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Analysis of Capital Expenditure and Its Implications on Local Financial Independence

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Abstrak

Tujuan Penelitian ini adalah untuk menganalisis dan memperoleh bukti empiris pengaruh dari dana perimbangan, Dana Insentif Daerah (DID), dan aset tahun lalu terhadap belanja modal serta pengaruh belanja modal terhadap kemandirian keuangan daerah. Populasi pada penelitian ini adalah seluruh pemerintah daerah di Indonesia dengan sampel sebanyak 131 pemerintah daerah yang diperoleh dengan menggunakanpurposive sampling. Alat analisis data menggunakan analisis statistik deskriptif dan analisis regresi. Hasil penelitian menunjukkan bahwa dana perimbangan dan aset tahun lalu berpengaruh positif secara parsial dan simultan terhadap belanja modal. Dana Insentif Daerah (DID) tidak berpengaruh terhadap belanja modal. Belanja modal berpengaruh positif terhadap kemandirian keuangan daerah. Simpulan pada penelitian ini adalah bahwa pemerintah daerah telah mengelola dan menggunakan dana anggaran dengan baik, sehingga memenuhi kepentingan para principal dan hal tersebut dapat didukung oleh teori agensi. Dana perimbangan mampu memberikan dorongan terhadap pelaksanaan desentralisasi fiskal yang berakibat pada peningkatan pertumbuhan ekonomi, berupa peningkatan pembangunan infrastruktur dan berimplikasi pada tingginya belanja modal. Hasil tersebut dilandasi dan didukung oleh teori fiscal federalism.

Abstract

The aim of this research are to determine the effect of intergovernmental revenue, local incentive fund and asset on the last year on capital expenditure and the effect of capital expenditure on local financial independence. The population in this research is all of local government in Indonesia with 131 samples that got by purposive sampling. The analytical tool of data used descriptive statistical analysis and regression analysis. The result showed that the intergovernmental revenue and assets on the last year had positive effect on capital expenditure partially and simultaneously. Local incentive fund had not effect toward capital expenditure. Capital expenditures had a positive effect toward local financial independence. The conclusion in this research are local governments can manage and use budget funds well and can comply the principal's interest and it is based by agency theory. Intergovernmental revenue can give encouragement on fiscal decentralization, that give impact on increase of economic growth, like the building of infrastructure and can impacts on capital expenditure and it is based by fiscal federalism theory.

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INTRODUCTION

Along with the implementation of financial reforms, it occurs the implementation of fiscal decentralization which is increasingly demanded its optimization. The implementation of fiscal decentralization is also an implication of the implementation of regional autonomy. The implementation of regional autonomy will give greater and broader authority to local governments in regulating their own local households. The greater the authority of local governments in regulating and managing the region, the implications are that local governments are expected to be more capable in exploring local financial resources. Regional financial resources, as can be indicated by the amount of Original Regional Income (PAD), can illustrate the level of financial independence of the region.

Local financial independence is the ability of local governments in self-financing government activities (Halim, 2006:232). Local financial independence can show the ability of regions to finance the implementation of regional autonomy. The phenomenon happens that the amount of PAD is always far below the amount of balancing funds even though the increase of local financial independence of local governments is so important. In addition, on the official web of the Ministry of Finance of the Republic of Indonesia, the news published on November 17, 2015, that there are still many local governments who save budget funds in the bank to increase the local revenue (www.kemenkeu.go.id). The implication that arises, PAD will increase, but economic growth will not increase. If the saving is in the form of deposits, it will be prone to corruption from the party who hold responsible for the regional money storage. The implication that arises is development will be hampered, so the usage of capital expenditure budget is not optimal.

The phenomenon does not indicate the effort to dig the regional financial resources actually, although the action can increase the PAD. This phenomenon can show how important the improvement of local financial independence and the importance of optimizing the use of budget for development, which impact on capital expenditure budget optimization. This is because the increase of local financial independence in each local government in Indonesia can show the achievement level of objectives of regional autonomy and fiscal decentralization, namely improving the welfare of the community, as well as optimizing the use of capital expenditures. The welfare of the community can be showed by the many infrastructures built by the local government, which aim to improve the quality of life of the people. The infrastructure built will increase local capital expenditures. Capital expenditures estimated to be affected by the type of regional transfer funds, namely the balanced funds and the Local Incentive Fund (DID), as well as assets last year. Capital expenditure is expected to affect local financial independence. In the previous research, the results of research among researchers still show inconsistent results, resulting in a research gap, especially the influence of capital expenditure on local financial independence. In the study of Anjani, et al. (2015) and Ariani (2010), show that capital expenditure has a positive effect on local financial independence, while in the study of Darwis (2015) and Imawan and Wahyudin (2014) show that capital expenditure has a negative effect on local financial independence. The research gap supports the importance of this research to be undertaken, as well as the gap phenomenon described earlier.

