



# THE EFFECT OF REGIONAL ORIGINAL INCOME AND BALANCING FUNDS ON THE ALLOCATION OF CAPITAL EXPENDITURES IN REGENCIES/CITIES OF NORTH SUMATRA PROVINCE

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## ABSTRACT

This study aims to determine the effect of regional original income, balancing funds, on the allocation of capital expenditure in districts/cities of North Sumatra province. This research method uses descriptive and quantitative data. The sample of this research is Regency/City APBD data in North Sumatra in 2018-2020. The results of the calculation of the regression line in this study were obtained for PAD to Capital Expenditure  $Y = 153853702,041 + 0.342X_1$ , Balancing Fund to Capital Expenditure  $Y = 13194181,034 + 0.224X_2$ . The results of the partial test in this study stated that the Regional Original Revenue, Balancing Fund had an effect on capital expenditure. Based on the results of the simultaneous F test, it is known that F count (68,077) > F table 2.70. With a significance level of  $0.00 > 0.05$ , this indicates that the effect of the independent variables is Regional Original Revenue, Balance Fund, and Remaining Budget Financing Simultaneously (together). ) has a significant effect on the allocation of capital expenditures. Regency/City of North Sumatra Province. The results obtained from the R Square value of 0.586 or equal to 58.6%. It means that the analytical model used is able to explain Regional Original Income, Balancing Funds, Remaining Budget Financing (SilPA) to the Capital Expenditure Allocation of the Regency/City of North Sumatra Province by 58.6%, while the remaining 41.4% is influenced by other factors not examined. such as more residual budget financing and other legitimate income

**Keywords:** Regional Original Income (PAD), Balance Fund, Capital Expenditure.

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## INTRODUCTION

Regional Autonomy has been implemented in Indonesia in 2002 has create a transition every power and authority which local government originally Centralized became Government decentralization. Regional Autonomy is implemented in a democratic way and achieve true decentralization so that make improvement welfare and service society, justice and even distribution. Regional autonomy have the ideals of government The center can be freed from the burdens unnecessary in handling Regional domestic affairs, with thus it gives opportunity for the Region to learn more, understand, and respond to various things in implement policies his government. Regional autonomy and also Fiscal Decentralization have hope that Regional Government is increasingly have greater

independence in Regional Finance. In Implementation of Regional Autonomy and Fiscal Decentralization every Local governments are given the freedom to manage and utilize source of Regional Revenue have in accordance with the aspirations regional community. In increasing regional independence, Local governments need to make efforts in optimizing potential Regional Income with give proportion of spending allocation Higher capital in sectors that are considered productive. According to Standard Statement Government Accounting No.2 Years 2011, Capital Expenditures (Capital Expenditure) is a expenses made Local Government in Capital Formation that have uses for add fixed assets, inventory provide more than one benefit Accounting period. Sari, et al (2017) said Capital Expenditure has important influence in economic growth in a Region, and



have power in moving the wheel Regional Economy. According to Modebe et al (2012) that Shopping Capital has a long-term impact long for the economy and help provide more efficient economy and productive. Felix (2012) Says that the local government should can allocate capital expenditure quite high compared to relatively less routine spending productive. Improved allocation capital expenditure budget causes an increase in infrastructure. Capital Expenditure can affect development and Growth in an area, can means that the Development and Economic Growth of a Region slightly disturbed. Capital Expenditure have an influence on Economic Growth in a Area. Regional Shopping can be Strength in the Region to move the wheel of the economy Area. Capital Expenditure Budget can improve infrastructure.

### Understanding APBD

Referring to the Law Number 17 of 2003 Budget Regional Income and Expenditures, hereinafter referred to as APBD. is a financial plan annual local government approved by the House of Representatives Regional People.

### Understanding Original Income Area

Referring to Law Number 33 Years 2004 Regional Original Revenue (PAD) is one of the sources of revenue for a region, where the income comes from the potentials owned by the region itself which is collected by the regional government based on regional regulations in accordance with legislation. Areas that have great potential from natural resources and are supported by adequate facilities and infrastructure can affect the level productivity of the community in the area, which in turn can increase local revenue (PAD). If the PAD of a region has increased, the funds owned by the regional government will be higher so that the regional government has more initiative to explore regional potentials. This can show that if the PAD in a region increases, the ability of the region to make regional expenditures will also increase (Devita, et al, 2014).

