# THE EFFECT OF LOCAL OWN-SOURCE REVENUE AND GENERAL ALLOCATION FUNDS ON CAPITAL EXPENDITURES WITH ECONOMIC GROWTH AS A MODERATING VARIABLE

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## ABSTRAK

Permasalahan dalam penelitian ini ialah realisasi pendapatan asli daerah yang lebih rendah dibandingkan dengan anggarannya, kemudian masih rendahnya realisasi belanja modal jika dibandingkan dengan belanja daerah. Penelitian ini bertujuan untuk menguji pengaruh Pendapatan Asli Daerah dan Dana Alokasi Umum terhadap Belanja Modal dengan Pertumbuhan Ekonomi sebagai variabel moderasi (Studi kasus pada Kab/Kota Provinsi Jawa Barat 2018-2022). Penelitian ini menggunakan metode kuantitatif dengan pendekatan deskriptif. Sampel yang digunakan ialah sebanyak 135 sampel dengan teknik pengambilan sampelnya ialah sampling jenuh. Dalam penelitian ini, alat yang digunakan ialah SPSS 23. Pengujian hipotesis pada penelitian ini menggunakan analisis regresi berganda untuk menguji pengaruh langsung variabel independen dengan variabel dependen dan analisis regresi moderasi untuk menguji interaksi Pertumbuhan Ekonomi dalam memperkuat atau memperlemah pengaruh variabel independen dengan variabel dependen. Hasil dari penelitian ini menunjukkan bahwa Pendapatan Asli Daerah dan Dana Alokasi Umum berpengaruh positif terhadap Belanja Modal. Selanjutnya dengan menggunakan regresi moderasi menunjukkan hasil bahwa Pertumbuhan Ekonomi tidak dapat memoderasi pengaruh Pendapatan Asli Daerah dan Dana Alokasi Umum terhadap Belanja Modal.

**Kata Kunci :** pendapatan asli daerah, dana alokasi umum, belanja modal, pertumbuhan ekonomi

## ABSTRACT

The problem in this study is the realization of regional original income which is lower than the budget, then the realization of capital expenditure is still low when compared to regional spending. This study aims to examine the effect of Regional Original Income and General Allocation Funds on Capital Expenditure with Economic Growth as a moderating variable (Case study in Districts/Cities of West Java Province 2018-2022). This study uses a quantitative method with a descriptive approach. The sample used is 135 samples with the sampling technique is saturated sampling. In this study, the tool used was SPSS 23. The hypothesis testing in this study used multiple regression analysis to test the direct effect of independent variables on the dependent variable and moderation regression analysis to test the interaction of economic growth in strengthening or weakening the effect of the independent variables on the dependent variable. The results of this study indicate that Local Own Revenue and General Allocation Funds have a positive effect on Capital Expenditures. Furthermore, using moderation regression shows the results that Economic Growth cannot moderate the influence of Local Own Revenue and General Allocation Funds on Capital Expenditures.

**Keywords :** local revenue, general allocation fund, capital expenditure, economic growth

## INTRODUCTION

Regional Autonomy refers to the rights, authorities, and responsibilities of autonomous regions to manage and self-regulate government affairs and the interests of local communities in the context of the Unitary State of the Republic of Indonesia (Law No. 23 of 2014 concerning Regional Government). Regional autonomy aims to reduce the dependence of local governments on the central government by giving local governments the power to manage and use budgets or finances administratively (Huda & Sumiati, 2019).

It is expected that the district or city government is able to manage revenue effectively, so that it can be used for expenditures that have productive value. Productive spending will help increase the income received and finance regional needs. PP No. 12 (2019) explains the delegation of authority from the central government to local governments, so that local governments can manage their regions independently with a wider scope and minimize interference from the central government. Therefore, district/city governments must be responsible for managing their own finances. Although in 2017 the Ministry of Finance reported that local governments have not managed their finances effectively and efficiently, while funds from the central government have always increased from year to year (Fahrezi et al., 2021).

**Table 1 Budget and Realization Data of Local Revenue**

| Year | PAD Budget | PAD Realization |
|---|---|---|
| **2018** | Rp 21,195,090,068,866.00 | Rp 20,597,546,126,011.40 |
| **2019** | Rp 23,284,341,940,905.60 | Rp 22,906,642,530,056.40 |
| **2020** | IDR 24,996,701,764,967.10 | IDR 21,393,480,065,533,30 |
| **2021** | IDR 24,518,939,261,620.30 | IDR 25,018,097,836,849,10 |
| **2022** | IDR 48,140,180,496,283.00 | Rp 11,441,542,923,486.20 |

Source: djpk.kemenkeu

Based on the table above, it shows that in 2018, 2019, and 2020 the realization value is still lower than the budget. According to the governor of West Java, this occurred due to a decrease in revenue from the Motor Vehicle Tax (PKB) sector, Motor Vehicle Title Transfer Fees (BBNKB) I and II (Pamungkas, 2020).

