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Factors Affecting Capital Expenditure and Social Assistance Expenditure

(Study on City / Regency Governments throughout Java Island in 2019-2020)

[1]Ferry Raditya Permana, [2]Dewita Puspawati, SE., M.Sc., Ak., CA

Muhammadiyah Surakarta University

Abstract: In carrying out its administration, the Regional Government is given the right, authority, and obligation to regulate and manage its region by following applicable laws. Local governments are expected to be able to optimize the potential of the region, explore sources of regional income, increase competitiveness, manage regional resources efficiently and effectively, and manage and use finances as planned in improving regional financial performance to meet regional needs. , increase regional income. The population in this study were all regencies/cities on the island of Java that provided research data. The sampling technique used the purposive sampling method and obtained a sample of 196 data. The sample data were then analyzed using multiple linear regression analysis with the help of the SPSS 25 program. The results of this study stated that the local revenue from general allocation funds affected capital expenditures, while special allocation funds and the population did not affect capital expenditures. The results of this study also show that general allocation funds, special allocation funds, and population have an effect on social assistance spending, but local revenue has no effect

Keywords: *Capital Expenditure, Social Assistance Expenditure, Regional Original Income, General Allocation Fund, Special Allocation Fund, Population*

I. INTRODUCTION

Local governments are directed to be able to manage their regional revenues which are shown for regional economic development. With regional autonomy, the government system that was initially centralized became decentralized. In this era of decentralization, local governments are expected to improve services in various sectors, especially the public sector. In addition, this Decentralization policy also has a great influence because the Regional Government is expected to be able to optimize the potential of the region.

According to Mahmudi (2010: 87), Regional expenditures are separated into two forms which are divided Operational Expenditures and Capital Expenditures. Operational Expenditure which is essentially an expense (expense) to finance non-investment activities that have a useful life of less than 1 year, is different from Capital Expenditure in the sense that it is an investment expenditure in the form of costs so that it is recognized on the balance sheet. Many local governments have not been effective in allocating their budgets. Most of the regional budget is spent on personnel expenditure, while the share of capital expenditure is very minimal.

Objective: The purpose of this study is to find out whether Regional Original Income, General Allocation Funds, Special Allocation Funds, and population have an effect on Capital Expenditures and Social Assistance Expenditures in regencies/cities throughout the island of Java in 2019-2020.

II. REGIONAL INCOME AND EXPENDITURE BUDGET

The Regional Revenue and Expenditure Budget according to Law Number 23 of 2014 is the Regional annual financial plan stipulated by a Regional Regulation. The regional budget is one tool that plays an important role in improving public services and it reflects the needs of the community by paying attention to the potential and sources of regional wealth. The APBN is the annual financial plan of the central government which is approved by the House of Representatives. Based on Law Number 17 of 2003 and Government Accounting Standards, the structure of the APBD is a single unit consisting of Regional Revenue, Regional Expenditures, Transfers, and Regional Financing.

According to Mahmudi (2010: 87), Regional expenditures are separated into two divided forms. Operational Expenditures and Capital Expenditures. Operational Expenditure which is essentially an expense (expense) to finance non-investment activities that have a useful life of less than 1 year, is different from Capital Expenditure in the sense that it is an investment expenditure in the form of costs so that it is recognized on the balance sheet. Regional expenditure management must be the focus of regional governments so that optimization of regional financial management can be achieved.

According to Halim (2007), regional expenditures are expenditures made by local governments to carry out their authorities and responsibilities to the community and the government above them. Meanwhile, Erlina et al. (2012) argue that regional spending is a financial plan that is prepared for a future period which contains expenditures that describe the government's strategy in allocating limited resources for regional development which also functions as a controlling tool and political instrument. Based on the Law of the Republic of Indonesia No. 33 of 2004, regional spending itself is classified into two types, namely indirect spending and direct spending. Indirect expenditures consist of personnel expenditures, grant expenditures, social assistance expenditures, profit sharing expenditures to the Province/Regency/City and Village Governments, Financial Aid expenditures to the Province/District/City and Village Governments, and unexpected expenditures, while direct expenditures consist of from personnel expenditures, goods and services expenditures, and capital expenditures.

Many local governments have not been effective in allocating their budgets. Most of the regional budget is spent on personnel expenditure, while the share of capital expenditure is very minimal. The average local government capital expenditure is only 19%. This is evidence that there are still many local governments that prioritize personnel expenditures over capital expenditures. This condition is very concerning because capital expenditures in the APBD are not paid attention to by the provincial government in Indonesia (Reily, 2018). The APBD which is widely used for personnel expenditure is considered ineffective and does not provide direct benefits to the community. The amount of the personnel expenditure allocation is not in line with the services provided to the community. This problem is quite common in almost all regions in Indonesia (Deny, 2017).

III. THEORETICAL AND EMPIRICAL LITERATURE REVIEW

Theoretical literature review

Research on the factors that affect capital expenditures was carried out by Zais (2017). This study aims to determine what factors affect Capital Expenditures in Regencies/Cities in the Province of South Sumatra. The results of the study stated that Regional Original Income (PAD) and Special Allocation Funds (DAK) had an effect on Capital Expenditures in Regencies/Cities in South Sumatra Province. However, the General Allocation Fund (DAU) does not affect Capital Expenditures in Regencies/Cities in the Province of South Sumatra.