Definition of Balancing Fund Referring to Law no. 33 years 2004 Balance Fund is a fund sourced from APBN revenue which is allocated to a region with the aim of funding the needs of the region in the context of implementing Decentralization. Central finances will affect regional finances, this can be

seen from the high dependence of regions on this central contribution. Funds managed by regions in the APBN structure are included in the Balancing Fund Post. How is the calculation process, the division into regions in detail is explained in Law No. 25 of 1999 concerning Central and Regional Financial Balance (Djayasinga, 2015)

### Understanding Capital Expenditure

According to the Statement of Government Accounting Standards No. 2 of 2011, capital expenditures (Capital Expenditure) is a expenses made by Local Government in capital formation that has the use of adding fixed assets, inventories that provide benefits for more than one accounting period. In Capital Expenditures there are also costs that

issued for the maintenance of assets that function so that assets already owned remain of good quality, Capital Expenditure is a Regional Government Expenditure that has benefits for more than one fiscal year and will increase regional assets or assets and will further increase routine expenditures such as maintenance costs (Leki, et al 2018).

### Previous Research

Kosim, Engkos. (2017) "The Influence of Regional Original Revenue (PAD), General Allocation Funds (DAU), and the Remaining Budget Financing (SilPA) on the Capital Expenditure Budget in the Banjar City Government". Regional Original Revenue (PAD) from the Special Allocation Fund, and the remaining excess of budget financing are partially related to Capital Expenditures. Based on the results of the analysis, it is found that partially there is an influence between the variables of Regional Original Income (PAD), General Allocation Funds (DAU) and Remaining Budget Financing (Silpa) with the Capital Expenditure Budget.

### METHODOLOGY

In this study, researchers used quantitative methods. Quantitative research emphasizes theory testing through measuring research variables with numbers and analyzing data with statistical procedures. Data analysis methods used by researchers in analyzing existing problems are descriptive and quantitative data analysis methods. The population in this study is the APBD

data (Budget) of all regencies/cities of North Sumatra Province. There are 25 regencies and 8 cities in North Sumatra Province. The population in this study is Regency/City APBD data in North Sumatra in 2018-2020. The data collection techniques used is Documentation with Collecting Documents can be in the form of writing, pictures or monumental works from other people's articles. The author uses the documentation method, which is a method that takes data directly to the place of research that you want to research in this case through the website of Directorate General of Balance Finance (<http://www.djpk.kemenkeu.go.id>) and assisted with previous research journals.

Balancing Fund for Capital Expenditures:

$$Y = a + bX$$

$$Y = 13184171,034 + 0,223X2$$

Determination Coefficient

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.766 <sup>a</sup>	.586	.578	92225301,00	1,341

a. Predictors: (Constant), SiIPA, PAD, Dana Perimbangan  
 b. Dependent Variable: Belanja Modal

**RESULTS AND DISCUSSION**

Simple Linear Regression Analysis:

PAD on Capital Expenditure Allocation

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	153853702,041	11370105,063	13,531	,000
	PADA	,342	,034	,716	10,087
	D				

a. Dependent Variable: B.MODAL

**Impact of Original Regional revenue on Capital Expenditure Allocation**

From the results of research testing the Effect of Regional Original Income (X1) on Capital Expenditure Allocation, the Liner Regression value is obtained:  $Y = 153853702,041 + 0.342X1$  which means: Constant value is obtained amounting to 153853702,041, this indicates that if there is no Original Regional Revenue, the value of the Capital Expenditure Allocation is Rp. 153,853,702, the value of the Regional Original Income Coefficient (PAD) is 0.342. Based on the t-test of Regional Original Income (X1), it has a t-count value of  $10,087 > t$  table 1,984 ( $\alpha=0.05$ , dk, 99 = 1,984) Based on the results of the regression equation, the constant value is 153853702,041 means variable Locally-generated revenue affect the Allocation of Capital Expenditures by 0.342 or a positive effect, which means that if the Regional Original Income is increased by only 1%, the Allocation of Capital Expenditures will increase by 0.342. The partial test shows that partially Regional Original Income has an effect on the allocation of Regency/City Capital Expenditure of North Sumatra Province. Regional Original Income has a t-count value of  $10,087 > t$  table 1.984 ( $\alpha=0.05$ , dk, 99 = 1.984). Based on this value, it is concluded that H1 is accepted, this shows that partially the Regional Original Income has a significant effect on the allocation of Capital Expenditures in the Regency/City of North Sumatra Province, so H0 is rejected.