**Table 2 Comparison of Realization of Regional Expenditure and Capital Expenditure in West Java**

| Year | Regional Expenditure | Capital Expenditure | Percentage |
|---|---|---|---|
| **2017** | 84.090.361.763.980 | 16.214.186.040.105 | 19% |
| **2018** | 86.629.455.189.099 | 14.699.684.519.382 | 17% |
| **2019** | 93.883.878.199.727 | 17.103.767.950.377 | 18% |
| **2020** | 89.920.615.303.706 | 12.397.223.793.487 | 14% |
| **2021** | 93.166.314.265.289 | 13.484.701.293.684 | 14% |

Source : djpk.kemenkeu

Local governments need to allocate capital expenditure in the APBD of at least 30% of regional expenditure (Law Number 23 of 2014 concerning Regional Government). Meanwhile, the data above shows that overall the Regency / City in West Java allocates for the implementation of capital expenditures for 5 consecutive years is still relatively low below 30%,

This study replicates previous research by (Adilistiyono & Retnani, 2019) but with changes in Economic Growth as a Moderating Variable which is believed to moderate the effect of Regional Original Revenue and General Allocation Funds on Capital

Expenditures. Based on this, the researcher draws the title "The Effect of Regional Original Revenue and General Allocation Fund on Capital Expenditure with Economic Growth as a Moderating Variable (Case study in Kab / City of West Java Province 2018-2022)".

## RESEARCH METHOD

In this study using quantitative research methods with the type of hypothesis testing research with causal research, the research time dimension uses panel data, where panel data is a combination of time series data and cross section data. The time series data in this study is for the period 2019 - 2021 and the cross section data is for 18 regencies and 9 cities in West Java Province. The research depth of this research is a statistical study with indirect data collection methods in the form of archival data. The type of data is secondary data research taken from the website djpk.kemenkeu.go.id and jabar.bps.go.id, with sampling techniques using saturated sampling where all populations are sampled as many as 135 samples.

## RESULTS AND DISCUSSION

**Table 4 Normality Test**

| | | Unstandardized Residual |
|---|---|---|
| N | | 135 |
| Normal Parameters[a,b] | Mean | -.0000217 |
| | Std. Deviation | 195339538949.50992000 |
| Most Extreme Differences | Absolute | .045 |
| | Positive | .045 |
| | Negative | -.042 |
| Test Statistic | | .045 |
| Asymp. Sig. (2-tailed) | | .200[c,d] |

Based on the data above, the results of the *One-Sample Kolmogorov-Smirnov Test* test obtained a value of *Asymp. Sig* of 0.200> 0.05 which indicates that the data is normally distributed. So that the data has fulfilled the assumption of normality because the resulting significance value is 0.200 where the value is greater than 0.05.

**Table 5. Multicollinearity Test**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| (Constant) | -14808670781.322 | 47758628443.260 | | -.310 | .757 | | |
| Regional Original Revenue | .452 | .037 | .974 | 12.334 | .000 | .387 | 2.584 |
| General Allocation Fund | .220 | .044 | .276 | 4.986 | .000 | .788 | 1.270 |
| Economic Growth | -2458924.530 | 445147.845 | -.437 | -5.524 | .000 | .386 | 2.590 |

Based on the table above, the *tolerance* value shows the numbers 0.386 to 0.788 which means that the *tolerance* value of all variables <0.10 for the VIF value shows the numbers 1,270 to 2,590 which means that all variables <10. So it can be concluded that the regression model is free from multicollinearity.

**Table 6 Autocorrelation Test**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .827[a] | .684 | .677 | 197563590186.350 | 1.275 |

It is known that the value of N = 135, K = 2, dU = 1.7645, dL = 1.6738, Dw = 1.275, (4 - 1.275) = 2.725. The results above show that the Dw value of 1.275 is smaller than the dU value of 1.7645, meaning there is no positive autocorrelation and the value (4 - Dw) of 2.725 is greater than dU, meaning there is no negative autocorrelation. So it can be concluded that the data does not occur positive or negative autocorrelation problems in this study.

**Table 7 Heteroscedasticity Test**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 123701459990.474 | 20950320589.536 | | 5.905 | .000 |
| Economic Growth | 349847.453 | 264983.677 | .160 | 1.320 | .189 |
| Local Revenue | -1.003E-14 | .000 | -.167 | -1.391 | .167 |
| General Allocation Fund | 2.056E-14 | .000 | .158 | 1.651 | .101 |

Based on the table above, the significant value of Regional Original Revenue is 0.167> 0.05. The significant value for the General Allocation Fund is 0.101> 0.05. The significant value for Economic Growth is 0.189 > 0.05. So it can be concluded that of the four variables there are no symptoms of heteroscedasticity.

