THE DETERMINANTS FACTORS OF LOCAL GOVERNMENT CAPITAL EXPENDITURE

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ABSTRACT

This research objective to analyse the determinants factors of government capital expenditure. This study uses the analysis method of multiple regression analysis of local government in Indonesia. This research finds that regional revenue and balance funds are the most important factors in capital expenditure. Increasing revenue can provide space for independence for local government thereby accelerating the acceleration of development implementation for the community. This research has theoretical and practical implications. The implications of the theoretical results are additional references and further study material in efforts to develop science, specifically exploring the factors that influence capital expenditure in local government. The practical implication is that the results of this research can provide additional information for local governments regarding the factors that influence capital expenditure towards an effective and efficient budget.

Keywords: *local revenue; balance funds; other revenue; capital expenditure*

INTRODUCTION

According to Ayem & Pratama (2018), the right, power, and responsibility of an autonomous area to use statutory regulations to control and manage local community interests and governmental matters is known as regional autonomy. The ability of district and municipal regional administrations to administer their particular regions and enhance their performance is demonstrated by their decentralization (Badjra et al., 2017). One facet of the economy is inefficient capital spending. However, we are unsure of the exact extent to which this capital investment has aided in the nation's economic expansion (Paudel, 2023).

The budget expenses in the public sector has a substantial impact on living standards, economic growth, and sustainability and can be viewed as a political goal and pledge to the people about future welfare (Haraldsson, 2021). Inappropriate allocation of capital expenditure and suboptimal revenue sources received by the government will of course have an impact on regional government performance (Badjra et al., 2017). The development of industrial infrastructure synergizes to increase local revenue. Increasing the quantity and quality of public services and facilities will provide people with the comfort of doing business efficiently and effectively, which will lead to increasing community participation in development (Martini et al., 2022).

Research on determinant models or factors determining capital expenditure is also needed because empirical evidence from previous research shows inconsistent findings. There has been a lot of research related to capital expenditure, such as the study conducted by (Badjra et al., 2017; Farel, 2015; Ifa, 2017; Muttaqin et al., 2021; Zulkarnain & Haryati, 2023) that regional revenue has a significant effect on capital expenditure. However, research by (Ayem & Pratama, 2018) revealed that regional revenue does not have a significant effect on capital expenditure. Apart from capital revenue, balance funds are also one of the components used in research for capital expenditure. (Muttaqin et al., 2021; Yustriawan, 2021) found that balanced funds have a significant effect on capital expenditure. Thus, research by (Badjra et al., 2017; Zulkarnain & Haryati, 2023) does not have a significant effect on capital expenditure. The last variable is other revenue. Research conducted by (Martini et al., 2022; Murti & Trisnawati, 2021) shows that other revenue has a significant effect on capital expenditure. Based on this, research related to local revenue in provincial government in Indonesia and its influence on capital expenditure is interesting to carry out.

Based on these concerns, it is reasonable to this research is intended to examine the role of regional revenue, balance funds, and other revenue on capital expenditure. This research argues that the determinants of local revenue include regional revenue, balance funds, and other revenue. This research is important because the empirical evidence presented can provide suggestions for local government and state governments regarding the efforts needed to increase the level of use of capital expenditure. The aim is to make capital expenditure more effective and efficient for the welfare of the community and form government services for its citizens.

RESEARCH METHOD

This study uses local budget realization data and secondary data originating from Statistics Indonesia and the Directorate-General of Regional Fiscal Balance. The population used in this study is 27 Regencies/Municipalities in West Java Province in Indonesia from 2018 - 2022. The sample determination technique is total sampling where all members of the population are the research sample. Data analysis was carried out using multiple linear regression with the previous process related to the classic assumption test. After the test, carry out analysis using the F-test, t-test, and R2.

The operational definition derived from this research comprises balance funds, other revenue, and regional revenue as independent variables. Capital expenditure is the dependent variable in the meantime. an explanation of how the regression model's measuring variables, like regional revenue, are calculated. According to regional laws and regulations, regional revenue is the amount of money collected locally (Zais, 2017). In addition, routine income from using regional financial resources to finance tasks and responsibilities is known as regional revenue (Wertianti & Dwirandra, 2013). Regional revenue from the West Java Province budget realization report for the Regency/Municipality is used as the regression model's proxy for regional revenue.

