

## The effect of local government revenue on capital expenditures with economy growth as moderating

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### Abstract

*The goal of this study is to see if local government revenue, which includes Local Own-source Revenue, General Allocation Fund, and Special Allocation Fund, has an influence on capital expenditures using Economic Growth as a moderating variable. By gathering data using the documentation study approach, a sample was formed based on the criteria of districts and cities with Local Government Budget reports for 2018-2021. Data analysis techniques include multiple linear regression and moderated regression analysis. The results of the study found that there was an influence between Local Own-source Revenue, general allocation funds on capital expenditures, while special allocation funds and economy growth had no effect on capital expenditures. Economic growth cannot moderate the relationship between Local Own-source Revenue and capital expenditures, but can moderate the relationship between general allocation funds and special allocation funds to capital expenditures.*

*Keywords: Capital Expenditure, General Allocation Fund, Local Own-source Revenue, Economy Growth.*

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### INTRODUCTION

According to Law No. 33 of 2004 Local Own-source Revenue is income earned by the region that is collected in compliance with local laws and statutory restrictions. Local government must be able to maximize the potential that can be a source of local revenue. Regional taxes, regional levies, the proceeds of segregated regional wealth management, and other valid Local Own-source Revenue specified by law are sources of Local Own-source Revenue.

Capital expenditures are expenditures made by local governments to construct fixed assets that are intended for public use. If public amenities are provided adequately, the productivity of the Central Java economy will grow, attracting investors to invest in Central Java. The General Allocation Fund is a fund derived from the State Budget and distributed to regions with the goal of funding the requirements of the area as a whole. This general allocation fund seeks to equalize financial capability across areas and ensure that distribution occurs fast and effectively.

This Special Allocation Fund also comes from the State Budget and also aims to provide funding for various activities or developments that are decentralized. It's just that these funds are used for special activities. According to Syarifin & Jubaedah (2005), these special activities are activities that are only carried out in the area and refer to special activities aimed only at advancing a region. This special activity is adjusted to the field conditions in the target area so that Special Allocation Fund can be allocated properly.

According to Budiriantanti et al. (2021), Economic Growth is an increase in economic activity, which results in more goods and services being produced in the community which can improve the community's economy. Economic growth is very important because it becomes one of the benchmarks in achieving the progress of a region. If the development carried out by the regional government is considered to be maximum, the Economic Growth of an area increases from year to year.

Economic growth can be known through the Gross Regional Domestic Product (GRDP). When GRDP increases, it can improve the regional economy. This can be seen through increased production of goods and services. Exports and imports are also a factor in increasing GRDP. In

Central Java which contributes to regional revenues, namely from the agricultural sector, livestock and inter-regional imports and exports.

Problems found related to income and allocation of funds are uneven implementation so that development also runs unevenly. This has resulted in many regions requiring capital expenditures in the form of balancing funds. This should be minimized considering the potential of each region that should be optimized so as to save the state budget. This study examines several factors that effect district capital expenditures in Central Java Province in the 2018-2021 period so that they can be the basis for the allocation of capital expenditures or balancing funds in an region.

## **LITERATURE REVIEW**

### **Agency Theory**

Agency theory according to Halim & Abdullah (2006) refers to the relationship that is built between the economic system, economic decisions, or the vision and mission of the organization. Agency according to Jensen & Meckling (1976) agency contains various relationships that are built between one party and another. People who build agency can be referred to as agents. Agents have the duty and authority to carry out agency processes or relationships with various parties with the aim of achieving targets designed by a company or organization. The authority possessed by an agent includes decision making, policy implementation, or even policy control of a company or organization.

### **Capital Expenditure**

According to Law number 71 of 2010 regulating government accounting standards, capital expenditure is defined as a budget expenditure to obtain fixed assets and other usable assets in a single accounting period. Capital expenditures are important for enhancing and expanding regional infrastructure facilities, allowing managed areas to become better and more advanced regions in regional development.

### **Local Own-source Revenue**

According to Law Number 33 of 2004 Local Own-source Revenue is a source of revenue held by local governments derived from taxes, levies, the outcomes of human resource management, regional natural resources, and so on. Local Own-source Revenue is revenue generated by the locality itself. Local Own-source Revenue can increase if the local government can exploit the potentials in the area/owned, such as agriculture, marine goods, and so on. Tourism is the largest contributor to Local Own-source Revenue since it attracts tourists to the region.