**Table 8 Coefficient of Determination Analysis**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .781[a] | .610 | .604 | 218536204942.348 |

Based on the output above, it is known that the R Square value is 0.610, this means that the effect of Regional Original Revenue and General Allocation Fund on Capital Expenditure is 61%. Meanwhile, the remaining 39% of capital expenditure is influenced by other variables not examined. Then the R value shows a result of 0.781 indicating a strong positive correlation between the independent variable and the dependent variable.

**Table 9 Partial Test (t Test)**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 6119651612.427 | 52662009474.759 | | .116 | .908 |
| Regional Original Revenue | .306 | .028 | .658 | 10.919 | .000 |
| General Allocation Fund | .177 | .048 | .223 | 3.693 | .000 |

The first hypothesis is that local own-source revenue has a positive effect on capital expenditure. Based on the test results in the table above, the significance value of local revenue is 0.000 <0.05 and B is positive, so it can be concluded that local revenue has a significant positive effect on capital expenditure. The second hypothesis is that general allocation funds have a positive effect on capital expenditure. Based on the table above, it is known that the significance value is 0.000 <0.05 and the B value is positive, so it can be concluded that general allocation funds have a positive effect on capital expenditure.

**Table 10 Simultaneous Test (F Test)**

| Model | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|
| Regression | 98646058807726280000000000.000 | 2 | 49323029403863140000000000.000 | 103.277 | .000[b] |
| Residual | 63040656189197070000000000.000 | 132 | 477580728706038400000000.000 | | |
| Total | 161686714996923350000000000.000 | 134 | | | |

Based on the output above, it is known that the significance value for the simultaneous influence of X1 and X2 on Y is 0.000 <0.05 and the calculated F value is 103.277> F table 3.06, so it can be concluded that there is a simultaneous influence of X1 and X2 on Y.

**Table 11 Multiple Linear Regression**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 6119651612.427 | 52662009474.759 | | .116 | .908 |
| Regional Original Revenue | .306 | .028 | .658 | 10.919 | .000 |
| General Allocation Fund | .177 | .048 | .223 | 3.693 | .000 |

Based on the table above, the multiple linear regression equation model is as follows: $\mathbf{Y = 6119651612{,}427 + 0{,}306\, X_1 + 0{,}177\, X_2 + e}$. The formula can be explained as follows: (1) The constant value of 6119651612,427 means that if the Regional Original Revenue (X1) and the General Allocation Fund (X2) are equal to 0 (*constant*) then the Capital Expenditure (Y) value will increase by 6119651612,427. (2) The regression coefficient value of Local Revenue (X1) has a value of 0.306 with a positive relationship direction. Thus it can be concluded that if there is an increase of one unit of regional own-source revenue variable and other variables are fixed, then capital expenditure will increase by 0.306. (3) The regression coefficient value of the General Allocation Fund (X2) has a value of 0.177 with a positive relationship direction. Thus it can be concluded that if there is an increase of one unit of the general allocation fund variable and other variables are fixed, then capital expenditure will increase by 0.177.

**Table 12 *Moderated Regression Analysis* (MRA)**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |

| | | | | | |
|---|---|---|---|---|---|
| (Constant) | -45574893543.306 | 64685255313.281 | | -.705 | .482 |
| Regional Original Revenue | .393 | .057 | .846 | 6.938 | .000 |
| General Allocation Fund | .294 | .063 | .370 | 4.667 | .000 |
| Economic Growth | -2043444.684 | 1146756.986 | -.363 | -1.782 | .077 |
| PAD * PE | 7.642E-7 | .000 | .327 | 1.709 | .090 |
| DAU * PE | -1.226E-6 | .000 | -.327 | -1.320 | .189 |

Based on the table above, the multiple linear regression equation model is as follows: <Y = a + 0.393 $X_1$ + 0.294 $X_2$ - 2,043,444.684 M + 7.642E-7 $X_1$M - 1.226E-6 $X_2$M + e.

It is known that the significance value of the interaction variable between Local Revenue and Economic Growth is 0.090> 0.05, so it concludes that the Economic Growth variable cannot moderate the effect of the Local Revenue variable on the Capital Expenditure variable. It is known that the significance value of the interaction variable between the General Allocation Fund and Economic Growth is 0.189> 0.05, it is concluded that the Economic Growth variable cannot moderate the effect of the General Allocation Fund variable on the Capital Expenditure variable.

## Discussion

The theory underlying this research is the Stewardship Theory developed by Donaldson and Davis (1991) in Gunawan (2016) where this theory explains the situation where management is not motivated by individual goals but is more focused on the main goal, namely for the benefit of the organization (Safitri, 2019). The implications of the stewardship theory for this study can explain the existence of the government as an institution that can be trusted in carrying out its duties and functions properly to achieve public welfare (Rizal & Hermanto, 2019).

