



The Influence of Regional Revenue, Balance Funds, Special Autonomy Funds, and Economic Growth on Capital Expenditure Allocation

Eva Jumiati*, Mirna Indriani, Darwanis

Department of Accounting, Faculty of Economics and Business, Universitas Syiah Kuala, Banda Aceh, Indonesia

*Corresponding author: ejumiati88@gmail.com

Abstract

Objective – This study aims to examine the influence of Regional Revenue, Balance Funds, Special Autonomy Funds, and Economic Growth on Capital Expenditure Allocation in Regencies/Cities in Aceh for the period 2013-2017.

Design/methodology – This type of research is quantitative and the population of this study is all districts/cities in Aceh in 2013-2017. The number of sample is 23 local governments consisting of 18 district governments and 5 city governments. The unit of analysis of this research is the Realization Report of the Revenue and Expenditure Budget (LRA-APBK) in Aceh for the 2013-2017 Period which has been audited by the Financial Supervisory Agency (BPK) and Gross Regional Domestic Product (PDRB) data.

Results – The results of the study show that both jointly and separately, regional own-source revenues, balance funds, special autonomy funds, and economic growth have an effect on the capital expenditure allocation in districts/cities in Aceh for the period 2013-2017.

Originality/Value – Discussion related to the influence of special autonomy funds on capital expenditure is still limited, hence it is deemed necessary to perform as additional insight and reference of research results.

Keywords: Regional Revenue, Balance Fund, Special Autonomy Fund, Economic Growth, Capital Expenditure Allocation.

1. Introduction

Indonesian local governments have encountered serious problems in financing capital expenditures. The phenomenon related to capital expenditure was revealed by the Public Expenditure Analysis and Capacity Strengthening Program (PECAPP) which noted that from 2008 to 2012, Rp. 5.4 trillion of capital expenditure had been spent by the Aceh government. Road and bridge construction has the largest share of Aceh's infrastructure spending, at 44%. Based on the Budget Implementation List at the 2012 Bina Marga Office, infrastructure spending is estimated at IDR 1.5 trillion and IDR 682 billion is spent on road and bridge construction, while spending on rural infrastructure is only 14% or IDR 211 billion. However, the amount of infrastructure spending in Aceh has not been evenly distributed. The west coast and central Aceh regions have very low infrastructure facilities (PECAPP, 2013).

Based on these data it is known that the allocation of budgets originating from special autonomy funds is not yet entirely based on needs and conditions on the ground. This should be one of the balances of infrastructure development planning for the provincial government (PECAPP, 2013). Furthermore, the percentage of capital expenditure realization compared to direct expenditure and the percentage of capital expenditure compared to regional expenditure still has a low level (1.44% -2.43%). This percentage shows that capital expenditure does not yet have a high number of financial management in districts/cities in Aceh for the period 2013-2017. This should be a concern for local governments to be able to increase the capital expenditure

budget again. In addition, the increase in capital expenditure allocations is also one form of government attention in terms of regional development and welfare.

The fact that occurs in the local government at this time is an increase in economic growth is not always followed by an increase in capital expenditure, it can be seen from the small amount of capital expenditure budgeted by the total regional budget. Agency theory stipulates that the regional government as an agent, in this case, should provide reciprocity to the community in the form of adequate public services, which are funded by the regional revenue itself. Agency theory is needed so that the local government as an agent knows its responsibility to the community as the principal by providing what is needed by the community. Therefore, surely the Regional Government must have an effort so that the allocation of capital expenditure can be better utilized.

The phenomenon related to the allocation of capital expenditure has come to the attention of many previous researchers. Some studies that have examined regional revenue and its relationship with capital expenditure are (Kusnandar & Siswantoro, 2012; Kartika & Dwirandra, 2014; Abdullah & Halim, 2004; Darwanto & Yustikasari, 2007; Tuasikal, 2008; Wandira, 2013; Holtz-Eakin, Douglas, Harvey, & Schuyler, 1985; Prakosa, 2004; Oktriniatmaja, 2011; Hartati, Abdullah, & Saputra, 2016). In addition to the regional revenue, economic growth also has an influence on capital expenditure (Setiawan, 2015; Rudiansah, 2017; Saad, 2009). This is because economic growth is the basis for sustainable development.

