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LOCAL REVENUE TOWARD CAPITAL EXPENDITURE

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Abstrak

Penelitian ini mengkaji pengaruh penerimaan yang didapatkan oleh pemerintah, melalui pendapatan asli daerah, dana perimbangan, dan pendapatan asli daerah lainnya yang sah, terhadap belanja modal. Penelitian ini menggunakan metode regresi berganda dan informasi dikumpulkan dari seluruh pemerintah provinsi di Indonesia. Hasil regresi mendukung semua hipotesis. Temuan studi ini menunjukkan bahwa penting bagi pemerintah provinsi untuk fokus pada peningkatan penerimaan daerah yang merupakan kunci keberhasilan. Baik pemerintah daerah maupun pemerintah pusat saling melengkapi. Penelitian ini mengimplikasikan bahwa komponen seperti dana alokasi umum serta dana alokasi khusus yang termasuk dana perimbangan mempengaruhi pengeluaran yang dikeluarkan oleh pemerintah provinsi.
***Kata kunci**: pendapatan daerah, belanja modal, dan pemerintah provinsi*

Abstract

This research examines the effect of local revenue, through local own-source revenue, balance fund, and other lawful local revenue, on capital expenditure. The method was used multiple regression and the data was collected from all provincial government in Indonesia. The regression result support all hypotheses. The findings of this study suggest that it is important for the provincial government to focus on increasing local own-source revenue and other lawful local revenue as key success. Therefore, local government is needed by main government. This study implies that balanced fund from the central government affect expenditure for the provincial government.
Keywords: local revenue, capital expenditure, and provincial government

INTRODUCTION

Covid-19 has made lockdown in several parts of the world with high infectivity a global pandemic in this century (Wu & Lin, 2020). Well-resourced developed countries are undertaking, but developing countries, with limited economies and influential social assistance, are likely to suffer even greater and more lasting impacts (Villiers et al., 2020). In this case, the policy regarding governmental expenditure and free material healthcare has become highly crucial to promote economic growth as well as ensuring the household consumption running smoothly. Furthermore, this coronavirus situation has made them lost their jobs and incomes (Fosu & Twumasi, 2021).

Nearly all economic aspects have changed due to Covid-19 (Auerbach & Gale, 2020). Living standard of people in this aspect that consitently experience economic growth is preferable than the one with high changes in growth rate consequent to systematic progress in basic infrastructure and development in human capital. This living standard of the population will influence national output in huge size at any point in time (Jeff-Anyeneh et al., 2020). The coronavirus diseases 19 crisis study focuses mainly on epidemiologic and macro-level aspects and only few covers consequences on local budgets (Nemec & Špaček, 2020).

Expenditure is the implementation of obligatory affairs that are prioritized to upgrade the well-being of people's to satisfy local duty which are manifested in the form of raising primary services, education, health, social, and proper public facilities made up of developing a social insurance number (Asari & Suardana, 2018). Until now, the issue of capital expenditures has not received serious attention from the government because the government budget, both state budget and local government budget, has a larger portion for personnel expenditure than capital expenditure (Ramlan et al., 2016).

Even with its importance, small research on capital expenditure has been published: recent studies have targeted on local own-sources revenue (Mentayani & Rusmanto, 2013; Suryani & Pariani, 2018; Wertianti & Dwirandra, 2013), fiscal balance transfers from the state to provincial government (Badjra et al., 2017; Nurdiwaty et al., 2017; Priatna & Purwadinata, 2019), and other lawful local revenue (Nurdiwaty et al., 2017; Ramlan et al., 2016; Suparta, 2021).

Based on these research gaps, this study examines capital expenditure through three important determinants, which are local revenue, fiscal balance transfers from the state to provincial government, and other lawful local revenue. This study is proposed to appraise the direct effect on capital expenditure and uses the most recent data during the Covid-19 pandemic. Besides, the difference between this study with other study is this study uses all provincial government in Indonesia.