According to Zais (2017), balance funds are monies from the state budget that are given to local governments to meet their needs when decentralization is being implemented. The goal of balanced funds is to close the funding imbalance between local and state governments as well as the funding gap between local governments (Yusuf, 2017). The balance funds number in the West Java Province budget realization report for the Regency/Municipality is used as the regression model's proxy for the balance funds.

The last independent variable is other revenue. Other revenue is regional revenue originating from other things belonging to the regional government, such as sales of regional assets, current account services, receipts from regional compensation claims, or other forms because of the sale or procurement of regional goods and services (Ramlan et al., 2016). The government gets partial acceptance from the relationship that occurs because of the existence of a contract or agreement established by the people as principal and uses the government as an agent to provide services, such as rent (Murti & Trisnawati, 2021).

Budgetary expenses for the purchase of fixed assets and other assets that yield benefits over multiple accounting periods are referred to as capital expenditures. Purchasing land, buildings and other structures, machinery, and intangible assets are just a few examples of capital expenditures. Capital expenditure refers to a type of public investment when tangible fixed assets are acquired with benefits lasting longer than a year (Yusuf, 2017). Budgetary expenses to the community in the form of public facilities which without the community realizing it comes from the fees they pay as a form of responsibility and service provider (Murti & Trisnawati, 2021).

RESULT AND DISCUSSION

In this study, multiple regression analysis was carried out. One of the test requirements is to test classical assumptions which must be met in the regression model. This requirement or assumption is proven by a series of classic assumption tests such as the first test, namely the normality test. The normality test is a mandatory requirement carried out to identify the distribution of data in research and models that meet this test are normally distributed. A good and accurate model must satisfy this normality. If the significance value is higher than .05, it can be defined that the proposed model conforms to normality. The Kolmogorov-Smirnov test functions to detect data normality. The results of this test are described in Table 1. It is evident from the significance values of all the variables that the model is normally distributed.

Table 1. Tests of Normality

	Regional Revenue	Balance Funds	Other Revenue	Capital Expenditure
Significance	.135	.099	.167	.232

Source: Data Processing Results, 2023.

To identify the occurrence of intercorrelation between independent variables, a multicollinearities test is needed. This model will fulfil the multicollinearities test requirements if the tolerance value exceeds .10 or the VIF is lower than 10. Based on table 2, it indicates that the tolerance value is above .10 and the VIF is much lower than 10 for each variable. Therefore, it can be stated that the multicollinearity requirements are met.

Table 2. Tests of Multicollinearity

	Tolerance	VIF
Regional Revenue	.745	1.343
Balance Funds	.679	1.473
Other Revenue	.764	1.309

Source: Data Processing Results, 2023.

The last test is the heteroscedasticities test. The absence of heteroscedasticity in a regression model can be stated if the significant independent variable with the natural logarithm value of quadrat residual exceeds .05. The numbers in Table 3 reflect that all independent variables used in the model produce significant values by the requirements so it can be concluded that heteroscedasticity did not occur in this study. Next, test the coefficient of determination with the results obtained adjusted r2 value .505. This figure means that capital expenditure is explained significantly using variables such as regional revenue, balance funds, and other revenue as much as 50.5% while the remaining 49.5% is defined by other variables which are not tested.

Table 3. Number Tests of Heteroscedasticities

	Unstandardized Residual
Regional Revenue	.809
Balance Funds	.677
Other Revenue	.061

Source: Data Processing Results, 2023.

The classical assumption test is met, then the next step is to carry out multiple regression analysis. To identify the impact of revenue on capital expenditure, the researchers used a regression test, the results of which can be explained in Table 4. Based on Table 4, it can be seen that the coefficient value is .252 with a tcount of 7,947 and a significant .000, which means regional revenue affects capital expenditure. These statistical results indicate that capital expenditure carried out by Regency/City Governments in West Java Province will increase if local revenue allocates higher capital expenditure. Regional revenue is an important factor in government because it is related to the allocation of spending for the government. Thus, regional revenue can influence local revenue to increase the quality and quantity of capital expenditure.

