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The Effect of Original Regional Income and General Allocation Funds on Capital Expenditure of Central Sulawesi Province The Year 2015-2019

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A B S T R A C T

This study mainly aims, first, to find out the significant evidence of the effect of local revenue on capital expenditures in Central Sulawesi Province, Second, to understand the significant evidence of general allocation funds' effect on capital expenditures in Central Sulawesi Province, Third, to analyze the significant evidence of local revenue and general allocation funds simultaneously on capital expenditure in Central Sulawesi Province. The type of research used is quantitative data. Funds used in this research are secondary data provided by the Directorate General of Fiscal Balance (www.djpk.kemenkeu.go.id) by making Central Sulawesi Province which consists of 13 districts and municipality into the area under study. The results showed partial hypothesis testing that, first, Local Own Income (X1) has no significant effect on Capital Expenditures (Y). Second, General Allocation Fund (X2) has no significant effect on Capital Expenditure (Y). Meanwhile, the simultaneous hypothesis testing results show that Local Own Revenue (X1) and General Allocation Fund (X2) have a significant effect on Capital Expenditure (Y).

Keywords: *Regional Original Income, General Allocation Fund, Capital Expenditure.*

JEL Classification Code: E10, E25

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INTRODUCTION

Regional Autonomy is the right, authority, and obligation of the region to regulate and take care of its government affairs and the interests of the local community following the laws and regulations. Regional autonomy provides flexibility for the government to manage the resources owned following the interests, priorities, and potential of the area itself. To encourage builders in the era of Fiscal Decentralization, it is expected that there will be an increase in services in various sectors. Consequently, the government needs to provide a greater allocation of spending. One of the expenditures made by the government is capital expenditure.

According to Kuncoro, increasing the allocation of capital expenditure in the form of fixed assets that include infrastructure, equipment, facilities, and infrastructure is very important to increase economic productivity because if capital expenditure increases, it also increases economic productivity. Therefore, the existence of regional autonomy is very influential on a region because it gives freedom to local governments to make their financial plans and make strategic policies that can affect the progress of the region.

The implementation of the regional economy both in the province, district/city provides flexibility to the local government to explore the potential of financial resources in the area while being able to allocate resources to regional spending according to the needs and aspirations of the people in the area. The more financial resources that are successfully explored in an area, will increase regional revenues that should encourage local governments to carry out regional development realized in the procurement of facilities, infrastructure, and infrastructure facilities aimed at the public interest.

As stipulated in article 6 of Law No. 33 of 2004, sources of Local Original Income (PAD) consist of local taxes, local levies, separated wealth management proceeds, and other legitimate original income. Regional financial management policy adjusts to the situation with the condition and potential of the region concerning Law No. 32 of 2004 on Local Government. In allocating, both routine and development budgets always adhere to the principle of balance, efficiency, and effective productivity. Budget routines are directed to support the smooth functioning of government and development to improve sectors in support of improvement and improvement of facilities and infrastructure that can help the progress of growth and society becomes a priority scale.

If the infrastructure is smart then the community will be able to do daily activities safely and comfortably which will eventually work at an increasing level of productivity. With the availability of adequate infrastructure, investors will be interested in opening a business in the area. Increasing religion original Income will have an impact in the next period, namely community productivity increases and increasing investors will increase capital expenditure. Further increases in economic activity are expected to encourage economic growth that will improve the welfare of its people in regional spending theory,it is explained that government spending on the development of activities will increase the economic activity of a country (Sukirno,2006). When associated with the realization of the budget, the greater the effect on the welfare of a region.