In line with Suryani & Pariani (2018), fiscal decentralization gives huge authority to the region to examine their potential as the source of local income to fund local expenditure in public services situation. Regional original income is a routine income achieved by utilizing the potencies of regional financial sources to fund their duty for providing flexibility to the provincial for the enforcement of regional autonomy based on its potency (Wertianti & Dwirandra, 2013).

The improvement in the capital expenditure investment is contemplated to be ready to expand the public standard and orderly enable to enhance the public participation level in development based on local original income so that the public sector facilities development will be impacted on increasing the local original income. Therefore, in terms of local original revenue regarding capital expenditure, the following hypothesis is formulated:

H_1: Local own-source revenue affects capital expenditure.

Regional bottom aid is a derivation of income that explained by Nasution (2015), originating from the budget to reinforce the application of local authorities in accomplishing the goal of according local autonomy that mainly carried out by improving better public services and welfare. Grants given by central government to the regions is the main mechanism for intergovernmental transfers. Conditional block grants provided by the center to local authorities aspire to financing variety of assistance, similarly education, social and traffic services. Grants equalizations are accustomed to overcome inequality between region government (Capkova & Roncakova, 2014).

Balance fund is capital derived from the acquisition of state budgets intended for regions to finance regional interests as a form of implementation of the principle of decentralization (Badjra et al., 2017; Rahman et al., 2013; Sari & Indrajaya, 2014). In general, the objectives of the state to transfer funds to region authorities are as a real activity to create a financial balance among the state authorities and region authorities, an effort to increase the efficiency of authorities expenditure by delegating some of the authority in the field of state money advice and so that the resulting benefits can be perceived by the people in the local government (Priatna & Purwadinata, 2019). Based on this discussion, the relationship

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among fiscal balance transfers from state authorities to provincial government and capital expenditure are hypothesized as follows:

H_2: Fiscal balance transfers from the main government to local government influences capital expenditure.

Other lawful local income is regional income, aside from local original income. Fiscal balance transfers from the state to provincial authorities, which include of grants, rainy day reserved, and other revenues determined by the central government (Nurdiwaty et al., 2017). For example, the proceeds from the sale of regionally owned goods, the sale of used goods, receipt of instalments for motorized vehicles/office houses, receipts for renting official houses/buildings and land owned by the regional government, and others determined by the central government (Hartiningsih & Halim, 2015).

The source of regional revenue is very dependent on the potential of the region itself, which means that the greater the potential of other lawful local revenue sources, the greater the regional revenue (Ramlan et al., 2016). Expenditures cannot be charged to the budget if these expenditures are not available or not sufficiently available in the local government budget. Local own-source revenue, balance funds, and other lawful local revenues are sources of regional income. This means that the local government will adjust regional expenditures to be issued with local own-source revenue received, balance funds transferred beginning with the state authorities and other lawful local revenues (Asari & Suardana, 2018). Thus, the following hypothesis other lawful local revenue and capital expenditure is proposed:

H_3: Other lawful local revenue affects capital expenditure.

Mohammed et al. (2015) explains that by authorities spending grew faster than the development of its income. This resulted in constant fiscal deficits, therefore state had to borrow starting with inside and outside sources. Central government expenditures consist of shopping goods, personnel expenses, subsidies, grants and capital expenditures, social assistance et cetera. The regional transfers consist of balance funds, as well as the special autonomy fund and adjustments (Nurlina, 2015). Between productive governments expenditure typically belong those that contribute to raising the level of human capital such as education and health care, promote technological progress, infrastructure, and communication, besides state spending they are it seems like especially social spending and transfer (Mazurova & Kollar, 2015).

Capital expenditure have been tried to measure by several studies. The past studies (Juniawan & Suryantini, 2018; Mentayani & Rusmanto, 2013; Sholikhah & Wahyudin, 2014), the local original revenue has an influence on the capital expenditure. Then, the studies (Nurdiwaty et al., 2017; Priatna & Purwadinata, 2019) explained that fiscal balance transfers starting with state authorities to provincial government affects capital expenditure. Therefore, the factor that influenced capital expenditure on this study is other lawful local revenue, and the outcome is other lawful local revenue influences capital expenditure (Ramlan et al., 2016; Suparta, 2021). This discussion suggests that the link determinants factors of capital expenditure between local own-source revenue, fiscal balance transfers starting state authorities to provincial government, and other lawful local revenue to capital expenditure.