This study aims to determine the influence of the balanced funds on capital expenditures, the influence of Local Incentive Funds (DID) on capital expenditures, the influence of last year's assets on capital expenditures, and the influence of capital expenditure on local financial independence. The main theories used to explain and underlie the relationship between the variables in this study are agency theory and fiscal federalism theory. Agency theory is a theory that explains that there is a different relationship between the agent (local government) and the principal (community and stakeholders). The agency theory explains and underlies all relationships between research variables. The agency theory explains the agency relationship between the principal and the agent. In this study, agents are local governments and principals are stakeholders, including community. Local governments are party who hold full role in preparing budget, its allocation, its realization and its reporting. The realization on capital expenditures and the digging of financial resources that may affect the amount of local budgets realization will play an important role in demonstrating management accountability and use of local finances, which are also public money sources. Therefore, the government is required to be more responsible in the allocation of budget realization by always aiming for the welfare of society, which is the goal is the goal of the regional autonomy implementation. Increased welfare of the community will meet the interests of the principal, including the community.

Fiscal federalism theory is a theory which explains that the increase of fiscal decentralization can increase economic growth. The fiscal federalism theory explains and bridges the relationship of balanced funds and the Local Incentive Fund (DID) to capital expenditures. The implementation of fiscal decentralization aims to give regional government widest possible authority to regulate their own households and to further increase economic growth. The fiscal federalism theory explains that fiscal decentralization can increase economic growth, bridge the relationship of balanced funds and the Local Incentive Fund (DID) to capital expenditures. One of the things that must be considered to improve economic growth is the available infrastructure (Rosidin, 2010:215). Capital expenditure is one type of direct expenditure used for the development of regional infrastructure. The development of regional infrastructure can reflect an increase in capital expenditure allocation. Based on these explanations, the fiscal federalism theory can bridge the relationship of balanced funds and the Local Incentive Fund (DID) to capital expenditures.

This research is a replication study which gives something to be a differentiator. This research develops research from (Anjani,et al., 2015) by adding the Local Incentive Fund (DID) as an independent variable that is expected to affect capital expenditure, increasing the scope of the population, ie all local governments in Indonesia, and using 2014 data for asset variables and using 2015 data for balanced fund variable, Local Incentive Funds (DID), capital expenditure, and local financial independence. The fiscal federalism theory will be used to explain and bridge the relationship of variable of balanced funds and the Local Incentive Fund (DID) to capital expenditures.

The balanced fund in Law No. 33 of 2004 chapter 1 article 1 verse 19 is a fund sourced from APBN (State Revenues and Expenditure Budget) allocated to regions to fund regional needs in the context of decentralization. (Kawedar, 2008:48) explains that the balanced fund is intended to assist the region in funding its authority. The allocation of balanced funds is one of the forms of fiscal decentralization. One of the objectives of fiscal decentralization is to increase economic growth, which can be characterized by increased regional infrastructure. Infrastructure development can mark an increase in regional capital expenditures. The explanation shows that the fiscal federalism theory can explain and bridge the relationship of the balanced fund to capital expenditures, because Oates (1993) explains that fiscal decentralization can facilitate economic development. The relationship can also be bridged by the agency theory. The agency theory can underlie the relationship of balanced funds with capital expenditure on the assumption that the local government (agent) is required to always prioritize the improvement of the society welfare, so that it will fulfil the interests of the principals. Community welfare can be realized by further improving infrastructure development, which may indicate an increase in the value of capital expenditures. The effect of balanced funds on capital expenditure is hypothesized as follows:

H_1: Balanced fund has a positive effect on capital expenditure.

The Local Incentive Fund (DID) is one of the types of regional transfer fund which is granted to local governments with performance achievements above the national average. The allocation of Local Incentive Funds (DID) aims to encourage local governments to be allocated Local Incentive

Funds (DID) in the effort of better financial management, which can be demonstrated by audit opinions from BPK (*Badan Pemeriksa Keuangan*). The good management of the Local Incentive Fund (DID) can meet the interests of the principals, including the community. In addition, the Local Incentive Fund (DID) can encourage local governments in improving the welfare of the people, one of them through development and can be characterized by increased regional capital expenditure. The explanation indicates that the relationship of the Local Incentive Fund (DID) to capital expenditure can be explained by the agency theory. The allocation of Local Incentive Funds (DID) is a form of decentralization implementation, aimed at increasing economic growth. This is in line with the fiscal federalism theory which explains that increased fiscal decentralization can increase economic growth. The relationship of the Local Incentive Fund (DID) with capital expenditure is hypothesized as follows:

H_2: Local Incentive Fund (DID) has a positive effect on capital expenditure.