### **General Allocation Fund**

According to Law Number 33 of 2004 the General Allocation Fund is a fund provided by the central government to regions as part of the decentralization process. The General Allocation Fund was created as a result of the decentralization program, which resulted in the transfer of funds from the State Budget to the Local Government Budget via the financial balancing fund. This General Allocation Fund can be utilized by local governments to fulfill community service facilities that are allocated through construction expenditures (Permana & Rahardjo, 2013). The General Allocation Fund is a component of the Balancing Fund, which attempts to provide public services while also equalizing regional financial capability as part of the decentralization process.

### **Special Allocation Fund**

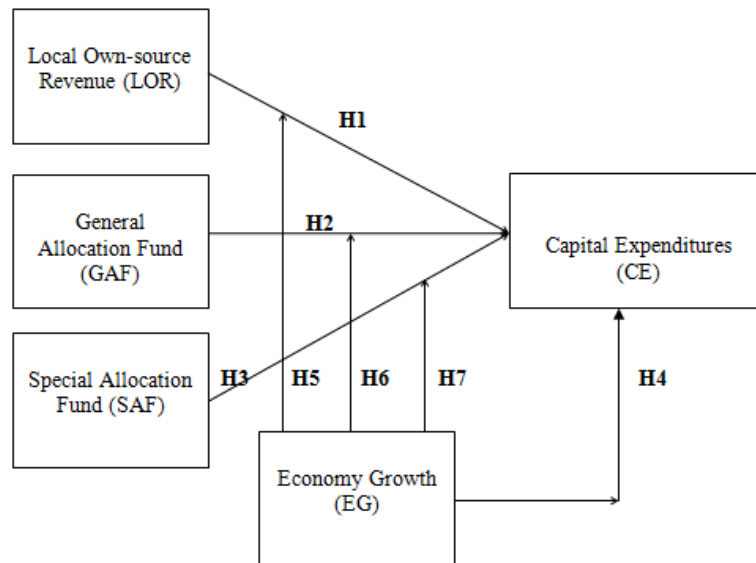
According to Law Number 33 of 2004, a Special Allocation Fund is a financial assistance provided by the central government that is granted especially in specified areas to be utilized to finance specific requirements directed by national plans. The Special Allocation Fund, which is part of the Balancing Fund, has the role of funding special activities that are regional matters such as infrastructure, health, education, and so on.

## Economy Growth

Economic growth, according to Budiriananti et al. (2021), is an increase in economic activity that can create more products and services produced in the community, so improving the community's economy. Economy Growth is a yardstick for economic and regional growth; rising GRDP will be proportionate to rising Economy Growth. Final consumption by households, final consumption by non-profit institutions that serve households, investment, and net exports all contribute to Gross Regional Domestic Product.

## Research Framework and Hypotheses

Below is the framework and hypotheses of this research:



**Figure 1.** Frameworks

H1 : Local Own-source Revenue influences Capital Expenditures

H2 : General Allocation Fund influences Capital Expenditures

H3 : Special Allocation Fund influences Capital Expenditures

H4 : Economy Growth influences Capital Expenditures

H5 : The effect of Local Own-source Revenue and Capital Expenditures can be moderated by Economic Growth.

H6 : The effect of General Allocation Fund and Capital Expenditures can be moderated by Economic Growth

H7 : The effect of Special Allocation Fund and Capital Expenditures can be moderated by Economic Growth

## RESEARCH METHODS

The sort of study that occurs in this publication is quantitative research. Purposive sampling was used in this study, which had a population of all districts/cities in Central Java. The sample was drawn from districts/cities with comprehensive Local Government Budget reports for 2018-2021. The district/city Local Government Budget reports in Central Java for 2018-2021 serve as the source of data for this study, using information collected through the documentation study approach.

The analysis was carried out using multiple linear regression analysis and Moderated Regression Analysis (MRA) as testing the moderating hypothesis. MRA is a data analysis that uses more than one independent variable to determine how much influence the dependent variable and independent variables have (Ghozali, 2011). MRA is a data analysis used to determine whether the moderating

variable strengthens or weakens the relationship between the dependent variable and the independent variable. This data was processed using the SPSS 23 application.