However, there are several studies with different results, such as Nabila's research (2016) which proves that PAD has no effect on capital expenditure. In addition, the results of the research by Setiawan (2015) show that balanced funds that are proxied with profit-sharing funds do not affect capital expenditure. Furthermore, the results of Mulyani's research (2016) also prove that economic growth does not affect capital expenditure.

Although there have been a lot of careful discussions regarding capital expenditure, there are a variety of previous research results so it is necessary to review the objects and periods that are different from previous studies. In previous studies, the object of research was conducted in several regions in Indonesia such as in Central Java, West Java, Yogyakarta. And also outside Indonesia such as Kenya, Canada, and Slovenia, while this research was conducted in Aceh Province.

This research focuses on the special autonomy funds which are still rarely used by previous studies to assess their effects on regional government capital expenditure. This research was conducted at the Government of Aceh. This is considered interesting as Aceh is one of the regions receiving special autonomy funds other than Papua. Law of the Republic of Indonesia Number 18 Year 2001 Concerning Special Autonomy for the Province of the Special Region of Aceh As the Province of Nanggroe Aceh Darussalam states that the Special Autonomy Fund is revenue from the Government of Aceh which is intended to finance development, especially infrastructure development and maintenance, empowerment of the people's economy, poverty alleviation, and education, social and health funding. The Special Autonomy Fund is valid for a period of 20 (twenty) years, with details for the first year up to the fifteenth year which amount is equivalent to 2% (two percent) of the ceiling of the National General Allocation Fund and for the sixteenth to the twentieth year the amount is equivalent to 1% (one percent) of the ceiling of the National General Allocation Fund. The Special Autonomy Fund applies to the Aceh region in accordance with the Aceh border. The use of the Special Autonomy Fund is carried out for each fiscal year stipulated in the Aceh Qanun. The special autonomy fund for the first year came into force in the fiscal year 2008.

This research is expected to be able to contribute to regional governments in increasing regional revenue and better financial management, or other financial policies. This research is also expected to provide benefits for the development of science and can be used as input and reference material for similar research by future re-

searchers.

This study aims to examine the effect of research variables (PAD, Balance Funds, Special Autonomy Funds, and economic growth) on capital expenditure. This research is divided into several sections, namely introduction, theoretical study, research methodology, research results and concluding.

2. Literature Review and Hypothesis Development

Introduction and theoretical framework

This study uses agency theory as a theoretical basis, agency theory is needed so that local governments as agents know their responsibilities to the community as principals by providing what is needed by the community. In this study, the dependent variable used is capital expenditure. In accordance with Regulation of the Minister of Finance Number 91/PMK.06/2007, what is meant by capital expenditure is budget expenditure used in order to obtain or add other assets that provide benefits over one accounting period and exceed the minimum capitalization limit of fixed assets or other assets determined by the government. In line with these regulations, Halim (2004:73) also defines capital expenditure as an expenditure that benefits beyond one fiscal year and will add to the assets or wealth of the region and will have consequences to add to routine expenditures such as maintenance costs. According to Setyowati and Suparwati (2012), capital expenditure is government expenditure on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for public facilities.

Specifically, the source of funding for capital expenditure has not yet been determined. However, all types of regional revenue sources can be allocated to fund capital expenditure. The allocation of funds sourced from regional revenues and financing to regional expenditures is determined by the needs of the region itself for its regional expenditure needs. In general, sources of funds originating from PAD are more allocated to regional operational expenditure and the rest is allocated to other regional expenditures, including capital expenditure. DAU is more allocated to employee expenditure, and the rest is allocated to regional expenditures including capital expenditure (Zega, 2014).