Capital expenditures can be affected by total assets (Manik and Suprihartini, 2013). Total assets in the previous year, can be a consideration of local governments in determining capital expenditure next year, especially in infrastructure development. This is because assets of last year can show the amount of economic resources owned by local governments, which can be used in providing services to the public. Assets are economic resources owned by local governments that are used to finance operational activities. Society (principal) expects that the government (agent) can use assets to improve the welfare of the community. This is because local governments have greater authority to manage and use these economic resources to achieve regional objectives. The relationship between last year's assets and future expenditure is hypothesized as follows:

H_3: Last year's assets has a positive effect on future capital expenditures.

Capital expenditure, which is one type of direct expenditure, is used to build local infrastructure. Regional infrastructure is expected to further increase the authority of local governments in carrying out their duties and functions, one of which is in digging financial resources. These financial resources will show the financial capacity of the region and can show the level of local financial independence. Ariani (2010) and Anjani, et al. (2015) prove that capital expenditure has a positive effect on local financial independence. Agency theory can underlie the relationship between capital expenditure and local financial independence with the assumption that local government (agency) is expected as well as possible in planning, allocating, and reporting local budget, such as digging local financial resources. This is because the local government has more information than the community and other stakeholders, and it is local governments that have greater authority to manage and use local money. The relationship between capital expenditure and local financial independence is hypothesized as follows:

H_4: Capital expenditure has a positive effect on local financial independence.

Based on the hypothesis that has been compiled, the thinking framework in this study can be presented in Figure 1.

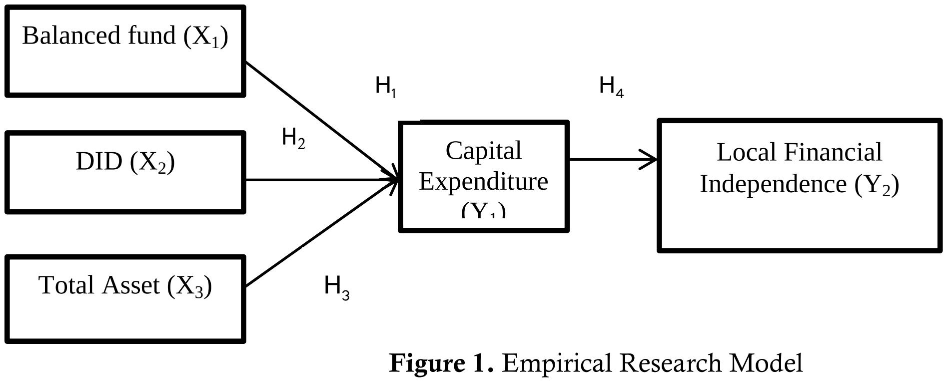

Figure 1. Empirical Research Model

METHODS

In this study used research design of hypothesis study or hypothesis testing studies. The population in this study was all local governments in Indonesia, namely 542 local governments. The number of samples in this study amounted to 131 local governments. Sampling technique used purposive sampling, ie sampling using criterion. The sampling process using criteria was available in table 1.

Table 1. Sampling Stage

No.	Sampling Criteria	Number
1	The 2014 balance sheet data which was available in LKPD 2015.	533
2	Total revenue data, PAD, equity funds, and capital expenditures included in LKPD 2015.	533
3	Local Incentive Fund Data for 2015.	135
4	Complete final data.	131
5	The number of research samples	131

Source: research data processed 2017

The variables in this study were local financial independence (Y2), capital expenditure (Y1), equity fund (X1), Local Incentive Fund (DID) (X2), and asset (X3). Operational definition of dependent variable and independent variable could be seen in table 2.

