

Capital Expenditure Allocation Analysis Of Local Governments

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Abstract

*Because of the resources limitation so resource allocation is a fundamental issue for public sector budgeting especially revenue and expenditure calculation. Regional budget distribution shows local government policies on development funding whereas capital expenditure is concerned with a component of direct expenditure of government budgets that deliver output in the form of fixed asset. This study purposes to determine factors that impress capital expenditure allocation of local governments, are Economic Growth and Regional Revenue (PAD). The population of this study is 35 local governments in the Province of Central Java, Indonesia. By employing multiple regression analysis, *t* and *F* test on secondary data from the 2015-2020 Budget Realization Reports of local governments in the Central Java Province, the result shows that economic growth and regional income partially and simultaneously have a positive effect on capital expenditure. These findings imply that local governments should look more carefully at managing their finances, have a strong desire, and provide capital for capital expenditures that have implications for the long-term welfare of local communities. The limitation of this research is that this research is carried out with a quantitative approach and to find out the real conditions in decision making on local government budgeting, it is recommended for further research to use a mixed quantitative and qualitative method.*

Keywords: *Economic Growth, Regional Revenue, Capital Expenditure Allocation*

I. INTRODUCTION

Fiscal decentralization is reform of local financial management in Indonesia, purpose to encourage the realization of good governance. Adopt like that can be related to the successful implementation of local government supervision in some developed countries, such as USA, New Zealand, Australia, France, Italy and Germany (Lapsley & Pallot, 2002); Netherlands, UK (Fryer, at.,al., 2009; Almquist, at.,al., 2013); Norway and Russia (Adhikari, at.,al., 2015). The adoption of control system in public sectors is another example of such reforms (Blondal, at.,al., 2009; Blondal, 2010; Moll & Hoque, 2011). Regional autonomy, in the Indonesia context, is seen as one of significant changes resulted from the public sector reform.

Regional Government regulates regional autonomy that grants local governments much more authorities to administer its own region with little assistance from the central government (Law number 32, 2004). Accordingly, local governments have the discretion to use their financial resources to determine the allocation of resources for regional expenditures; by adhering to the principles of compliance, needs, and local capabilities as well as the aspirations of communities listed in local government budgets (Shah & Chen, 2007; Ter Bogt, 2008; siddiquee, 2010; Kuntari, 2010; Chariri, 2017).

This is also emphasized on Law Number 2 (UU RI, 2015), objectives of fiscal decentralization within the frame work of the implementation of regional financial management in Indonesia is for fiscal sustainability, corrects vertical imbalance and horizontal imbalance, reduces dependency regional levels to the center, augmentative accountability, effectiveness and efficiency in the framework of improving regional performance, improving the quality of public services, also increasing public participation in decision making in the public sector (Mardiasmo, 2009). Refer to signaling theory describes the ways the management (Local government) should

give a signal to the users (society) of financial statements (APBD); define that managers serve information through financial statements that they apply Government Accounting Standards to result transparent and accountable reports (Bastian, 2001; Dalimunthe, at.,al., 2016; Haryanto, 2013; Lubis, at.,al., 2016; Muda, 2016). Regional Revenue and Expenditure Budget (APBD) describes regional revenue plans and regional expenditure allocation (Saragih, 2013). APBD consists of regional income, regional expenditure, and regional financing; is an annual financial plan of local government discussed and agreed by Assembly at Regional also determined by local regulations. APBD is the basis of local financial management which is a guide in providing services to the public within a fiscal year. The local government will select the priority of activities; selected activity implies the policy of local government in considering public welfare.

Local government services to the public is the existence of public facilities allocated in local budgets in capital expenditure items (Lapsey, at.,al., 2010). Capital expenditure allocation is based on regional needs for facilities and infrastructures for both government and public facilities. Budget period for the procurement of local government fixed assets is based on budget priorities and public services that have long-term impacts (Kelly & Rivernbark, 2011). In the regional budgeting practice, resource allocation into expenditure estimate is a process that is full of political interests (Chang, 2009; Jones, 2010). The capital budget is aimed at meeting public needs for public facilities provided by the local government. The involvement of legislative bodies with their political interests in the budgeting process often causes the allocation of capital expenditures to be distorted and ineffective in solving problems in society (Keefer & Khemani, 2003). Capital expenditure allocation relates to long-term financial planning, not only for procurement, but also for the maintenance of the asset. Therefore, capital expenditure policy should pay attention to the benefits and financial capacity of local government in the long term (Allen & Tommasi, 2001).

Capital Expenditure Allocation at the Regency / City government level in Central Java Province for the period 2015 - 2020 is approximately 19% (Finance Ministry, DJPK, 2020) ; the lowest achievement was in Batang 9% - 14%, while the highest allocation was in Semarang City and Banjarnegara Regency, the range of 20% - 29%. This means that 94% of local government in Central Java Province is still far from the target of the Central Government, that the portion of capital expenditure should be able to reach at least 30 percent of APBD revenues (DGRFM, 2013).

