealth, the more it supports the region to own the assets it owns and this supports the regional government to spend its capital. This supports the research results that Regional Financial Performance is measured by the level of Regional Wealth has a positive and significant effect on Capital Expenditures.

4. Conclusion

Based on the research results, conclusions can be drawn as follows following:

1. Simultaneous test results obtained a sig value of $0.000 < 0.05$, so it can be said that the independent variables, namely PAD, DAU and regional wealth levels simultaneously have a significant effect on capital expenditure.
2. Based on the partial test results for the variable Original Regional Income on Capital Expenditure, the test results obtained a sig value of $0.000 < 0.05$, it can be said that the independent variable, namely Original Regional Income, has a significant effect on Capital Expenditure.



3. Partial test results for the General Allocation Fund variable on Capital Expenditures, the test results obtained a sig value of $0.120 < 0.05$, so it can be said that the independent variable, namely General Allocation Funds, has an effect but is not significant on Capital Expenditure.
4. The partial test results for the regional government financial performance variable as measured by the level of regional wealth obtained a sig value of $0.000 < 0.05$, so it can be said that the level of regional wealth has a significant effect on capital expenditure.
5. Based on the results of the determination test (R^2) the resulting *Adjusted R square value is 0.524*, which means that the percentage contribution of the influence of the independent variables, namely PAD, DAU and the level of regional wealth on Capital Expenditures, is 52.40%, while the remaining 47.60% is influenced by other variables. which are not included in this model.

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