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THE FINANCIAL PERFORMANCE OF REGIONAL GOVERNMENT ON CAPITAL EXPENDITURE

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Abstrak

Penelitian ini bertujuan untuk menguji pengaruh kinerja keuangan pemerintah daerah terhadap alokasi belanja modal Provinsi Jawa Tengah. Untuk mencapai tujuan tersebut, teknik sensus dengan mengambil semua populasi sebagai sampel. Hasil penelitian menunjukkan bahwa terdapat salah satu faktor penentu alokasi belanja modal, yaitu derajat desentralisasi fiskal. Faktor tersebut dapat menjadi solusi dari permasalahan penelitian ini yaitu alokasi belanja modal yang kurang optimal. Pendapatan asli daerah berkontribusi besar terhadap total pendapatan yang dapat dihasilkan oleh daerah, mencerminkan semakin besarnya kemampuan daerah dalam melaksanakan kegiatan desentralisasi yang pada akhirnya akan berdampak pada alokasi belanja modal. Temuan ini memberikan pemahaman yang lebih baik untuk bukti empiris pemerintah tentang derajat desentralisasi, efektivitas keuangan, efisiensi keuangan, dan kemandirian keuangan dari alokasi belanja modal.

Kata Kunci: *desentralisasi, efektivitas, efisiensi, kemandirian, belanja*

Abstract

This study aims to examine the impact the financial performance of regional government on capital expenditure allocation of Central Java Province. To meet such aim, we carried out a census techniques by taking all populations as a sample. The results suggest that there is one determinant of capital expenditure allocation, namely the degree of fiscal decentralization. This factor can be a solution to the problems of this study, namely the sub optimal allocation of capital expenditure. The local own-source revenue contributes greatly to the compute revenue that can be generated by the region, reflects the greater region capacity to implement decentralization activities that will eventually impact the allocation of capital expenditure. These findings provide a better understanding for government empirical evidence about the degree of decentralization, financial effectiveness, financial efficiency, and financial independence of the allocation of capital expenditure.

Keywords: *decentralization, effectiveness, efficiency, independence, expenditure*

1. INTRODUCTION

New Public Management principle demount structures into manageable units, municipality size has become a concern. In some countries, this principle herd to the creation of small-scale institutions highly reliant of transfers from high-level government. Pursuant to the principle of autonomy and co-administration, Regional Government is the organizer of government affairs by the Regional Government and Regional Representative Council with the system and principle of The Constitution of the Republic Of Indonesia. Regional Government is the regional head who leads the government affairs which are the authority of the autonomous region. The Regional Government carries out as wide autonomy as possible, except for governmental affairs which are determined by law as central government affairs.

Based on Law Number 23 of 2014 concerning Regional Government and Government Regulation Number 12 of 2019 concerning Regional Financial Management, regional expenditure is used to fund the implementation of concurrent government affairs which are the authority of the regions and the implementation of organizational tasks that set according to statutory provisions and must have a legal basis on which to base them. Capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provides benefits over than one accounting period.

Hariyati (2012) states that increased budget revenue is not balanced with increased budget expenditure. That means, government budget expenditure has a greater proportion of increase compared to increase in budget revenue. The difference between the proportion of the revenue budget and the government expenditure budget causes a budget deficit. The share expenditure incured by local government is less significantly affected by revenue decentralization. The total of government, in this case, capital expenditure can be increased by decentralizing spending and have an impact such as education an administrative spending (Jia et al., 2014).

Based on information from the Directorate General of Financial Balance Ministry of Finance of Indonesia shows that in last three years, Central Java Province has the smallest capital expenditure ratio among all provinces in Indonesia. This phenomenon of capital expenditure ratio can be seen in 2016 has 16.55% and in 2018 7.5% where in this both years this province has the smallest capital expenditure ratio. Whereas in 2017 the capital expenditure ratio of Central Java provincial government is in the last two positions in the amount of 7.9%.