Balancing Fund Against

F Test Capital Expenditure

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	13194181,034	22602856,729	,584	,561
	PADA	,224	,023	,701	9,671
	R				

a. Dependent Variable: B.MODAL

ANOVA <sup>a</sup>				
Model	Df	F	Sig.	
1	Regression	2	68,077	,000 <sup>b</sup>
	Residual	96		
	Total	98		

a. Dependent Variable: Belanja-Modal  
 b. Predictors: (Constant) PAD, Dana Perimbangan

From the SPSS data above, it can be explained that the regression model formed is as follows: PAD Against Capital Expenditure

$$Y = a + bX$$

$$Y = 13853502,041 + 0,357X1$$



Based on the theoretical basis, According to Simanjuntak et al (2013 in Wati & Fajar 2017), Stating that Regional Original Revenue is one part of Regional Revenue, the Regional Government is expected to put more effort into optimizing its Regional Original Income which is expected to be able to finance regional expenditures and so as not to hinder Regional Activities. If the PAD of a region has increased, then the funds owned by the regional government will be higher so that the Regional Government has more

initiatives to explore regional potentials. It can be interpreted as one of the factors that causes an increase in Original Income Regions can affect the allocation of a Regional Capital Expenditure. This can be interpreted that the higher the Regional Original Income received by the Region the higher the government expenditure on capital expenditure to be spent, PAD is income from an area where the income comes from the potentials possessed by that region which is levied by the regional government on the basis of regional regulations in accordance with applicable laws and regulations trigger the allocation of capital expenditures. This research is in line with research conducted by Kosim, Engkos. (2017) argues that the Regional Original Revenue (PAD) of the Special Allocation Fund, and the remaining excess of budget financing are partially related to capital expenditures in the Banjar City Government. This is the opposite of Pradita's research (2013) which has the result that Regional Original Income has no effect on Capital Expenditure. This is because Regional Original Income is used more to finance employee expenditures, other direct costs than to finance capital expenditures.

### **Effect of Balancing Fund Against Expenditure Allocation**

#### **Capital**

From the results of research testing the Effect of Balancing Funds (X2) on Expenditure Allocation. For capital, the value of  $Y = 13194181.034 + 0.224X_2$  is obtained, which means: the value of the constant is obtained amounting to 13194181,034 this indicates that if there is no Balancing Fund then the value of the Capital Expenditure Allocation is Rp. 13,194,181, value. The Balancing Fund Coefficient of 0.224. Based on the t-test of the Balancing Fund (X2), it has a t-count value of  $9.671 > t\text{-table } 1.984$  ( $\alpha=0.05$ , dk, 99 = 1.984) Based

on the results of the multiple regression equation, the constant value is 13194181, the Fund's Coefficient Value A balance of 0.224 means that the Regional Original Income variable affect the Capital Expenditure Allocation of 0.224 or a positive effect, which means that if the Balancing Fund is increased by only 1%, the Capital Expenditure Allocation will increase by 0.224. The partial test shows that partially the Balancing Fund has an effect on the Capital Expenditure Allocation of the Regency / City of North Sumatra Province, the Balancing Fund has a t count value of  $9.671 > t\text{ table } 1.984$  ( $\alpha = 0.05$ , dk, 99 = 1.984).

Based on this value, it is concluded that H2 is accepted, this indicates that the Balancing Fund partially affects the allocation of Capital Expenditures for the Regency/City of North Sumatra Province, so that H0 is rejected. Based on the theoretical basis, Nasution (2015) explains that transfer funds from the central government to the regional government is a source of income originating from the APBN which functions for the implementation of regional government in achieving the purpose of granting money autonomy to the regions, especially made for improvement service and welfare the community, based on this basis, it can be interpreted that one of the factors that causes an increase in balancing funds can affect the allocation of capital expenditures in a region. The increasing balance funds received by the regions the higher the government spending on capital expenditure to be spent.

The government provides funds balance in order to create equity in the distribution of resources for public interest. According to Nasution (2015) explaining that transfer funds from the central government to Regional government is a source of income originating from the APBN which functions for the implementation of regional government in achieving the objectives of granting autonomy to regions, especially made for improvement services and public welfare. This study is in line with the results of research that done by Nufus, Hayatun. Asmara, Jhon Andara (2017) In this study, PAD and funds balance simultaneously affects capital expenditures. Partially tested, PAD has a negative effect on capital expenditures, while balancing funds have a positive effect on capital expenditures. Special autonomy funds are able to moderate the influence between PAD and



balancing funds on capital expenditures Special autonomy funds weaken the relationship with PAD to capital expenditures and strengthen the relationship of balancing funds to capital expenditures. This research is not in line with the research conducted by Sari, et al (2018) which resulted in the results of the study that there was no significant effect between funds balance on Capital Expenditures and significant effect on the allocation of capital expenditures for the Regency/City of North Sumatra Province with a calculated F value (68,077) > F table (2.70).