Table 2. Operational Definition of Variables

Variables	Definition	Measurement
Local financial independence	The ability of local governments to finance their own government activities, development, and services to the community. (Halim, 2006:232).	Ln_$\frac{PAD}{income}$
Balanced fund	One type of transfer fund is allocated to encourage decentralization. (Law Number 33 Year 2004).	Total Balanced fund.
Local Incentive Funds	One type of transfer fund granted to local governments that have performance achievements above the national average and aims to encourage local governments in their financial management efforts. (Iswaril, 2015).	Total Local Incentive Funds
Asset	The amount of economic resources owned by the local government and can be used to provide services to the public.	Total asset year t-1. (Anjani,et al., 2015)
Capital Expenditure	Budget expenditures for the acquisition of fixed asset and other assets that benefit more than one accounting period. (PP Number 71 Year 2010)	Ln_Capital Expenditure

Measurement of local financial independence used the ratio of independence as in the study of Anjani, et al. (2015), but to meet the heteroscedasticity test, then the data made as natural logarithm of local financial independence ratio. Measurement of capital expenditure was the total of capital expenditures in the year concerned, such as the measurement of capital expenditure in Manik and Suprihartini (2013) research, but to fulfil the normality assumption, the data was used as the natural logarithm of total capital expenditure. Technique of taking data uses documentary study, namely taking data from secondary data or primary data that have been processed. Secondary data in this research was obtained from LKPD 2015. Data analysis methods used in this research were descriptive statistical analysis and regression analysis. Analytical tool used SPSS v.21 software. In this research there were two regression equation, that was as follows:

Regression Equation 1: $Ln\_BM = a + b_1DP + b_2DID + b_3Ta_{t-1} + e$

Regression Equation 2: $Ln\_KKD = a + b_1BM + e$

In which:

Ln_BM	: Natural logarithm of capital expenditure
Ln_KKD	: Natural logarithm of local financial independence
DP	: Balanced fund
DID	: Local Incentive Funds
Ta_{t-1}	: Total assets last year
e	: error

RESULTS AND DISCUSSIONS

In this study, research variables were local financial independence, capital expenditures, balanced funds, Local Incentive Funds (DID), and assets. The result of the descriptive statistical test was presented in table 3.

Table 3. Descriptive Statistics Output

	Local Financial Independence	Capital Expenditure	Balanced Fund	Local Incentive Funds	Total Asset
N Value	131	131	131	131	131
Missing	0	0	0	0	0
Mean	0.157000	19.6128	916819528.6	12342284.53	4257289722
Median	0.106600	19.5526	851198075.2	3000000.000	2533001823
Std. Deviation	0.1426237	0.62930	430105227.9	9844363.447	5568798237
Minimum	0.0204	18.05	2769321.627	2000000000	725480427.1
Maximum	0.6929	21.65	3115619118	26162830.00	38605937665

Source: Output SPSS v.21, processed 2017

The result of descriptive analysis showed that the highest level of local financial independence in the local government to be a research sample was 0.6929 owned by the local government of East Java Province. The minimum value of 0.0204 was owned by the local government of Tulang Bawang Barat district. The average value was 0.157000 and the value above the median value. This result indicated that the level of local financial independence in 2015 was quite high. The lowest value of capital expenditures in 2015 was owned by the local government of Bukit Tinggi district from 131 local governments which were the study samples. The highest value was owned by the Central Java Provincial Government. The average value was 19.613% with a standard deviation of

0.62930. The average value was above the median value. This result indicated that capital expenditures in local governments in 2015 were quite high.

The balanced fund in 2015 in 131 local governments which were research samples had a minimum value owned by the local government of Medan, while the maximum value was owned by the local government of East Java Province. Average value of Rp. 916.819.528.600 was above the median value of Rp. 851.198.075.200. This result indicated that the value of balanced funds in 2015 was quite high. The Local Incentive Fund (DID) had a maximum value of Rp. 26,162,830,000 owned by the local government of South Sulawesi Province. The average value was above the median value. This result indicated that the Local Incentive Fund (DID) in 2015 was quite high. The total assets in 2014 for 131 local governments which became the research sample, had a minimum value of Rp. 725,480,427,100 owned by the East Bolaang Mongondow district government. The maximum value was owned by the local government of Surabaya. The average value was above the median value. This result indicated that the average value of total assets in 2014 was quite high. A summary of the results of hypothesis testing was presented in Table 4.

Table 4. Summary of Hypothesis Testing Result

No.	Hypothesis	β	Sig.	α	Decision-making
1	Balanced funds had a positive effect on capital expenditure.	6.304E-010	0.000	0.05	H_1 accepted.
2	Local Incentive Fund (DID) had a positive effect on capital expenditure.	-4.106E-009	0.242	0.05	H_2 rejected
3	The assets of the previous year had a positive effect on future capital expenditures.	5.489E-011	0.000	0.05	H_3 accepted.
4	Capital expenditure had a positive effect on local financial independence.	0.642	0.000	0.05	H_4 accepted.