Article 66 (UU RI, 2004) regional finance should be managed in an orderly, law-abiding, efficient, economical, effective, transparent, and accountable manner with due regard to justice, compliance and benefits to the community. Capital expenditure allocation such as facilities and infrastructure, infrastructure in the form of land, equipment and machinery, buildings, roads, networks and irrigation and other fixed assets, is expected to encourage increased regional economic growth through improved investment climate area (Novianto, 2015; Oktrinriatmaja, 2011; Wandira, 2013). Study analyze and test the impact of Local Governments financial performance, by proxy of Fiscal Space Ratio to the Capital Expenditure Allocation, with Accountability as a moderating variable. This research also analyzed and tested the impact of Capital Expenditure on the Economic Growth; by the population of all of the Local Governments in Indonesia and was executed by Structural Equation Modeling (SEM) method. This research was done by making a lag period of the Financial and Budget Year of 2008 to 2012.

The result showed that the Capital Expenditure Allocation was influenced by Fiscal Space Ratio, but the Accountability could not be a moderating variable between Fiscal Space Allocation Ratio and Capital Expenditure. Besides, the Economic Growth was influenced by the Capital Expenditure Allocation (Widaninggar, at.,al., 2019). Study is to examine the factors affecting capital expenditure in Indonesia. The independent variables used are The Effects of Financing Surplus, Total Population and Regional Sizes and the dependent variable used is The Effects of Financing Surplus. This type of research is a causal associative research. The type of data used is secondary data in several provinces in Indonesia with multiple regression

analysis. The results significantly show the determinants of capital expenditure allocation in Indonesia are affected by Financing Surplus, Total Population and Regional Sizes (Muda & Naibaho; 2018).

Indicator of the welfare of the community is economic growth. Economic growth also signifies the successful development of a region. If economic growth increases then the level of people's welfare and productivity will be higher, so unemployment is reduced, and poverty goes down. Economic growth can be achieved when APBD expenditure is allocated efficiently and effectively, meaning that budgeting focuses on programs that can drive the wheels of the community's economy (Gunantara, 2014; Hendriwiyanto, 2014; Pujiati, 2006; Sumartini, 2015; Taaha, at.,al., 2009). Elsiyera & Abdillah (2017) Examines the mediating effect of capital expenditure on the relationship between regional revenues, general allocation fund, specific allocation fund, and tax sharing fund/nontax sharing (DBH) on the economic growth. Secondary data were collected from 10 regencies in Bengkulu Province for the period of 2009 to 2015. The results showed that capital expenditure did not mediate the relationship between regional generated revenues, general allocation fund, specific allocation fund, and tax sharing fund/nontax sharing to economic growth. Meanwhile, general allocation fund has a positive effect on economic growth. Regional generated revenues and specific allocation fund have negative effect on economic growth, regional revenues and specific allocation fund also have positive effect on capital expenditure. Prihastuti, at.,al. (2015) Progress an area can be shown by good economic growth, in which one of the factors that influence economic growth is investment, the indicators is capital expenditure issued by local governments. Their study aimed to determine the influence of regional financial performance impact allocation of capital expenditure and economic growth. Data analysis methods using Path Analysis with Partial Least Square (PLS) Program. The result of this study shown that financial performance influenced allocation of capital expenditure.

Ha1 : Economic Growth significant effect on Capital Expenditure Allocation

Execution of fiscal decentralization through the pattern of balancing funds is expected to create an increase in regional economic activity that in real terms have an impact on increasing regional independence through increasing PAD. Digging of local tax potency, regional retribution, result of separated regional wealth management and other legitimate PAD for the improvement of PAD should duly improve the regional capability in allocating capital expenditure for infrastructure development well (Pribadi, 2015; Purnama, 2014; Tarmizi, 2016). Prior empirical studies have found a positive influence of PAD on capital expenditure (Kusnandar, 2012; Solikin, 2007; Sugiathi, at.,al., 2014). PAD encourages Local Governments to realize capital expenditures for the next year. Increased capital investment is expected to improve the quality of public services (Kuncoro, 2014). PAD becomes one of the decisive factors in determining the allocation of capital expenditure. The larger PAD received will increase the allocation of regional capital expenditures that ultimately drive economic growth. Therefore, the proposed hypothesis is as follows.

Ha2 : PAD significant effect on Capital Expenditure Allocation

II. RESEARCH METHOD

This research approach is quantitative with associative methods (Sugiyono, 2019); the independent variable used is Economic Growth and PAD, while the dependent variable is the Capital Expenditure Allocation. Of the three variables, the scale used is the ratio, where of the 35 districts / cities in Central Java Province as the entire population is taken as a sample, namely the total census / sampling, for the period 2015-2020 while the data for Economic Growth uses data on Gross Regional Domestic Product (GRDP) obtained from the Central Statistics Agency (BPS) Central Java Province; so that the data obtained is 175 (BPS, 2020).

The data analysis technique used in this research is Parametric statistics with the help of IBM Statistical Package for Social Sciences program 25.0 version (SPSS). On the other hand, a literature review method through secondary information such as various books, journals and websites was also conducted.