According to Setyaningrum & Syafitri (2012) PAD is a description of the ability of a region to finance all forms of activities organized by the Government. The Balance Fund according to Patrick (2007) is revenues received by local governments that come from external sources and does not require repayment. The Special Autonomy Fund based on Law No. 18 of 2001 in revenue in the context of special autonomy in the form of additional revenue for the Province of Aceh from the results of existing natural resources. Furthermore, what is meant by economic growth is a process that reflects the dynamic aspects of an economy that illustrates how an economy develops or changes over time (Nurlina, 2004)

Hypothesis development

According to Ardhani's (2011) research, the higher the PAD (Regional Revenue) of an area, the bigger the capital expenditure allocation. A similar result was revealed by Brata (2004) that an increase in PAD lead to the increase of local government capital expenditure investment so that the quality of public services is getting better.

The results of Wandira's (2013) explain that regional revenues in the form of balance funds (regional transfers) from the center requires regions to develop and prosper their people through proportional and professional regional wealth management and to build sustainable infrastructure, one of which is a budget allocation to the capital expenditure sector.

Prior studies' results explain that the special autonomy fund is aimed at increasing service delivery to the public (public service). Providing services to the public will

run effectively and efficiently if the service process is right on target and needs such as infrastructure or other government capital expenditure.

Saad (2009) in his research explained that economic growth is the basis for sustainable development. The government can improve the welfare of the community by increasing economic growth, by prioritizing: improving infrastructure; education improvement; health services; building facilities that can encourage investment both foreign and local; providing low-cost housing; carry out environmental restoration and strengthening in the agricultural sector.

3. Research Method

This study uses secondary data sources, namely district/city government financial reports in Aceh for the period 2013-2017. The data collection method is done by documentation technique. This research is a census study; the population of this study is all districts/cities in Aceh in 2013-2017, amounting to 23 local governments consisting of 18 district governments and 5 city governments.

The measurement (proxy) used for the capital expenditure variable is the total capital expenditure realization in the District / City in Aceh in 2013-2017, for PAD is the total PAD realization in the Regency / City in Aceh in 2013-2017, for the Balanced Fund is the total realization of the Fund Balance in the Districts / Cities in Aceh in 2013-2017, and for the Special Autonomy Fund is the total realization of the Special Autonomy Fund in the Districts / Cities in Aceh in 2013-2017. The proxy for economic growth is Gross Domestic Product (GDP).

The method of data analysis in hypothesis testing uses multiple linear regression analysis to test the effect between two or more variables and to see the effect partially and simultaneously.

The empirical model equation used in examining the effect of independent variables on the dependent variable:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

4. Result and Discussion

Descriptive statistics of research data for local revenue variables, balance funds, special autonomy funds, economic growth and capital expenditures which include the mean value, standard deviation value, minimum value, and maximum value can be seen in the following table.

	N	Mean	Maximum	Minimum	Std. Deviation
Locally-generated revenue	115	94,331,403,406.98	388,251,800,972.81	8,287,512,018.46	71,709,335,720.18
Balance Funds	115	694,517,845,954.42	1,328,605,892,782.00	305,106,998,469.00	231,455,766,325.06
Special Autonomy Fund	115	135,528,949,028.06	642,814,441,000.00	5,000,000,000.00	132,776,300,241.31
Economic growth	115	4,963,965.64	17,836,613.02	841,005.66	3,835,335.32
Capital Expenditures	115	246,151,023,092.62	512,060,288,509.00	62,345,673,049.00	100,243,970,855.43
Valid N (listwise)	115				

Source: Regency / City LKPD LRA in Aceh for the period 2013-2017

Table 1. Descriptive Statistics

The results of testing the research hypothesis can be seen in the following table.

Regression Equation $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$
$Y = 2,315,804,335.83 + 0,081X_1 + 0,425X_2 + 0,013X_3 - 12,193.53 + \varepsilon$
$R = 0,763$
$R^2 = 0,582$
Adjusted $R^2 = 0,567$

Source: Secondary Data, 2019 (Processed)

Based on the results of the research hypothesis testing table, the research results can be summarized, firstly, the correlation coefficient (R) of 0.763 shows that the degree of relationship (correlation) between the independent variable and the dependent variable is 76.3%. This means that regional own-source revenues, balance funds, special autonomy funds and economic growth have a relationship with capital expenditure allocations of 76.3%.