Source: Output SPSS v. 21, processed 2017

The result of the research showed that balanced fund had a positive effect to capital expenditure. This result indicated that the higher the value of balancing funds, it would increase capital expenditure. The result was in line with the first hypothesis, so that the first hypothesis was accepted. The result of this study supported the research conducted by Wandira (2013), Tuasikal (2008), Novianto and Hanafiah (2015), as well as Adam and Umar (2013). The result of this study did not support the research of Sholikhah and Wahyudin (2014) which proved that the General Allocation Fund (DAU), a type of balanced fund, had no effect on capital expenditure. Balanced fund was one type of transfer fund given to local governments to encourage increased regional economic growth. The allocation of balanced funds was also to improve the implementation of fiscal decentralization. The agency theory successfully under lied the relationship of balancing funds to capital expenditures. The local government has done a good job, so the allocation of balanced funds to increase economic growth, one of which infrastructure development and impact on the allocation of capital expenditure. The fiscal federalism theory also succeeded in underpinning the influence of balanced funds on capital expenditures. This was because the implementation of fiscal decentralization, one of which was the allocation of balanced funds, could increase economic growth, one of which was the improvement of infrastructure development and would result in increased capital expenditure.

The Local Incentive Fund (DID) did not influence the capital expenditure. The Local Incentive Fund (DID) was one of the adjustment funds given to local governments to encourage financial management efforts. Some things should be considered, including the performance of local government. Iswaril (2015) explained that the purpose of allocating Local Incentive Fund (DID) was to give rewards to local governments that had performance achievements above the national average. The allocation of the Local Incentive Fund (DID) was to carry out the educational function. The implementation of the function of education was not always on infrastructure development which ultimately resulted in an increase in capital expenditure. However, it could be used to purchase consumable goods or operational expenditures. The allocation of Local Incentive Funds (DID) was by considering some performance achievement of local governments. Although the achievements of local government performance that received the allocation of Local Incentive Fund (DID) was above the national average, but it does not guarantee its contribution to the improvement of infrastructure development, which would result in high capital expenditures. The Local Incentive Fund (DID) allocated to the regions was also still far below the amount of APBD, so some of these could be the cause of the inconsistency of the Local Incentive Fund (DID) effect on capital expenditure. Based on these results, the second hypothesis was rejected. The result of this study did not support the result of the study Sumardjoko and Irwanto (2015).

Last year's assets could have a positive effect on future capital expenditures (year t). Last year's total assets represented the amount of economic resources owned by the local government and could be used to provide services to the public. The high amount of economic resources at the end of the year could be a consideration of local governments in determining the provision of services to the community, one of which was infrastructure development. Infrastructure development would increase the value of capital expenditure, so the higher the total asset value in the previous year (year t-1), it would be able to increase capital expenditure in the coming year (year t). The agency theory might underlie the result of this test. Local government (agent) has implemented the management and use of local money, in this case was an asset, as well as possible. The local government has sought to plan and allocate local budgets to improve the welfare of the community, one of which was the improvement of infrastructure development, so that the interests of the principals were met. Based on the results of the research, the third hypothesis was accepted. The results of this test supported the research of Manik and Suprihartini(2013).

Capital expenditure had a positive effect on local financial independence. The higher the value of capital expenditure, it would increase the level of local financial independence and vice versa. Capital expenditure could improve infrastructure and improve infrastructure could increase the authority of local government in carrying out its duties and functions. One of the tasks that should be prioritized was the excavation of local financial resources, which could indicate the level of local financial independence and regional financial capacity. Based on the results of the research, the fourth hypothesis was accepted. The agency has succeeded in explaining the relationship of capital expenditure to the local financial independence. The local government (agent) has carried out the planning and allocation of capital expenditure to the maximum extent possible for infrastructure development. Increased infrastructure development provided flexibility to local governments in digging financial resources, so that it could meet the interests of the principals. The result of this study supported the research of Anjani, et al. (2015) and Ariani, (2010). The results also support the research conducted by Subowo and Wati(2010), which proved that capital expenditure management optimally would increase PAD. PAD could be a measure of the level of local financial independence. The result did not support the research conducted by Imawan and Wahyudin (2014) as well as Darwis (2015) which proved that capital expenditure negatively affected on the local financial independence

CONCLUSIONS

Based on the results of the research, the conclusion of this research is that the balanced funds and assets of last year (t-1) have a positive effect on capital expenditure (year t) and Local Incentive Fund (DID) has no effect on capital expenditure. Capital expenditure has a positive effect on local financial independence. In the next study, it is expected to increase the period of research data, because the results of this study proves that balanced funds and assets last year have a strong influence on capital expenditure. Capital expenditures also have a very strong influence on local financial independence. The addition of a period of research data will be able to see and analyze its influence from year to year.

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