Share of expenditure incurred by local government is less significantly affected by revenue decentralization. The total of government expenditure, in this case, capital expenditure can be increased by decentralizing spending and have an impact such as education and administrative spending one of funding strategies for those who try to increase public expenditure for public needs as well as to construct revenue stability for uncertainly and risk is revenue diversification (Carroll, 2009); (Martin et al., 2012). For defending level of public expenditure and the quality of public service quality without raising tax rates and levels Regional Governments have tried to discover the alternative of funding strategies. (Sosin, 2012). Civilians achieve these effect better than the government. Thus, efficiency of public expenditure increases (Sasmal & Sasmal, 2016).

The study by Delima & Marwa (2016) only examines three variables of financial performance, namely the independence ratio to capital expenditure, effectivity ratio to capital expenditure and efficiency ratio to capital expenditure. The study by Sularso & Restianto (2011); Badrudin (2011); Anggraeny et al. (2017) fiscal decentralization no effect on capital expenditure allocation where this study only analyse the ratio data so there is no examining. The differences from previous studies is this study will examine financial performance of regional government that consist of fiscal decentralization, financial effectiveness, financial efficiency and financial independence. In this study, there is an increase in fiscal decentralization where fiscal decentralization is estimated to have a significant effect on capital expenditure.

This study tries to fill the research gap identified in the literature on capital expenditure. Specially, this study attempts to uncover the relationship between capital expenditure and its four determinant factors financial performance, namely, degree of decentralization, financial effectiveness, financial efficiency, and financial independence. From a theoretical contribution, this study will terms of providing additional empirical evidence and additional development of knowledge about accounting specifically for public sector accounting. Practically, hopefully this study is beneficial for Central Java Provincial Government as a consideration in compile a revenue and expenditure budget, especially capital expenditure. One contribution to the regional government is providing information about how important to keep the financial performance ratio and capital expenditure so the regional government performance can be kept as well. With knowing that information, The Regional Governments can take appropriate policies in the process of governance so it can run efficiently and effectively.

2. THEORY AND HYPOTHESES DEVELOPMENT

Fiscal Decentralization

The first element in financial performance is fiscal decentralization. Fiscal decentralization is funded mainly through transferring to region. By this fiscal decentralization design, autonomy essence of regional fiscal management is pointed at discretion to expend fund appropriately with necessity and priority for each region (Badrudin, 2011). According to Sriningsih & Yasin (2009) to make fiscal decentralization be able to increase social welfare, it needs revenue and expenditure among the governments to raise the wealth of society. By doing so, fiscal decentralization will increase the wealth of society. Based on this discussion, the relationships among fiscal decentralization and capital expenditure are hypothesized as follows:

H1: Fiscal decentralization has an effect on capital expenditure.

Financial Effectiveness

A research by Delima & Marwa (2016) showed that capital expenditure is influenced highly by financial effectiveness. Capital budget allocation and expenditure in these regional government are showed in the result of the empirical analysis (Olurankinse, 2012). This ratio figures the competence of regional government in creating the planned of Local Own-source Revenue compared to the targets set based on true region potential (Pramono, 2014). Thus, in the context of capital expenditure towards financial effectiveness, the following hypothesis is formulated:

H2: Financial effectiveness has an effect on capital expenditure.

Financial Efficiency

Financial efficiency is illustrates the ratio between the amount of costs incurred to obtain revenue with the realization of income received (Pramono, 2014). The previous researches by Sularso & Restianto (2011) argued that financial efficiency can influence capital expenditure. The higher or smaller the ratio of financial management efficiency, the higher the capital expenditure for the public (Tamawiwy et al., 2016). Efficiency ratios are used to calculate the financial performance of local governments. The higher the efficiency ratio, the worse the performance. Whereas the lower efficiency ratio shows good performance. Accordingly, the following hypothesis is formulated as follow:

H3: Financial efficiency has an effect on capital expenditure.

Financial Independence

The last element in financial performance is financial independence. One of the indicator of region government ability in earning their revenue is the level of fiscal dependency. Wasteful expenditure consequences the excessive fiscal dependency (Rochmatullah et al., 2016). 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 (Normalita et al., 2017). Accordingly, the following hypothesis is formulated as follow:

H4: Financial independence has an effect on capital expenditure.

Financial Efficiency

Capital expenditure is the expense that its benefit tends on more than one year of budget and will add assets or regional wealth and then it will add routine budget toward operational cost and its maintenance (Susanti, 2008). In general, capital expenditure can be influenced by a financial performance.

