The Relationship of Local Own Revenues and General Fund Allocation on Capital Expenditure of Local Government

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Abstract— The percentage of personnel expenditure, spending on goods and services, and other (routine) expenditures in all provinces in Indonesia has been increasing every year with a relatively constant value. This study aims to determine the relationship of local own revenue and general fund allocation on capital expenditure in local government in West Java Province 2015. The method used in this research is descriptive and verification methods. The population and sample in this research were 26 districts in West Java. The statistical test is multiple correlation analysis. The results showed that the Local Own Revenue has a very strong positive relationship with capital expenditure of 0.9013. Similarly, the General Allocation Fund has a moderate positive relationship with capital expenditure of 0.58987. In addition, by using multiple correlations, it is showed that Local Revenue and the General Allocation Fund have a very strong positive relationship with capital expenditure of 0,9413.

Keywords: *Local Revenue, General Fund Allocation, Capital Expenditure, Local Government Finance*

I. INTRODUCTION

The percentage of personnel expenditure, spending on goods and services, and other (routine) expenditure in all provinces in Indonesia has been increasing every year with a relatively constant value. It is inversely proportional to the Capital Expenditure which decreased approximately 8% in the last 5 years. The component that has the largest proportion of recurrent expenditure is personnel expenses. Personnel expenditure is an expenditure that is used to transform and pay the salaries of government employees, or better known as the Civil Servants. In this case, the personnel expenditure is seen as fixed expenditures, which the amount will most likely not be reduced because the government cannot reduce the number of civil servants through the mechanism of termination, as was done by the private sector. Number of Civil Servants will be reduced with the retirement mechanism. Therefore, the government, including local government, is very difficult to reduce the number of personnel expenditure.

In the districts in West Java, the capital expenditure, which is the productive expenditure, still has a relatively small proportion and only reached 20% of the total state budget. The results of BPK audit shows that from 2010 to 2012, the percentage of capital expenditures to total expenditures of local government continues to decline. In 2012 to 2013, the same percentage, namely 15%, was the smallest percentage of capital

expenditures during the fourth year. Although in 2014 the percentage increased to 21%, but the number is still relatively small. We can see more details on capital expenditure in every district and urban district in West Java in 2015, the capital expenditure in 26 Districts in West Java in 2012. The average spending of capital expenditure is 20.83%, with details of nine local governments have to make capital expenditures above average and the rest, 17 local governments, had the capital expenditure below the average. A total of 65.39% of local government in West Java is still very few local financial allocating the capital expenditure of total local expenditure. There is no exact measure of the amount of capital expenditures. Capital expenditure allocation tailored to local needs better facilities and infrastructure for the smooth administration tasks as well as for public facilities [1]. The situation indicates that local governments allocate their spending on sectors that are less necessary and more widely used for routine expenditures which are less productive than to improve public services, because of the 100% local expenditure it is only 20.83% for capital expenditures in order to procure assets for investments to improve public services.

Relating to public services, capital expenditure is very important to note because it will increase the productivity of the local economy. More capital expenditure, the higher the productivity of the economy as capital expenditure in the form of infrastructure clearly has an impact on economic growth and job creation [2]. The availability of good infrastructure is expected to create efficiency and effectiveness in the various sectors, the productivity of society are expected to be higher and increased the economic growth [3]. Then it will be better if the allocation of local expenditure is used for capital expenditures that were oriented public. Utilization of expenditure should be allocated for productive things, eg to carry out development activities, repair of public roads and others [4].

In order to improve the allocation of capital expenditure, it is important to know the variables that affect the capital expenditure. Sources of funding for the region consists of: Local Owned Revenue (LOR), Balance Fund (the Fund Assistance and Grant, General Allocation Fund (GAF) and Special Allocation Fund (SAF)), and the local government loan. The three sources are directly managed by the local government through the budget, in cooperation with the Central Government [5].

The source of local revenue in the form of revenue and balance funds affects the local expenditure as a whole [1]. Although the proportion of revenue is amounted to only a maximum of 10% of total revenues, its contribution to the budget allocation is large enough. The local government tried to increase local own revenue (LOR) through local taxes, as a source of local revenue in increasing capital expenditure. The influence of local tax contribution on regional revenue has shown that the increase in local own revenue is able to increase capital expenditure.