Secondly, the coefficient of determination (R^2) of 0.582 means that the allocation of capital expenditure of 58.2% is influenced by local own-source revenue, balance funds, special autonomy funds, and economic growth, while 41.8% is influenced by other variables not included in this study.

Thirdly, a constant of 2,315,804,335.83 means that if regional own-source revenues, balance funds, special autonomy funds and economic growth are considered constant, then the amount of capital expenditure allocation is 2,315,804,335.83 on nominal scale units.

Moreover, the regression coefficient (β_1) of 0.081 indicates that each increase in PAD of Rp1 will be followed by an increase in the allocation of capital expenditure by 8.1%. Assuming the other independent variables remains (constant). The regression coefficient (β_2) of 0.425 indicates that each increase in equalization funds of Rp1 will be followed by an increase in the allocation of capital expenditure by 42.5%. Assuming the other independent variables remains (constant). The regression coefficient (β_3) of 0.013 indicates that each increase in the special autonomy fund of Rp1 will be followed by an increase in the allocation of capital expenditure by 1.3%. Assuming the other independent variables remains (constant). The regression coefficient (β_4) of 12,193.53 indicates that any increase in the economic growth of Rp1 will be followed by a decrease in the allocation of capital expenditure by 12,193.53. Assuming the other independent variables remains (constant).

The results showed that the PAD had a positive effect on capital expenditure. This means that the higher the PAD received, the higher the amount of capital expenditure allocated in Aceh. Based on PP No. 58/2005, states that APBD is prepared in accordance with the needs of government administration and the ability of the region to generate revenue. Every APBD preparation, capital expenditure allocation must be adjusted to the needs of the region by considering the PAD received. So if the Regional Government wants to increase capital expenditure for public services and public welfare, the Regional Government must explore the maximum PAD.

These findings are consistent or consistent with the results of research Kusnandar and Siswanto (2012) which concluded that the PAD is very influential on the allocation of capital expenditure.

The results showed that the balance fund had a positive effect on capital expenditure. This means that the higher the balance funds received, the higher the amount of capital expenditure allocated in Aceh. This balance fund aims to reduce the fiscal gap between the central regional government and regional governments between the regional governments themselves. This funding is to carry out government authority which is the responsibility of the central government in the regions (Law No. 33/2004). The results of this study are consistent with the results of research by Wandira (2013) who concluded that the balanced fund (regional transfer) influences the budget allocation to the capital expenditure sector.

The results showed that the special autonomy fund had a positive effect on capital expenditure. This means that the higher the special autonomy fund received, the higher the amount of capital expenditure allocated in Aceh. Based on Law No.11/ 2006 concerning Aceh Government article 183 paragraph (1) it is stated that the Special Autonomy Fund is the Aceh Government's revenue which is intended to finance development, especially infrastructure development and maintenance, empowerment of the people's economy, poverty alleviation, and funding for education, social, and health. The results of this study are consistent or in accordance with the results of research

conducted by Hartati et al. (2016) which show that the variable of special autonomy fund receipts has a positive effect on district/city capital expenditure in Aceh.

The results demonstrated that economic growth had a negative effect on capital expenditure. This means that the higher the economic growth experienced, it will reduce the allocation of capital expenditure in Aceh. The context, the regional autonomy policy is the authority given to the regional government to regulate and manage each region. This encourages regional governments to accelerate the realization of people's welfare through improved services, empowerment and community participation. The results of this study are not in accordance with the results of Tuasikal's (2008) study which states that the GRDP does not affect the allocation of capital expenditure for district/city governments in Indonesia. But the direction of the relationship obtained is the same as this study, namely negative.

5. Conclusions, Limitations, and Suggestions

The conclusions that can be drawn in this study are regional revenue, balance funds, special autonomy funds, and economic growth both together and separately affect the allocation of capital expenditure in the districts/cities in Aceh for the period 2013-2017.

This study has some limitations. The results of this study have not been able to detect variables that influence the capital expenditure allocation policy conducted by the district/city government in Aceh. This can be seen from the value of R^2 which only gets 0.582 or 58.2%.

Suggestions that can be given from this research are to test other variables such as non-financial variables and other local government policies that can explain well how large the level of capital expenditure is.

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