H_4: The relationships between the examined constructs are significantly on capital expenditure.

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RESEARCH METHOD

Types of Research

The population of this research is the provincial authorities in Indonesia. The sampling technique used in this study is census. Population census is not only the longest observation, famous, symmetric in terms of approach, but also an observation which is widely considered as the most dependable source of data, the census is a count of all elements in the population (Golata, 2016; Sekaran & Bougie, 2016).

Source Data and Technique for Collecting the Data

Negara Kesatuan Republik Indonesia consists of 34 provincial government. By using panel data analysis, this study period is seven years. Therefore, the amount of observation is 238 by taking the data from the website of Direktorat Jenderal Perimbangan Keuangan. The chosen data type in this study is secondary data and the period of data collecting is time series data, which means the data had been collected since 2014 to 2020.

Technique of Data Analysis

The main requirement in this study is data normality. It is tested with the Kolmogorov-Smirnov test. The generated data is not normal if the requirement has not been accomplished yet. Therefore, the next step is changing the data by adjusting it in the Z-Score (O'Neill & Stern, 2012; Tasdan & Yeniay, 2014). The classic assumption test begins with examining model normality to figure out whether the regression model will be normally distributed. Then, the existence of heteroscedasticity in the data can be examined with the Glejser test (Gujarati, 2004). Other than that, we used the multicollinearity test to figure out whether the independent variables have a mutual correlation or not. The autocorrelation test is used to to determine the existence of its problem using Durbin-Watson (DW) if $dU<DW<4-dL$, therefore the regression model of the autocorrelation is not available (Champion et al., 1998; King & David, 1995).

If dependent variable uniquely is determined by a set of each an independent variable, then it is called the structural model. The implementation of F-test is to examine the impact of independent variables on dependent variables all together. On the other hand, Gujarati (2004) states that the implementation of t-test is to known whether the independent variables partially influencing the dependent variable or not. A statistical test (Gujarati, 2004; Sekaran & Bougie, 2016) is used for examining the relevance of the capital expenditure determinant. The test used is the one-tailed test. The testing criteria are if p-value < 0.05, this means capital expenditure of the provincial government is not relevant against local original revenue, fiscal balance transfers from the main authorities to local government and other lawful regional income. In other way, if p-value > 0.05 then it means the capital expenditure of provincial government is relevant with local original revenue, fiscal balance transfers from main government to local government and other lawful local revenue.

RESULT AND DISCUSSION

Proof that the residual value (error) spread normally is one indication of the regression equation obtained is good. This means that by proving that the chances of obtaining a residual value of about zero are greater than the value of the opportunity far from zero. The proof of normality of residual values is accomplish utilizing the K-S test, which is by paying attention to the results of significance values (sig. Z) is greater than the value of $\alpha = .05$. The test results showed in Table I that the value of significance (sig. Z) .982 so this value is larger than $\alpha = .05$ which means the assumption of normality is met.

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Table 1. One Sample Kolmogorov-Smirnov (K-S)

Asymp Sig (2 tailed)	Sig
.982	.05

Then, the classical assumption test was conducted to find out the equation of the model with Best Linear Unbias Estimator (BLUE). These results can be examined in Table 2. Table 2 in addition to meeting the normality of the model, the equation also does not occur symptoms of heteroscedasticity. This result is indicated by all the variable coefficients with a significance level of more than .05. In the multicollinearity test analysis, it is stated that each independent variable in the regression equation with a tolerance value of more than .10 and the VIF value does not reach 10, thus indicating that it is free from multicollinearity in all regression equations. In the three models there was also no autocorrelation as evidenced by dU <DW < 4-dL, where the model was 1.337 (between 1.271 and 1.652).