## RESULTS AND DISCUSSION

### Model accuracy test (T-test)

**Table 1.** T-Test Results

	t count	t table	Sig.	Descriptions
LOR	6.927	1.977	.000	H1 Accepted
GAF	3.479	1.977	.001	H2 Accepted
SAF	0.629	1.977	.530	H3 Rejected
EG	1.235	1.977	.219	H4 Rejected
LOR_EG	0.594	1.977	.553	H5 Rejected
GAF_EG	4.717	1.977	.000	H6 Accepted
SAF_EG	-5.230	-1.977	.000	H7 Accepted

### Multiple Linear Regression Analysis

**Table 2.** Multiple Linear Regression Analysis Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.369E+10	3.588E+10		-.382	.703
LOR	.282	.041	.523	6.927	.000
GAF	.201	.058	.305	3.479	.001
SAF	.077	.122	.051	.629	.530
EG	.001	.000	.092	1.235	.219
<b>Adjusted R<sup>2</sup></b>					<b>.582</b>

The following regression equation is derived from the findings of the regression coefficients in Table 2 above:

$$CE = -13689976827.387 + 0.282LOR + 0.201GAF + 0.077SAF + 0.001EG + e$$

It is possible to derive from the given equation The constant value is -13689976827.387, which means that the Local Own-source Revenue, General Allocation Fund, Special Allocation Fund, and Economy Growth variables are all equal to zero, implying that capital expenditures have declined. The adjusted score  $R^2$  of 0.582 indicates that the independent variables (Local Own-source Revenue, General Allocation Fund, Special Allocation Fund, and Economy Growth) explain 58% of the dependent variable (Capital Expenditure), while the remaining 42% is explained by another variable from other research.

### Moderated Regression Analysis (MRA)

**Table 3.** Moderated Regression Analysis (MRA) Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Adjusted R <sup>2</sup>
	B	Std. Error	Beta			
(Constant)	1.139E+11	4.816E+10		2.365	.020	
LOR_EG	5.491E-16	.000	.158	.594	.553	.462
GAF_EG	9.975E-15	.000	2.167	4.717	.000	.397
SAF_EG	-2.138E-14	.000	-1.294	-5.230	.000	.209

Based on the MRA test findings, the regression equation is:

$$CE = 113892951879,894 - 0.007LOR - 0.046GAF + 0.0776SAF - 0.003EG + 6.491E-16 EG * LOR + 9.975E-15 EG * GAF - 2.138E-14 EG * SAF + e$$

Table 3 reveals the constant value displays the number 113892951879,894 in the positive direction, implying that when the capital expenditure variable is constant, the variables Local Own-source Revenue, General Allocation Fund, Special Allocation Fund, and Economy Growth will not experience a drop or increase in value.

1. The adjusted R<sup>2</sup> of 0.462 indicates that the independent variable (Local Own-source Revenue) and the moderating variable (Economy Growth) may explain 46% of the dependent variable (Capital Expenditure), while the remaining 54% is explained by another variable from other research
2. The adjusted R<sup>2</sup> of 0.397 indicates that the independent variable (General Allocation Fund) and moderating variable (Economy Growth) may explain 40% of the dependent variable (Capital Expenditure), while the remaining 60% is explained by another variable from other study
3. The adjusted R<sup>2</sup> of 0.209 indicates that the independent variable (Special Allocation Fund) and moderating variable (Economy Growth) may explain 21% of the dependent variable (Capital Expenditure), while the remaining 79% is explained by another variable from other research.

## Discussion

### The Effect of Local Own-source Revenue on Capital Expenditure

The results of this study show that Local Own-source Revenue has an influence on capital spending. This is demonstrated by the significance value of 0.000, which is less than 0.05. As a result, it is possible to conclude that there is a considerable relationship between municipal revenue and capital expenditures. The Local Own-source Revenue variable has a regression coefficient value of 0.282, suggesting that a rise in 1 unit causes an increase in the Capital Expenditures variable by the regression value, but with the caveat that other variables have a value of 0.