An increase in regional assets and wealth is trigged by local government spending whose benefits can be felt more than one year and results in an increase regular expenditure (Muda et al., 2014); (Purnama, 2014). The long-term plan and expenditure of fixed assets are shown by the capital budget. One kind of expenditures which advantages incline to over one budget year and will add assets is capital expenditure. At the end, it increases the budget of operational costs and maintenance (Muda & Naibaho, 2018). Thus, in the capital expenditure, the relationship between the variable (fiscal decentralization, financial effectiveness, financial efficiency, and financial performance) needs to be tested to identify:

H5: Fiscal decentralization, financial effectiveness, financial efficiency, and financial performance have an effect on capital expenditure.

3. METHODOLOGY

The study population is the entire local government in Central Java Province with a target population is a Central Java Province. This study uses census techniques by taking all populations as a sample.

The Government of Central Java Province was chosen as the object of research because according to the summary of the local government budget issued by the the Directorate General of Financial Balance Ministry of Finance of Indonesia that Central Java Province is a Province with the lowest capital expenditure ratio compared to other provinces.

In collecting data, researchers group the types and data collection technique. The selected data is secondary data and using statistical data set techniques. This statistical data set technique is the usage of data that is already available. The data set used is usually collected by other parties who have the authority in terms of this research that contained in the Central Bureau of Statistics Central Java Province and the Directorate General of Financial Balance Ministry of Finance of Indonesia. When viewed from the time of collection, this data is included in the time series data where the collected data are from several years. This research used regression analysis as the analytical method. The way to objectively measure the degree and the character of the connection between dependent and independent variables is using Multiple regression analysis: The relative importance of each variable is indicated by the regression coefficients (Sekaran & Bougie, 2016).

The regression model also shows the direction of the relationship between independent variables. Therefore, the coefficient value of T and F of determination measures it statistically. The coefficient which measures how far the model's ability to define the variation of the dependent variable is coefficient of determination R^2. Statistical tests show how much influence one independent variable explains each variation of the dependent variable. Whereas the F statistical test generally indicates whether explicatory variables included in the model have a common effect on the dependent variable. Multicollinearity test, heteroscedasticity test, and normality test must be done to fulfil the requirements in using the regression model.

In this study, capital expenditure is the dependent variable. The operational definition of capital expenditure is a budget expenditure for the acquisition of fixed assets and other assets that provide benefits over one accounting period. Anjani et al., (2015) said that capital expenditure is one of the activities that could be financed by funds that collected by the local government. These funds come from Locally Generated Revenue, a balance fund, and other legal revenue.

There are 4 independent variables, namely: fiscal decentralization, financial effectiveness, financial efficiency, and financial independence. The operational definition of fiscal decentralization shows the degree of contribution of the Locally Generated Revenue to the amount of regional revenue. Financial effectiveness is a financial overview in realizing planned Locally Generated Revenue compared to the target of Locally Generated Revenue. Financial efficiency is a measure that shows the level of efficiency of each money usage in developing the region which can be seen from the comparison between the realizations of expenditure with the realization of revenue. Regional independence sees how the region's dependence on external funding sources where the level of community participation in regional development.

4. RESULT AND DISCUSSION

This study uses the coefficient of determination test. The result of the test can be seen in Table 1. The accuracy of the alleged model built by the researchers from this study was measured by the coefficient of determination R^2 in the equation. In the equation, the value of R^2 that obtained is 0.849. The calculating result of the model accuracy of 84.9% explained that the contribution of the model to explain the structural relationship of the five variables studied is 84.9% and the rest is explained by other variables that not involved in the model.