The financial ability of each region is not the same in funding various activities, it causes a fiscal gap between one region and another, demanding a fairer and transparent balance between the central and local governments that have an impact on the flow of transfer funds to the region. To overcome this fiscal gap, the government allocates transfer funds sourced from the state budget to fund regional needs in the implementation of decentralization. Based on Law No. 33 of 2004, one of them is the General Allocation Fund (DAU) is one of the Balance Funds from the government whose allocation emphasizes aspects of equality and justice in line with the implementation of government affairs (Law 32/2004). With the transfer of funds from the central government, it is expected that the local government can further allocate the PAD it gets to finance capital expenditures in its area. However, in practice, the transfer of funds sourced from the state budget is the main source of local government funding to finance its main day-to-day operations. The General Allocation Fund is the main buffer of APBD financing which is mostly absorbed for employee spending so that spending on development projects is greatly reduced. In its contribution to APBD where the greater the contribution of PAD to APBD, the less dependent on central government assistance.

The high proportion of the General Allocation Fund versus The Local Original Income (PAD) illustrates that regional receipts are highly dependent on central government financial assistance. This does not reflect the emergence of independence as the purpose of implementing regional autonomy. However, in the long run, this kind of dependence should get smaller (Harianto and Proyo). Low revenue receipts such as receipts from local levies, local taxes, segregated wealth management proceeds, and other legitimate PAD will result in a decrease in local revenue revenues whose impact on the regions will depend on central government financial assistance. The Regency / City Government of Central Sulawesi Province consisting of regencies/ cities in the next few years the proportion of general allocation funds (DAU) to the region is still very high compared to other regional revenues including Regional Original Income (PAD). This shows the high dependence of local governments on supplies from the Central Government, causing the unstable contribution of Local Original Income (PAD) to the budget.

Based on Law No. 33 of 2004 mentioned that The Original Regional Income is the income earned by the region collected based on local regulations following the laws and regulations. Regional autonomy will provide opportunities for local governments to explore the potential of existing financial resources. This will certainly increase the original income of the region which will encourage the local government to carry out regional development such as infrastructure facilities, infrastructure, and also facilities for the benefit of the community. Every region that has adequate facilities and infrastructure will affect the productivity of its people and attract investors to invest which will certainly increase the original income of the region to make the local government increase its capital expenditure. Juniawan & Suryantini (2018) stated that Regional Original Income has a positive effect on Capital Expenditure.

The implementation of Decentralization, where the central government hands over its authority to the local government will provide consequences where the central government provides state financial resources to the local government. This balanced fund aims to reduce the fiscal gap between the local central government and between the local government and the area itself. Government Regulation No. 55 of 2005 states that the General Allocation Fund is a fund derived from the state budget allocated with the aim of financial equalization between regions to finance spending needs in the framework of decentralization. That way, the transfer from the central government to the local government then the local government can use the funds to improve public services and realized them through capital expenditure. According to Kurniawan (2010), the general allocation fund is a block grant that is a grant whose use is quite flexible (in the sense that there is no prohibition) as well as category grants. These grants are used for many purposes according to their needs. The results of Wiwied Windari 's research (2017) stated that the General Allocation Fund has a significant effect on Capital Expenditure.

Law No. 32 of 2004 on Local Government explains that the granting of Regional Autonomy to local governments is directed to accelerate the realization of community welfare through improving services, empowerment, and community participation. With this regional autonomy, it will give freedom to the local government to explore again the potential financial resources in the area so that these financial sources can be used to finance regional spending. Nordiawan (2006) said that Capital Expenditure is spending carried out by the government that produces certain fixed assets. Capital expenditure is intended to obtain local government fixed assets, namely equipment, buildings, infrastructure, and other fixed property.

Regional Original Income (PAD) is income earned by the region collected under local regulations following the laws and regulations (Law No. 33 of 2004). Local Original Income (PAD) is obtained from direct dues from the community, such as local taxes, local levy proceeds, and so on. Because the financial capabilities in each region are not equal, it causes a fiscal gap between regions. To overcome this in addition to the existence of Regional Original Income (PAD) used for capital expenditure, the government provides transfer funds sourced from the State Budget to fund regional needs, namely balance funds, one of which is the General Allocation Fund (DAU). General Allocation Fund (DAU) is a fund sourced from APBD revenue allocated with the aim of equitable distribution of financial capabilities between regions, to fund regional needs in the framework of decentralization implementation. Luh Putu Mayasari, et al (2014) stated that The Original Regional Revenue and General Allocation Fund had a significant effect on Capital Expenditure.