Increasing regional revenue in local government can improve regional infrastructure which is a realization of capital expenditure. This study tends to support the work of (Badjra et al., 2017; Farel, 2015; Ifa, 2017; Muttaqin et al., 2021; Zulkarnain & Haryati, 2023). Regional governments are required to be able to manage their authority in increasing local revenue. Local revenue is revenue obtained by a region from sources within its own territory which is collected based on the law. Local revenue aims to provide authority to regional governments to fund the implementation of regional autonomy in accordance with regional potential as an embodiment of decentralization. As we know, the financial posture of the majority of local government is allocated more to operational costs and personnel expenditures so that these costs exceed capital expenditure for development activities. Thus, this result is inconsistent with (Ayem & Pratama, 2018) which indicated local revenue does not affect capital expenditure. The implementation of regional autonomy will be able to be implemented well if it is supported by adequate financial sources. Regional economic potential is crucial in efforts to increase regional financial capacity for government.

Table 4. Coefficients

	Unstandardized	t	Sig
Regional Revenue	.252	7.947	.000
Balance Funds	.098	2.948	.004
Other Revenue	.036	.840	.402

Source: Data Processing Results, 2023.

Based on Table 4, the coefficient value of balanced funds is .098 and significant .004 (below the value of .05). This figure means that balanced funds are related to optimal regional infrastructure development which will create quality capital expenditure. This finding is consistent with past studies (Muttaqin et al., 2021; Yustriawan, 2021). Balance funds provided by state government to local government with equal distribution of financial capacity between regions to fund local government needs in the context of implementing decentralization. Balanced funds are an important aspect of the financial balance system to improve local government services and improve community welfare. However, this study is contradictory (Badjra et al., 2017; Zulkarnain & Haryati, 2023). Balance funds are transfer funds from the Central Government to the Regions which are allocated with the aim of reducing disparities in financial capacity and public services between regions. The balanced funds policy aims to improve regional public services in the fields of education, health and public works, as well as supporting funding for sub-districts through a policy of using earmarked balanced funds.

Other revenue is the last variable. The coefficient value for other revenue in Table 4 is.036 and significant at.402 (above the.05 threshold). This figure indicates that capital expenditure is unaffected by other sources of income. The results of (Martini et al., 2022; Murti & Trisnawati, 2021) do not align with this finding. The local budget can be optimized to support other types of spending that are more related to public services, like capital expenditure for building community facilities, or to support spending that is successful in boosting the regional economy, like improving connectivity by building roads and a new bridge. This is possible when the portion of the local budget that is used for personnel spending is reduced.

CONCLUSION

The purpose of this study is to investigate the impact of balance funds, other sources of income, and regional revenue on capital expenditures in the governments of the regencies and municipalities in the Indonesian province of West Java. The empirical evidence obtained by this research indicates that capital expenditure is positively and significantly impacted by regional revenue. These findings demonstrate that local governments' capital expenditures increase as they are able to generate comparatively high revenue from regional sources. Increasing regional revenue can provide space for independence for local government thereby accelerating the acceleration of development implementation for the community. Therefore, local government needs to continue to strive to increase regional revenue to produce better capital expenditure. Capital expenditure is positively and significantly impacted by balance funds as well. Balance funds from the state government allocated to local governments can serve as a gauge of the region's financial ability to fund capital projects that will benefit the community. Therefore, local governments that have relatively highly balanced funds tend to have relatively good capital expenditure.

This research has theoretical and practical implications. The implications of the theoretical results are additional references and further study material in efforts to develop science, specifically exploring the factors that influence capital expenditure in local government. The practical implication is that the results of this research can provide additional information for local governments regarding the factors that influence capital expenditure toward an effective and efficient budget. The lack of optimal intensification and extensification efforts carried out by regional governments is one of the causes of the lack of local original income. Several strategies that need to be implemented include, among others, re-collecting taxpayer data with the aim of increasing regional tax revenues, establishing cooperation with the private sector and state-owned companies in managing and collecting regional taxes, carrying out routine monitoring and evaluation, increasing the commitment of all stakeholders so that the strategy can be implemented. increasing regional revenue, and organizing a computerized regional revenue system.

Despite the important contribution this study makes to the field of capital expenditure revenue, there are still certain limitations. First off, the sample used in this study may not be representative of other local governments because it concentrated on the non-state government of the West Java Province in Indonesia. As such, the study's findings might not apply to all local governments. Future research could examine the results in different nations or regions to guarantee the generalizability of the findings. The second area of interest for this research is how capital expenditure is driven by regional revenue, balance funds, and other sources of income. To obtain a more comprehensive model, future study could include other variables such as regional tax, general allocation fund, grant, direct expenditure, and indirect expenditure in the model.

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