Each local has a capability that is not in its region finance operating activities respectively, this led to fiscal imbalances between regions. To overcome the inequality of the central government balance transfer funds to each region. The financial balance of the central-local is a system of government financing within the framework of a unitary state [6], which includes the financial distribution between central and local governments so that equal distribution among regions proportional, democratic, fair, and transparent with regard to the potential, conditions, and the needs of the region aligned with the obligations and the division of authority and the authority of government, including financial management and supervision.

One of the balancing funds is the General Allocation Fund (GAF). The GAF is the funds from the central government taken from the state budget allocated for the purpose of financial equalization between regions to fund expenditure needs of local governments in the implementation of decentralization. In connection with the financial balance between the Central Government and Local Government, it is a consequence of the transfer of power from central government to local governments. With the funds, local governments use to provide better services to the public. The transfer of funds in the long-term effect on the GAF capital expenditures and reducing the number of transfers of funds can cause a reduction in capital expenditure spending.

II. LOCAL OWN REVENUE, GENERAL ALLOCATION FUND, AND CAPITAL EXPENDITURE

Local finance holds a very important role in organizing the activities of government and public service. Therefore, the management should be carried out effectively and efficiently so that appropriate and effective. In this regard, the various ways to obtain financial resources and to any such financial resources used are the major concerns for local governments. As state finance, local finance consists of directly managed regional financial and wealth separated areas. Included in the financial area is directly managed the local budget and inventory items belonging to the area, while included in the local finance separated include regional-owned enterprises.

Regional income is basically a local revenue in the form of an increase in assets or decrease in debt from various sources during the period of the fiscal year concerned. The Government Accounting Standards No. 2 about the Budget Realization Report, defines "revenue as all receipts of the State Treasury accounts/region that add equity funds in the current budget period of the year in question are the rights of government and does not have to be repaid by the government". Meanwhile, according to UU No. 32 of 2004 on Regional Government and

Law No. 33 of 2004 on Financial Balance between the Central Government and Local Government, the local revenue is "Rights of Local Government which is recognized as an addition to net asset value in the period concerned."

Local own revenue (LOR) is a source of income which must always be continuously driven growth. In this regional autonomy is highly demanded independence of the Local Government in financing of regional development and public service. LOR of the local government is important because LOR demonstrate the ability of regions in mobilizing its own financial resources which later become a performance measure for Local Government in the process of regional economic development. LOR is local revenue derived from the original source local economy [7]. Local own revenue is a regional income sourced from local revenue. Local own revenue consists of local taxes, levies, wealth management outcomes separated areas and other legitimate local revenues. Local own revenue is actually a mainstay of the region to support the governance and financing of development. The greater the amount of money available, the more possibilities for activities or work that can be carried out.

General Allocation Fund is a source of local revenue derived from income outside the region or a pure fund, which the user powers handed over to the local government. Financial balance is a consequence of the transfer of power from central government to local governments. Thus, there is significant transfer in the state budget from central government to local governments. The local government can use the General Allocation Fund to provide services to the public is realized through capital expenditures.

III. RESEARCH METHODOLOGY

The method used is descriptive verification method aims to determine the effect of local revenue and general allocation funds towards capital expenditure at local government lat the level of Districts in West Java. Local own revenue and General Allocation Fund are independent variables and capital expenditures as the dependent variable.

The population used in this study is the Local Government at the level of districts in West Java, which included reports on realization of the budget in 2015. The sample in this study is 26 Local Government level districts in West Java province in 2015.

The analysis in this study using the statistical parametric model of multiple correlation. The rationale for this analysis refers to the purpose of the study wanted to find the relationship of the independent variables local revenue and General Allocation Fund with the capital expenditure as dependent variables, and multiple correlation analysis is a technique that suits this purpose.

IV. RESULTS AND DISCUSSION

Based on test results, partially, the relationship between the Local Revenue Capital Expenditure on local governments throughout West Java province in fiscal year 2015 had a value of 0.9013, which means that the local revenue to capital expenditure has a very strong relationship. By comparing t_{stat} with t_{table} , where the independent variable local own revenue

has t_{stat} of 9.9809 with t_{table} , 2.069, then $t_{stat} > t_{table}$, so H_0 was rejected and H_1 was received. According to the test result in this study, there is a very strong positive relationship between the local revenue and capital expenditure in local governments throughout West Java province in 2015 fiscal year.