METHODOLOGY

The research method used in this research is to use quantitative research. This method is called the quantitative method because the research data is in the form of numbers. The data that has been collected is further analyzed quantitatively / statistics so that the hypothesis formulated can be proven or not. The data used in this study are data on Regional Original Income (PAD), General Allocation Fund (DAU), and Regency/City Capital Expenditure in central Sulawesi Province in 2015-2019. In this study, the free variable is the original income of the region and the general allocation fund while the variable tied is capital expenditure. The data used is time-series data. Data taken using documentation methods in the form of data on the realization report of the Regional Budget for the fiscal year 2015 - 2019 is taken from data that has been published by the Directorate General of Financial Balance through the website of www.djpk.kemenkeu.go.id.The population in this study is all districts/cities in Central Sulawesi Province consisting of 12 districts and 1 city. Hypothesis testing in this study used the T-Test and the F Test using multiple linear regression analysis techniques using the help of SPSS Version 21.

RESULT AND DISCUSSION

1) Mulikolinearity Test

TABLE 1.
Coefficients[a]

Type		Collinearity Statistics	
		Tolerance	VIF
1	X1. PAD	.819	1.221
	X2. DAU	.819	1.221

a. Dependent Variable: Y.BM

Based on the table above, the output coefficient with a tolerance value of each variable for variable X1 of 0.819 > 0.1 and a VIF value of 1.221 < 10 can be concluded that there is no multicollinearity For variable X2 tolerance value of 0.819 > 0.1 and VIF value of 1.221 < 10, it can be concluded that multicollinearity does not occur.

2) Heterocedasticity Test

TABLE 2.
Coefficients[a]

Type		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-8.921E-6	33921571868.352		.000	1.000
	X1. PAD	.000	.104	.000	.000	1.000
	X2. DAU	.000	.060	.000	.000	1.000

a. Dependent Variable: ABRESID

Based on the results of the glejser test above it can be seen that the significant value of each independent variable, namely the original regional income (X1)of 1,000. > 0.05 with the conclusion that there is no heteroskedasticity and a significant valueof the General Allocation Fund (X2)of 1,000 > 0.05 which means no heteroscedasticity.

3) Autocorrelation Test

TABLE 3.
Model Summary

Type	R	R Square	Adjusted R Square	Std. An error of the Estimate	Durbin-Watson
1	.426[a]	.181	.155	56980829383.275	1.751

a. Predictors: (Constant), X2. DAU, X1. PAD
b. Dependent Variable: Y.BM

In the table above, the sum of data (n) is 65, at a significance level of 5% and the number of independent variables 2 (k=2) can be seen in the Durbin-Watson table has an upper limit value (dU) of 1.5355, and a lower limit value (dL) of 1.6621 and in the table above the Durbin-Watson value of 1.751. Since the upper limit value (Du) is 1.5355< the values DW 1.751 and < 4 - Du (4 - 1.5355) it can be concluded that there is no or no autocorrelation in this research model.

4) Multiple Linear Regression Analysis

TABLE 4.
Coefficients

Type	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	159124100759.868	33921571868.352		4.691	.000
X1. PAD	.206	.104	.251	1.977	.052
X2. DAU	.119	.060	.253	1.994	.051

a. Dependent Variable: Y.BM

Based on the results of data processing through the SPSS21 program obtained regression equations for this study.

$$Y = 159124100759.868 + 0.206X_1 + 0.119\ X_2$$

Where:

a. The constant of 159124100759,869 states that if the Regional Original Income (PAD) and the The general allocation fund (DAU) are worth zero then the capital expenditure is 159124100759,868.

b. The regression coefficient of Regional Original Income (PAD) of 0.206 is positively stating that any addition of Regional Original Income (PAD) of 1% will increase the value of capital expenditure by 0.206 by keeping other variables / constant.

c. The general allocation fund (DAU) regression coefficient of 0.119 is positive stating that any addition of the General Allocation Fund (DAU) of 1% will increase the value of capital expenditure by 0.119 by keeping other variables constant.