Table 1
Coefficient of Determination Testing Result

Coefficient of Determination	
Variable	R^2
Capital Expenditure	.849

The regression analysis result which can be seen in Table 2 shows that the variable decentralization degree estimation value is positive 3.961 and significant .016 sig.<0.05. This regression result indicates that the level of decentralization has a significant positive effect on capital expenditure allocation. This indicates that if Locally-Generated Revenue in a region contributes greatly to total Locally-Generated Revenue that can be generated by the region itself, reflecting the greater capacity of the regions to carry out decentralization activities. However, this study is different from the research by Sularso & Restianto (2011) which shows that the level of decentralization does not affect capital expenditure allocations. Anggraeny et al., (2017) revealed that the ratio of the degree of decentralization shows the degree of contribution of Locally-Generated Revenue to the amount of regional income. The higher the contribution of Locally-Generated Revenue, the higher the ability of local governments on implementing the decentralization. Conceptually, fiscal decentralization requires that every authority granted to the region be accompanied by financing in an amount that is in accordance with the amount of that authority burden. This concept is known as money follow function, not function follow money anymore. It means The Regional Governments are obliged to guarantee financial resources related to the delegation of authority from the center to the regions (Tamawiwy et al., 2016).

Table 2 shows the result of the regression analysis that the financial effectivity coefficient is negative 3.097 and significant sig<.05. This result indicates that financial effectivity has a negative effect on capital expenditure allocation. The higher financial effectivity on Regional Governments, the lower capital expenditure allocation of that Regional Governments. This study is not supported research by (Tamawiwy et al., 2016). The effectiveness of regional financial management has a positive and not significant effect on capital expenditure for public services. Financial effectiveness is a picture of finances in realizing the planned Locally-Generated Revenue compared to the target of Locally-Generated Revenue that has been set. This indicates that the amount of actual Locally-Generated Revenue realization is greater than the budgeted target, indicating that if a regional finance is said to be ineffective.

Table 2
Estimation Testing Result

Estimation Testing		
Variable	***Coefficient***	***p-value***
Fiscal Decentralization	3.961	.016
Financial Effectiveness	-3.097	.027
Financial Efficiency	.527	.620
Financial Independence	-3.311	.021
Independent Variable: Capital Expenditure	7.004	.028

Financial efficiency affects the allocation of capital expenditure is the next conjecture where after the statistical test, then this conjecture is rejected with a coefficient of .527 and the p-value is not significant >.05 of .620 so as the capital expenditure is not influenced by the financial efficiency. One of the reasons that can explain findings in this study that the costs incurred by the regional government in generating Locally-Generated Revenue are greater than the amount of Locally-Generated Revenue received, causing inefficient implementation of regional autonomy. This finding is not consistent with the previous

study by Delima & Marwa (2016) stated that the efficiency ratio has a significant effect on capital expenditure. Regional governments that have high transfer revenues, in this case, are very dependent on balancing funds such as general allocation funds, special allocation funds, and revenue sharing funds will have a level of financial difficulty to take care of their government because it still relies on its regional funds to the central government. Regional independence on capital expenditure allocation has a negative effect. This is different from the previous study by Delima & Marwa (2016) said that capital expenditure allocation is not effected by the regional independence ratio significantly. Regional independence ratio in this study is the degree to which an area can independently finance its operational and regional tasks without expecting little or no outside funding sources, either through loans or from the central government (Ahyaruddin & Amrillah, 2018). This is in line with Sularso & Restianto (2011) which explains that the independence of regional finance is the capability of the region to finance its government activities, development, and services to the people who have compensated taxes and levies as a source of revenue needed by the region.

5. CONCLUSION

Based on the results of data analysis and discussion, conclusions can be drawn from these results. The results of this study indicate that from all four factors, there is one determinant of capital expenditure allocation, namely the degree of fiscal decentralization. This factor can be a solution to the problems of this study, namely the suboptimal allocation of capital expenditure. The Local Own-source Revenue contributes greatly to amount of revenue that can be earn by the region, reflect the greater ability of the region to perform decentralization activities that will eventually impact the allocation of capital expenditure. Thus, this study contributed to the public sector accounting research literature by providing empirical evidence about the degree of decentralization, financial effectiveness, financial efficiency, and financial independence of the allocation of capital expenditure.

There are some weaknesses in this study such as the number of samples which is only limited to the Regional Government area in Central Java Province, so it cannot be generalized to all government in the Regional Government in Indonesia. The results of the study are only as consideration of decision making for the Regional Government in Central Java Province, cannot be used for consideration of decision making in the area of the Regional Government in different provinces. Finally, we believe that we have pointed out an important area for future research is expected to welfare people.

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