Regions that is supported with adequate facilities and infrastructure will affect the level of productivity of society and will attract investors to invest in the region that will ultimately increase revenue. The increase in revenue is expected to have a significant effect on the budget allocation for capital expenditures the government. Increased capital investment (capital expenditures) was expected to improve the quality of public services and in turn can increase the level of contribution to the development of the public reflected on the increase in revenue [8]. In other words, the results of the calculation of local own revenue and capital expenditure have a high positive and significant correlation, development of various public sector facilities will lead to increase in local revenue. The implementation of decentralization to make development is a priority of local governments to support the promotion of local own revenue.

Whereas the relations of the General Allocation Fund with Capital Expenditure in the West Java Provincial Government Fiscal Year 2015 based on the test results, partially, had a value of 0.5898 which means that the General Allocation Fund with capital expenditure has enough relationship / medium. By comparing t_{stat} with t_{table} , where the independent variable General Allocation Fund has t_{stat} 3.5029 with t_{table} , 2.069, so $t_{stat} > t_{table}$ so H_0 was rejected and H_1 was received. Based on the test result in this study, there is a positive relationship between the general allocations fund with capital expenditure on local governments in West Java province in 2015 fiscal year.

There is a very strong linkage between the transfers from the central government capital expenditure. The reduction in the number of transfers (cut in the federal grants) causes a decrease in the local spending. This indicates that the higher local own revenue so government spending on capital expenditures would be even higher.

Relations Local Revenue and the General Allocation Fund with Capital expenditures on the Local Government in West Java Province for Fiscal Year 2015, based on the test results, simultaneously relationship between Local own revenue and General Allocation Fund with Capital expenditures on local governments throughout West Java Province in fiscal year 2015 had a value of 0.9413, which means that the local revenues and the General Allocation Fund with capital expenditure has a very strong relationship. By comparing F_{stat} with F_{table} , which gained value F_{stat} 89.3464 while F_{table} at 95% confidence level ($\alpha = 0.05$) was 3.42. This means that the value of $F_{stat} > F_{table}$ (89.3464 > 4.28). Based on test result in this study there is a very strong positive relationship between the variables of local own revenue and general allocation fund with capital expenditure in local governments throughout West Java province in 2015 fiscal year.

Local own revenue and General Allocation Fund contribute significantly to finance their spending. But local governments are not able to rely on local own revenue entirely to finance

decentralized. Similarly, the central government does not want to completely give general allocation fund because it would increase dependence on the central area. Local own revenue is "free cash" that may be allocated to any expenditure, depending on the policy of local government, except for salary expenditures and employee benefits because it is already covered by the general allocation fund. Local own revenue is a part of the general allocation fund calculation, for general allocation fund is the allocation of the state budget to cover the fiscal gap. The fiscal gap is measured from the difference between the local needs with local capability. Local own revenue becomes part of the local financial capacity. So, if local own revenue rises (fiscal capacity rises), it is supposed that the general allocation fund decreases.

V. CONCLUSION & SUGGESTION

Based on research conducted at the West Java provincial governments in 2015, it can be concluded that: Bogor District has the highest local own revenue (Rp 1048230704202.00) and the lowest is Banjar (Rp 54,684,690,641.00). The highest total general allocation fund is Bogor District (Rp. 1672614142000.00) and the lowest general allocation fund is Banjar (Rp 281,851,254,000.00). Total capital expenditure of entire population is Rp 9546420767261.00 with an average Rp 367,170,029,510.04. Bogor District is the local government with the highest total capital expenditure (Rp. 1035467433416.00). The lowest was the district of Sukabumi (Rp 61,371,774,294.00).

Relationship between local own revenue with capital expenditure on these studies shows that there is a very strong positive relationship between local own revenue with capital expenditure. This may imply that the development of various public sector facilities will lead to increase in local revenue. The implementation of decentralization is to make development as priority of local governments to support the promotion of local own revenue. Relation between general allocation fund with capital expenditure on these studies shows that there is a positive relationship between general allocation funds with capital expenditure. This may imply that the higher general allocation fund, government spending on capital expenditures would be even higher.

Based on research on the relationship between local own revenue and general allocation fund with capital expenditure, it can be seen that there is a very strong positive relationship between local own revenue and general allocation fund with capital expenditure on local governments throughout West Java province in 2015 fiscal year.

From the research results it can be suggested that the local government budget is expected to give more priority to the public interest by increasing the capital expenditure for the public benefit. Because the increase in capital expenditure will increase investments that will increase local revenue due to the increasing productive society. The Local Government should increase revenue by expansion and intensification of tax, due to the high local own revenue generated is a measure of local autonomy. Heightened local own revenue will further reduce the dependence of local governments on the central government. This shows the achievement of one of the objectives of regional autonomy.

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