Table 2. Classical Assumption Test

	Collinearity tolerance	VIF	Durbin-Watson
constant			1.337
Local own-soure revenue	.266	3.759	
Balance fund	.268	3.737	
Other lawful local revenue	.986	1.015	

The test outcome is be seen in Table 3. The outcomes of this study have confirmed the significant importance of local original revenue, balance fund, and other local revenue simultaneously to capital expenditure in provincial government (H_4).

First, the test in Table 3 shows the meaning that local own-source revenue positively affects capital expenditure. This finding is coherent with past research, which underline the influence of local original revenue on capital expenditure (Mentayani & Rusmanto, 2013; Suryani & Pariani, 2018; Wertianti & Dwirandra, 2013). This proves that the benefits from local original revenue provide authority to the provincial government to support the execution of local autonomy under the local possible of capital expenditure. This finding differs from Mentayani & Rusmanto (2013) where local own-source revenue has a negative and insignificant impact because of different years and study locations. The bigger the regional own-source income obtained, the bigger the possibility of funds that must be channeled through capital expenditure to carry out government activities and regional development programs (Suryani & Pariani, 2018; Wertianti & Dwirandra, 2013). Thus, there is support for hypothesis H_1

Table 3. Structural Estimates

Model	B	t	Sig
constant	.558		
Local own-soure revenue	.259	20.159	.000
Balance fund	-.092	-3.136	.002
Other lawful local revenue	.172	6.549	.000

Second, this study suggests that a balance fund makes a significant contribution to capital expenditure. Therefore, hypothesis H_2 is partially supported. This finding differs from most studies which generally report insignificant association between balance fund and capital expenditure (Badjra et al., 2017; Priatna & Purwadinata, 2019). In contrast, this study corroborates with past studies on the effect of balance fund on capital expenditure (Nurdiwaty et al., 2017). Revenue balance fund from the central government which normally called local revenue, demands the local government to develop and prosper their people by managing the regional wealth proportionally and professionally, as well as building sustainable infrastructure (Nurdiwaty et al., 2017). One of them is allocating the budget to the capital expenditure sector (Rifai, 2017).

Third, the next findings show other lawful local revenue has a positive and significant on capital expenditure. The previous studies also support this research discovery that confirms H_3 that other lawful local revenue has an influence on capital expenditure (Asari & Suardana, 2018; Ramlan et al., 2016; Suparta, 2021). The increase in other lawful local revenue will raise allocation of regional government expenditures in the regional authorities budget (Asari & Suardana, 2018). This income is the receipt of regions derived from other regional government-owned such as the takes belonging to the transaction of local wealth that is not divided in cash or instalments, giro services, interest income, receipt of claims for regional damages, receipt of commissions, receipt of gain belonging to the difference in Indonesian currency fluctuation against foreign currencies (Ramlan et al., 2016). Thus, other lawful local revenue supports regional authorities to achieve more of this fund so that it will have an influence on capital expenditure activities completed by local government.

CONCLUSION

From a government point of view, this study indicates the important impact of local original revenue, balance fund, and other lawful local revenue on capital expenditure. The findings of this research suggest so important for the provincial government to focus on raising local own-source revenue and other lawful local revenue as this is the key success. Thus, the decentralization era, the provincial government is need by the central government. This study implies that balanced fund from the central government affect expenditure for the provincial government.

While this study allocates some important discoveries, it has also carried some limitations which can be addressed in future study. First, this study focuses only on the provincial government in Indonesia, limiting the generalization of the discoveries. Therefore, the sample of this study is not fully typical of local government. This problem can be solved by replicating this study in different smaller regional government such as regency and district governments. Second, this study used a comparatively small sample size which not permitting the authors to run a more powerful statistical analysis, such as Structural Equation Modelling (SEM). It is encouraged for future study to enlarge the sample size for more statistical results. Last, besides local original revenue, balance fund, and other lawful local revenue that were found to straightly influence on capital expenditure, it is also to discover other constructs beyond used variables in this study such as local taxation, retribution, original assets, and spending factors which have a potential effect on capital expenditure.

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