Based on the magnitude of the effect of regional original income, balancing funds, affecting the allocation of capital expenditures in the districts/cities of North Sumatra province, it can be seen that the R Square value is 0.586 or equal to 58.6%. This means that the analytical model used is able to explain Regional Original Income, Funds Balance, against the allocation of Regency/City Capital Expenditure of North Sumatra Province is 58.6%, while the remaining 41.4% is influenced by other factors not examined, such as the Excess of Budget Financing and other legitimate income.

#### CONCLUSION AND RECOMMENDATION

Locally-generated revenue effect on Capital Expenditure Allocation Regency/City Province North Sumatra. Original Income

The area has a t-count value of 10,087 > t-table 1.984 ( $\alpha=0.05$ , dk, 99 = 1.984). Based on this value, it is concluded that H1 is accepted, this shows that partially Regional Original Income has a significant effect to Capital Expenditure Allocation

Regency/City of North Sumatra Province, so H0 is rejected with the understanding that Regional Original Income has a significant effect on Capital Expenditure Allocation Regency/City of North Sumatra Province

2. Balancing Fund has an effect on Expenditure Allocation Capital Regency/City Province North Sumatra. The Balancing Fund has a t-count value of 9.671 > t-table 1.984 ( $\alpha=0.05$ , dk, 99 = 1.984). Based on this value, it is concluded that H1 is accepted, this shows that partially Regional Original Income has a significant effect to Capital Expenditure Allocation Regency/City Province North Sumatra, so H0 is rejected with the understanding that Regional Original Income has a

significant effect on Capital Expenditure Allocation Regency/City of North Sumatra Province

3. The calculated F value (68,077) > F table 2.70. with a level of significance  $0.00 > 0.05$ , it shows that the influence of the independent variable Regional Original Income, the Balanced Fund, simultaneously (together) has a significant effect on the Allocation of Capital Expenditures Regency/City of North Sumatra Province.

4. R Square value is 0.586 or equal to 58.6%. It means that the analytical model used is able to explain the Regional Original Income, the Balancing Fund to the Capital Expenditure Allocation of the Regency/City of North Sumatra Province by 58.6%, while the remaining 41.4% is influenced by other factors that are not examined, such as excess budget financing and other legitimate income.

#### RECOMMENDATION

1. For local governments should be able to improve the management of natural resources to meet the needs of PAD which will be related to capital expenditures.

2. Local governments are expected to be able to utilize the funds obtained from PAD and balancing funds to meet the needs of Capital Expenditures.

3. Local governments can reduce the portion of the personnel expenditure allocation fund and more for capital expenditures in the framework of Infrastructure Development

4. For other researchers who want to conduct similar research, it is recommended to use other research variables that are wider in scope so that the results are more accurate and it can be understood that there are still many other factors contained in Regional Finance.

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#### **APPENDIX : Elucidation on Local Government Budget**

The Regional Government allocates funds in the form of capital expenditure budget in the Local Government Budget to add the local government's fixed assets, one of which is infrastructure in the region. Capital expenditure is a budget expenditure in the achievement of fixed assets and other assets that can have a positive impact in more than one accounting period (PP No. 71, 2010). Basically, capital expenditure is made to produce fixed assets belonging to the regional government that are in accordance with the needs of the regional government and / or the community in the area concerned for the smooth implementation of government duties and for public facilities. All this time, regional expenditure has been used for routine expenditures which are relatively less productive. Whereas the utilization of regional expenditure should be allocated for productive matters, for example to carry out development activities (Saragih, 2003).

According to PSAP No. 2, capital expenditures are expenditures made in the context of capital formation which are to add fixed assets, inventory that provides benefits for more than one accounting period, including expenses for maintenance costs that are to maintain or increase

the useful life, and increase the capacity and quality of assets. In the North Sumatra Provincial Government, the Governor of North Sumatra has asked the Regency / City Government to be able to prioritize capital expenditure in preparing the APBD for the 2017 budget (Waspada, 2016). Because the main priority of the regional government should be capital expenditure. Because capital expenditure will have an impact on the development and development of facilities and infrastructure. This is in accordance with Permendagri No. 31/2016 concerning Guidelines for Preparation of 2017 Regional Budget.