This is the line with the research of Ferdiansyah et al. (2018) which conducted a study of the influence between local revenue and capital expenditures for districts/cities in Kalimantan in 2011-2016 which had the results of local revenue having an effect on capital expenditure. This proves that the more income the region receives, the more certain capital expenditures will increase. The large proportion of capital expenditure indicates that Local Own-source Revenue is used to finance public facilities that are channeled to Capital Expenditure. Tourism revenue is the third largest financial source, this supports that the greater the Local Own-source Revenue, the higher capital expenditure will be. Local Own-source Revenue is focused on Capital Expenditures so that regional income has a significant effect on Capital Expenditures, thus the more Local Own-source Revenue obtained, the more it allows the region to meet its spending needs without having to depend on the central government

### The Effect of General Allocation Funds on Capital Expenditure

The results of the research show that the general allocation fund has an influence on capital spending. The significance value found is 0.001, which is less than 0.05, indicating that there is a substantial relationship between general allocation funds and capital expenditures. The General Allocation Fund variable has a regression coefficient value of 0.201, suggesting that an increase in unit causes an increase in the Capital Expenditures variable by the regression value, but with the caveat that other variables have a value of 0.

This is the line with the research of Juniawan & Suryantini (2018) who conducted research on the effect of general allocation funds with district/city capital expenditures in Bali 2014-2016 which resulted in general allocation funds having an effect on capital expenditures. This proves that if the general allocation fund increases, it can also be focused on increasing capital expenditure so that it can be used to improve public services. The General Allocation Fund given by the government to the

regions is certainly different from one region to another because of course the needs of each region are different according to certain considerations. Starting from this, local governments are required to be wiser and better in managing the General Allocation Fund as much as possible, the goal of which is focused on improving the welfare of the community and providing optimal services to the community in various sectors.

### **The Effect of Special Allocation Funds on Capital Expenditure**

The results of the research that have been carried out prove that the special allocation funds have no effect on capital expenditures. This is proven by the significance value obtained is 0.530, the value is greater than 0.05. so it can be concluded that there is no significant effect between special allocation funds and capital expenditures.

The regression coefficient value for the Special Allocation Fund variable is 0.077, indicating that when there is an increase in 1 unit, it causes an increase in the Capital Expenditures variable by the regression value, but with a note that other variables have a value of 0.

This is the line with the research of Ferdiansyah et al. (2018) which conducted a study of the influence between and special allocations with district/city capital expenditures in Kalimantan in 2011-2016 which had the results of special allocation funds having no effect on capital expenditures. This proves that more special allocation funds is channeled to finance special regional expenditures such as health, agricultural education, etc. The Special Allocation Fund allocates funds not only to the Capital Expenditures so that it can allow these funds to dominate special regional expenditures such as being channeled more for health, agricultural education.

### **The Effect of Economy Growth on Capital Expenditure**

The results of the research that has been done prove that Economy Growth has no effect on capital expenditures. This is proven by the significance value obtained is 0.219, the value is greater than 0.05. so it can be concluded that there is no significant effect between economic growth and capital expenditures. The regression coefficient value of the Economy Growth variable is 0.001 indicating that when there is an increase in 1 unit, it causes an increase in the Capital Expenditures variable by the regression value, but with a note that other variables have a value of 0.

This is the line with the research of Alpi & Sirait (2022) who conducted research on the influence between Economy Growth and capital expenditures in districts/cities in North Sumatra which had results that Economy growth had no effect on capital expenditures. This is because Economy Growth does not provide funds directly to capital expenditures but only shows the condition of the regional economy.

### **The Effect of Local Own-source Revenue on Capital Expenditure with Economy Growth as Moderating Variable**

The results of the research that have been carried out prove that Economy Growth cannot moderate the effect between Local Own-source Revenue and Capital Expenditures. This is proven by the significance value obtained is 0.439, the value is greater than 0.05. so it can be concluded that Economy Growth cannot moderate the influence between Local Own-source Revenue and Capital Expenditures. Score coefficient regression moderation between Local Own-source Revenue Economy Growth has value 6.491E-16 which has meaning effectiveness interaction contributed moderation that is positive or compared to straight

This is the line with the research of Fauzi (2021) which showed that Economy Growth was unable to moderate the influence between Local Own-source Revenue and Capital Expenditures. The average economic growth in regencies/cities in Central Java in the 2018-2021 period has decreased, this shows that the government's performance is not optimal and the occurrence of a state disaster, namely the COVID-19 pandemic, has thrown the economy into disarray. In this study, Local Own-source Revenue is more widely used to finance other expenditures such as routine expenditures, operational

expenditures and goods/services expenditures so that economic growth cannot be a determining factor in the relationship between Local Government Revenue and capital expenditures.