**The Effect of Local Revenue on Capital Expenditure.** The results of the analysis and hypothesis testing of local own-source revenue have a positive effect on capital expenditure. Large local revenue is a sign that the region has good local financial management. Stewardship theory relates to how local government leaders are responsible for managing local revenue. Own-source revenues affect capital expenditures which include investment and development in the long term. The application of stewardship ensures that local revenue is used effectively for the benefit of society and sustainable development. This study agrees with research (Fahrezi et al., 2021) and (Soesilo & Asyik, 2021) which state that local revenue has a positive effect on capital expenditure.

Based on Law No. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, Regional Original Revenue is revenue generated by the region and collected based on regional regulations in accordance with statutory regulations. The relationship between stewardship theory and capital expenditure on PAD is that stewardship theory encourages local governments to manage capital expenditure with transparency, accountability and efficiency.

**Effect of General Allocation Fund on Capital Expenditure.** The results of the analysis and hypothesis testing of the General Allocation Fund have a positive effect on Capital Expenditure. The indication of this result is that the General Allocation Fund is one of the sources of financing for Capital Expenditure to procure facilities and infrastructure in order to provide good public services from local governments to the community. Stewardship theory relates to the responsibility of local government leaders in managing the General Allocation Fund. The principle of stewardship ensures that funds are used wisely and efficiently to support capital expenditures, promote sustainable development, and transparency in reporting. This research agrees with research (Huda & Sumiati, 2019) and (Sari & Hermanto, 2018) which state that the General Allocation Fund has a positive effect on Capital Expenditure.

Based on Law No. 33 of 2004, the General Allocation Fund (DAU) is a fund sourced from APBN revenue allocated with the aim of equalizing regional financial capacity in the context of decentralized implementation. By applying the stewardship theory in the use of DAU for capital expenditure, it is expected that a more transparent, accountable and efficient government will be created in managing public budgets for the benefit of development and the welfare of society as a whole.

**Economic Growth Moderates the Effect of Local Revenue on Capital Expenditure**. <The results of this study found that economic growth cannot moderate the effect of local revenue on capital expenditure. Economic growth is not a variable that can measure or change the relationship between PAD and capital expenditure because capital expenditure is more determined by the ability and policies of local governments in managing resources and encouraging economic activity in their regions. The results of this study agree with research (Widiasmara, 2019) and (Dini et al., 2021) which state that Economic Growth cannot moderate the effect of Regional Original Revenue on Capital Expenditure. This study disagrees with research conducted by (Soesilo & Asyik, 2021) and (Pratama, 2019) which states that Economic Growth can moderate the effect of Regional Original Revenue on Capital Expenditure.

The relationship between the theory of stewardship and PAD on capital expenditure affects economic growth as by applying the principles of stewardship, local governments will use PAD more efficiently and on target for capital expenditure. This will increase investment in infrastructure development and other projects that support economic growth (Ismiyati, 2018).

Economic Growth Moderates the Effect of General Allocation Fund on Capital Expenditure. <The results of this study found that economic growth cannot moderate the effect of the General Allocation Fund on capital expenditure. Economic growth is not a variable that can measure or change the relationship between DAU and capital expenditure because capital expenditure is more determined by the ability and policies of local governments in managing resources and encouraging economic activity in their regions. The results of this study agree with research (Dini et al., 2021) and (Pratama, 2019) which state that Economic Growth cannot moderate the effect of the General Allocation Fund on Capital Expenditure. This study disagrees with research conducted by (Widiasmara, 2019) which states that Economic Growth can moderate the effect of the General Allocation Fund on Capital Expenditure.

The relationship between the theory of stewardship and the General Allocation Fund on capital expenditure with economic growth is that the application of the principles of stewardship in the management of DAU for capital expenditure can have a positive impact on regional economic growth. As DAU management with accountability and transparency can improve the quality of public services such as education, health, and other basic services (Mahardika & Riharjo, 2019).

## CONCLUSIONS

Local Revenue has a positive and significant effect on capital expenditure in the Regency / City of West Java Province. General Allocation Fund has a positive and significant effect on capital expenditure in the Regency / City of West Java Province. Economic Growth cannot moderate the effect of local revenue on capital expenditure in the Regency / City of West Java Province. Economic Growth cannot moderate the effect of general allocation funds on capital expenditures in the Regency / City of West Java Province. Future researchers are expected to add other variables that affect capital expenditure, such as special allocation funds, revenue sharing funds, population, remaining budget financing, and others, so as to increase the depth and completeness of research analysis. The government is expected to increase the allocation and realization of capital expenditures by conducting participatory, rational, and performance-based planning and budgeting, so as to improve the quality and impact of regional development. The community is expected to increase participation and contributions in paying local taxes and levies so as to increase local revenue and regional independence in financing capital expenditures.

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