5) Partial Test (T-Test)

TABLE 5.
Coefficients[a]

Type	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	159124100759.868	33921571868.352		4.691	.000
X1. PAD	.206	.104	.251	1.977	.052
X2. DAU	.119	.060	.253	1.994	.051

a. Dependent Variable: Y.BM

1) Effect of Local Native Income (PAD) on Capital Expenditure
Based on the results of data analysis that has been done with the IBM SPSS Program Version 21 obtained a count value of 1.977 with a significance of 0.052. The $_{table}$ t value was obtained 1.99897 with the decision of the test result i.e. H_0 accepted and H_a rejected because $t_{calculated} < t_{table}$ 1.977 <1.99897 with a probability value of significance > 0.05 which is 0.052. The conclusion is that The Original Regional Income has no significant effect on Capital Expenditure.

2) The Effect of General Allocation Funds (DAU) on Capital Expenditure
Based on the results of data analysis that has been done with the IBM SPSS Program Version 21 obtained a $_{calculated}$ value of 1.994 with a significance of 0.051. The value of t_{table} is obtained 1.99897 with the decision of the test result i.e. H_0 accepted and H_a rejected because $t_{calculates}$ the < t_{table} 1.994 >1.99897 With the probability value of significance > 0.05 which is 0.051. The conclusion is that the General Allocation Fund has a significant positive effect on capital expenditure.

6) Simultaneous Test (Test F)

TABLE 6.
ANOVA

	Type	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	445544483.000	2	2227722.000	6.861	.002[b]
	Residual	201302524.000	62	3246814.000		
	Total	245856973.000	64			

a. Dependent Variable: Y.BM
b. Predictors: (Constant), X2. DAU, X1. PAD

Based on the table above, it can be seen that the value of F_{count} obtained by 6.861 is greater than F_{table} 3.14. It can also be strengthened by looking at a significant level of 0.002 or significance gained less than α = 0.05. This means that H_0 is rejected and H_a is accepted. It can then be concluded that The Original Regional Income ($X_{1)}$and The General Allocation Fund ($X_{2)}$have a significant effect on Capital Expenditure (Y).

Discussion

Based on testing that has been carried out partially, it is known that Regional Original Income does not have a significant effect on Capital Expenditure. In the analysis, it can be seen that the amount of local income in regencies/ cities in Central Sulawesi Province is still relatively low. This is because the original regional income obtained has not been too optimal, which is due to the limited ability of each region to explore potential financial resources with its own capabilities. Then, based on the results of the study, it was found that the General Allocation Fund did not have a significant effect on Capital Expenditure.

This is because the general allocation funds obtained in regencies/cities in Central Sulawesi Province are widely used for operating expenditures consisting of grant expenditures, social assistance expenditures, employee expenditures, subsidy expenditures, and financial assistance expenditures. Meanwhile, simultaneously, local revenues and general allocation funds have a significant effect on capital expenditure. this is because local revenues and general allocation funds are both sources of APBD revenue that will be used to finance government affairs including capital expenditures to improve the quality of public services.

CONCLUSION

The implementation of decentralization carried out by the central government to local governments is a great responsibility for local governments. This is because local governments are given the authority to manage and regulate their own government. In managing and regulating their own government, local governments are expected to be able to multiply the potentials or resources that exist in their own regions which will later be used as sources of regional revenues to finance regional expenditures whose purpose is to improve the quality of services and public development. Maximizing PAD as a source of regional revenue that will finance local government expenditures through capital expenditures, will attract investors to invest in regions which will later increase local revenues.

That way the increase in capital investment is expected to also be able to improve the quality of the public and in turn be able to increase the level of public participation in development, which is reflected in the increase in PAD. Government spending through capital expenditure through development in various public sectors will lead to an increase in regional revenues. The authority to manage and regulate its own government by the local government is expected to be able to multiply the potentials or resources in Central Sulawesi.

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