### **The Effect of General Allocation Funds on Capital Expenditures with Economy Growth as Moderating Variable**

The results of the research that have been carried out prove that Economy Growth can moderate the effect between General Allocation Fund and Capital Expenditures. This is proven by the significance value obtained is 0.000, the value is smaller than 0.05. so it can be concluded that Economy Growth can moderate the influence between General Allocation Fund and Capital Expenditures. Score coefficient regression moderation between General Allocation Fund Economy Growth has value 9.975E-15 which has meaning effectiveness interaction contributed moderation that is positive or compared to straight

This is the line with the research of Sugiardi & Supadmi (2014) which have results that Economy Growth can moderate the influence between General Allocation Fund and Capital Expenditures. The regional government still needs central government assistance in the form of General Allocation Fund to improve public facilities and infrastructure to fund regional infrastructure development. Good economic growth in districts/cities in Indonesia will affect regional development, but this will not be a determining factor in the relationship between General Allocation Fund and capital expenditure, because General Allocation Fund and Capital Expenditures have the same function and purpose. Regional government policies affect regional development through improving public facilities and infrastructure as well as public infrastructure. Economy Growth for a region illustrates the existence of a workforce that reduces the unemployment rate so that people's welfare increases. Good economic growth in the region affects regional development. Economic growth can be a determining factor for the influence of General Allocation Fund on capital expenditure.

### **The Effect of Special Allocation Funds on Capital Expenditures with Economy Growth as Moderating Variable**

The results of the research that have been carried out prove that Economy Growth can moderate the effect between Special Allocation Fund and Capital Expenditures. This is proven by the significance value obtained is 0.000, the value is smaller than 0.05. So, it can be concluded that Economy Growth can moderate the effect between Special Allocation Fund and Capital Expenditures. Score coefficient regression moderation between Special Allocation Fund Economy Growth has the value -2.138E-14 which has meaning effectiveness interaction contributed moderation that is negative or compared to backwards

This is the line with the research of Soesilo & Asyik (2021) which showed that Economy Growth results can moderate the effect between Special Allocation Fund and Capital Expenditures. This proves that the higher the Economy Growth, the greater the influence between Special Allocation Fund and Capital Expenditures, because local governments are already in line with increasing modal spending; with the shape of land, roads, machinery equipment, roads etc.

The use of Special Allocation Fund is intended to provide services to the public in the form of development, procurement, improvement, repair of infrastructure that have a long economic period. the greater of the Economy Growth, the better will be the success of the development of a region so that it can encourage both foreign and local investment, providing low-cost housing. In the districts/cities in Indonesia, the research year illustrates the link between economic growth and the relationship between Special Allocation Fund and capital expenditure. Each variable in this study has a function and purpose that is in line, so that local governments can increase capital spending.

## **CONCLUSION**

The purpose of this study was to analyze the influence factors of Local Own-source Revenue, General Allocation Funds, Special Allocation Fund on Capital Expenditure with Economic Growth as a

moderating variable in the Regencies/Cities of Central Java Province consisting of 26 districts and 9 cities. Based on the results of the analysis using SPSS version 23 shows that:

1. The Local Own-source Revenue influences Capital Expenditures
2. The General Allocation Fund influences Capital Expenditures
3. The Special Allocation Fund has no influence on Capital Expenditures
4. Economic Growth has no influence on Capital Expenditure
5. Economic Growth cannot moderate the effect of Local Own-source Revenue and Capital Expenditures
6. Economy Growth can Moderate the Effect between General Allocation Fund and Capital Expenditures
7. Economy Growth can Moderate the Effect between Special Allocation Fund and Capital Expenditure
8. Future research is expected to use other moderating variables that can moderate the relationship between regional income and capital expenditure, such as Human Development Index (HDI) and can also add other independent variables such as profit sharing funds.

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