III. RESULT AND DISCUSSION

From the data tabulation on the independent and dependent variables sourced from BPS and DJPK, a classical assumption test was carried out consisting of normality, multicollinearity, heteroscedasticity, and autocorrelation tests. Regarding the variables of economic growth, PAD and the allocation of capital expenditures, it can be concluded that these variables are normally distributed. This is also reflected in the P-P plot graph as follows:

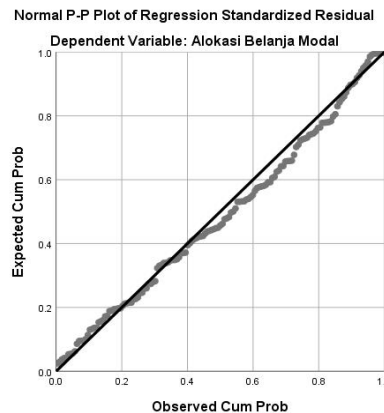


Fig 1. P-P plot graph

Source: The results of data processing using SPSS 25

For other tests, the results showed that there was no multicollinearity, heteroscedasticity did not occur, and there were no problems with autocorrelation. From the results of the Multiple Linear Regression Analysis, the output is as follows:

Table 1. Multiple Linear Analysis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.079	0.033		2.384	0.018
	Economic Growth	1.517	0.667	0.198	2.242	0.026
	Regional Revenue	9.554E-14	0	0.202	2.289	0.024

1. Dependent Variable : Capital Expenditure Allocation

Source: The results of data processing using SPSS 25

With the formula:

$$Y = 0,079 + 1,517X_1 + 9,554X_2 + \varepsilon$$

For the coefficient of determination, the value of R square is 0.118 or 11.8%, which means that the independent variables, namely Economic Growth, and Local Own-Owned Income together have an effect of 11.8%. While the remaining 88.2% is an influence explained by other factors not included in this study. The t test (see table 1 above) The Economic Growth variable has a significance value of $0.026 < 0.05$ and a tcount of 2.242.

t table 1.97623, means that economic growth has a significant positive effect on Capital Expenditure Allocation. Local Own Income Variable has a significance value of $0.024 < 0.05$ and a tcount of $2.289 > t$ table of 1.97623, it is concluded that local revenue has a significant positive effect on Capital Expenditure Allocation. Likewise for the results of the F statistical test, the significance value of the regression model F is $0.000 < 0.05$ and the Fcount value is $9.904 > F$ table 3.06 which means that the independent variables in the regression model, namely Economic Growth and Local Own Income simultaneously have a significant effect on the dependent variable, namely Capital Expenditure Allocation.

From the data tabulation, the economic growth rate in all Regencies / Cities of Central Java Province for the period 2015 – 2020 has an annual average of 5.27%, higher than the national economic growth of 5.02% ; while the average PAD achievement each year exceeds the target. From these two things, ideally the allocation for capital expenditure is at an optimal level, in fact it is only +/- 19%, far below the government's target (30%); this is in line with (Nurlis, 2016) which shows that PAD has no effect on capital expenditure. Likewise, the level of economic growth does not have a significant effect on the allocation of capital expenditure (Sularso & Restianto, 2011). In fact, in the long term it is very beneficial for the local community.

The process of determining the APBD, including the allocation of capital expenditures, must have a strong commitment from political stakeholders in the local area (Abdullah, 2006; Keefer, 2003; Imbeau, 2003); trying to get rid of dependence on central government assistance in the form of General Allocation Funds (DAU), Special Allocation Funds (DAK) in increasing regional financial independence (Anrianti, 2010; Kuspita, 2015). Article 66 of Law number 33 (2004) mandates that regional finance should be managed in an orderly, law-abiding, efficient, economical, effective, transparent and accountable manner with due regard to justice, compliance and benefits to the community.

The law provides a framework to local governments in managing local finances to provide the greatest benefit to the community. That is, the allocation of development Expenditure that will increase capital investment in the form of fixed assets ie equipment, buildings, infrastructure and other fixed assets by the local government is absolutely done. The higher level of capital investment is expected to improve the quality of public services. The allocation of capital expenditure is based on the regional need for facilities and infrastructure, both for the smooth implementation of government duties and for public facilities. Improving public services is expected to encourage a better investment climate in the region so it can be an attraction for investors to open businesses in the region.

IV. CONCLUSION, IMPLICATION, LIMITATION

Based on the data analysis the following conclusions can be drawn from this research: Partially, the variables Economic Growth, and Regional Revenues had a significant effect on the Capital Expenditure Allocation of Districts / Cities in Central Java Province; the same thing happens in simultaneous testing. In fact, the allocation of capital expenditure for the last 5 years is still below the government's target. An integrated and sustained monitoring, evaluation, and assessment should be carried out by the central government, the Inspectorate, and Indonesian Supreme Audit Institution (BPK) on the allocation of productive capital expenditure in the management of expenditure.

Further research can be done by connecting these research variables with a Trust Theory as a measure of accountability. In addition, these variables can also be linked to other moderation variables, such as the targets of each Regency/City contained in the Government Work Plan (RKP) as well as the Medium-Term Development Plan (RPJM) also the Long-Term Development Plan (RPJP). It is suggested to use mixed quantitative and qualitative method is better for exploring the problem in more depth.

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