In North Sumatra, the phenomenon of regional spending still reflects that the percentage of capital expenditure is still lower when compared to personnel expenditure and goods and services expenditure. The graph above shows that in 2012 to 2018 capital expenditure was smaller than the other two types of expenditure. Only in 2014 did capital expenditure in North Sumatra have a larger allocation, but in subsequent years capital expenditure was not a top priority in regional spending. Likewise in East Java, which has a smaller percentage of capital expenditure allocation when compared to employee expenditure and goods and services expenditure. The phenomenon that occurs at this time, namely the lack of allocation of capital expenditures owned by the government when compared to spending on goods and employee expenditure which indirectly shows the impartiality of the government to the people. If you want to increase development while increasing income per capita, the government should allocate more capital expenditure (Yustika: 2012).

### **Fiscal Federalism Theory**

The theory of fiscal federalism as suggested by Musgrave (1980) revealed that fiscal decentralization can improve public welfare through intergovernmental revenue and expenditure management. The theory further states that economic growth can be achieved through fiscal decentralization or the delegation of authority from the central government to local governments to manage their own regions according to their needs and priorities. The final goal of fiscal decentralization is people's welfare through intergovernmental revenue and expenditure instruments. Boex (2013) states that

transfers to the regions have broad implications on several issues including growth and development, poverty reduction, achievement of millennium development goals, improved public services and better macroeconomic stability.

### **Capital Expenditures**

Mardiasmo (2009) suggests capital expenditure is expenditure used for expenditures made in the context of purchasing / procurement or construction of tangible fixed assets that have a value of more than 12 months to be used in government activities, such as in the form of land, equipment and machinery, buildings and buildings, roads, irrigation and networks, and other fixed assets. Darise (2008) also explains that capital expenditure is used for expenditures made in the context of purchasing / procurement or construction of tangible fixed assets that have a value of more than 12 months to be used in government activities, such as land, equipment and machinery, buildings and buildings, roads, irrigation, and networks, and other fixed assets. Whereas Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning Government Accounting Standards states that capital expenditure is a budget expenditure for the acquisition of fixed assets and other fixed assets that benefit one accounting period. Capital expenditure includes, among others, capital expenditure for the acquisition of land, buildings and buildings, equipment and intangible fixed assets.

### **Local Own-Source Revenue**

According to Halim (2012), Local Own-source Revenue (LOR) is all revenue that comes from the original regional economic resources which are separated into four types of income, namely: local taxes, regional levies, the results of the management of separated regional property, others legitimate LOR. LOR is the biggest part of regional financial income so that an area is not dependent on government assistance. An area that is able to manage good LOR means being able to increase regional income on an ongoing basis, along with the economy without reducing the allocation of factors of production and justice. In relation to regional capital expenditure, the Regional Government in allocating capital expenditure must be truly adjusted to the needs of

the region by taking into account the LOR received by the region.

### **General Allocation Funds**

Definition of GAF according to Regulation of the Minister of Finance of the Republic of Indonesia Number 48 / PMK.07 of 2016 concerning Management of Transfers to Regions and Village Funds: regional needs in the context of implementing decentralization ". 2.5 Special Allocation Funds Whereas SAF is one of the mechanisms for central government financial transfers to the regions which aims, among others, to increase the provision of regional physical facilities and infrastructure in accordance with national priorities and reduce disparities in growth rates between regions and services between sectors.

### **Revenue Sharing Funds**

Revenue Sharing Funds (RSF) are funds sourced from the State Budget allocated to the regions

based on percentage figures to fund regional needs in the context of decentralization. The distribution of revenue-sharing funds in terms of the ability of the region to produce resources. Regions that have a lot of natural resource potential will get a bigger portion of the production share in accordance with the natural resources that have been extracted. **114**

### **Economic Growth**

Economic growth is an effort to increase production capacity to achieve additional output, which is measured using Gross Domestic Product (GDP) and Gross Regional Domestic Product (GRDP) in an area (Adisasmita, 2013). In this study, regional economic growth is measured by the growth of Gross Regional Domestic Revenue (GRDP) according to constant prices. The GDP growth rate will show the process of increasing per capita output in the long run. Emphasis on "process", because it contains dynamic elements, change or development.