Research on the factors that affect capital expenditures was carried out by Novita (2017). This study aims to determine what factors influence Capital Expenditures in the Regency/City of Bengkulu Province from 2010-2014. The results of the study stated that the Regional Original Income (PAD) and the General Allocation Fund (DAU) affected Capital Expenditures in Regencies/Cities in Bengkulu Province from 2010-2014.

Furthermore, research on the factors that affect Capital Expenditures was carried out by Kurniati (2017) in Regency and City Governments in East Java for the 2010-2014 Period by stating the results of Regional Original Income (PAD) and Employee Expenditures affect Capital Expenditure. However, Revenue Sharing Funds (DBH), Special Allocation Funds (DAK), and Budget Financing Excess (SiLPA) have no effect on Capital Expenditures in Regency and City Governments in East Java for the 2010-2014 period.

Research on Capital Expenditures was also conducted by Sari (2018) in districts/cities in South Sumatra Province. The results in this study indicate that the population through the intervening variable of Regional Original Income (PAD) and the General Allocation Fund (DAU) affects Capital Expenditures, but the number of residents through the Intervening Variable of the Special Allocation Fund (DAK) does not affect Capital Expenditures in Regencies/Cities. in South Sumatra Province.

Research on the factors that influence Capital Expenditures was also carried out by Kristen (2019) in all Regencies/Cities throughout Indonesia in 2018. The results of this study state that Regional Original Income (PAD), Special Allocation Funds (DAK), The General Allocation (DAU), and the Remaining Budget Financing (SiLPA) have an effect on Capital Expenditures in Regencies/Cities throughout Indonesia in 2018.

Research on the factors that influence Capital Expenditures was also conducted by Sulistiyawati (2021) in the Regency/City of East Nusa Tenggara. The results of this study indicate that the Regional Original Revenue (PAD), the Special Allocation Fund (DAK) has an effect on Capital Expenditures in the Regency/City of East Nusa Tenggara. Meanwhile, the General Allocation Fund (DAU) and Revenue Sharing Fund (DBH) have no effect on Capital Expenditures in the Regency/City of East Nusa Tenggara.

Research on the factors that influence capital expenditures were also conducted by Zulkipli (2021) in Makassar City. The results of this study state that local revenue (PAD), total population, and general allocation funds (DAU) have an effect on capital expenditure in Makassar City.

IV. DATA ANALYSIS AND DISCUSSION

Overview of Research Objects

The population in this study were all regencies and cities on the island of Java. The samples taken were 100 districts and cities. There are 25 regencies/cities in West Java Province consisting of 16 regencies and 9 cities. Central Java Province with a total of 34 regencies/cities consisting of 28 regencies and 6 cities. East Java Province 36 Regencies/Cities consisting of 28 Regencies and 8 Cities. And the DIY Province has 5 regencies/cities consisting of 4 regencies and 1 city.

The sample selection process in districts and cities on the island of Java, because on the island of Java because it has a very important contribution to the national economy because economic activities are concentrated in this region. The sample selection process is based on predetermined criteria as follows:

TABLE 1
Sample Selection Criteria

No	Sample Selection Criteria	Total
1	Number of Regencies and Cities in Java Island	105
2	Research year period (2 years)	105 x 2
3	Outlier data	14
4	**Number of Research Samples**	**196**

Normality test

The normality test in this study uses the CLT (Central Limit Theorem) test where if the number of observations is large enough with n > 30, then the assumption of normality can be ignored (Gujarati, 2003). In this study, the number of samples used is 196 data > 30, so the assumption of normality can be ignored because the number of observations is sufficient.

Multicollinearity Test

The multicollinearity test was carried out by looking at the value of the Variance Infance Factor (VIF) and the tolerance value of the regression model of each independent variable. If the VIF value is less than 10 and the tolerance value is more than 0.1, it can be concluded that the independent variable has a problem with multicollinearity, meaning that it has no relationship with other independent variables. The results of the analysis can be seen in the following table:

TABLE 2
Multicollinearity Test Results

Variabel	Tolerance	Std	VIF	Std	Information
X1	0,372	0,10	2,688	10	Multicollinearity does not occur
X2	0,116	0,10	8,656	10	Multicollinearity does not occur
X3	0,121	0,10	8,231	10	Multicollinearity does not occur
X4	0,144	0,10	6,948	10	Multicollinearity does not occur

Based on the table above, it is known that the VIF value of the 4 independent variables, namely X1, X2, X3, and X4 is less than 10 and the tolerance value is more than 0.1. So it can be concluded that all the independent variables have no problem with multicollinearity.

F test

The F test is a test carried out to show whether an independent variable included in the model has a joint effect on the dependent variable (Ghozali, 2006). This test uses a significance level of 0.05 (Priyatno, 2017). The results can be seen in the following table:

TABLE 3

F Test Results

	F count	Sig	Std	Conclusion
Capital Expenditure	4,214	0,003	0,05	Eligible Models
Social Assistance Shopping	7,588	0,000	0,05	Eligible Models

From the table above, it can be concluded that if the significance value is < 0.05 (0.003 < 0.05), then Ho is rejected. So it can be concluded that Regional Original Revenue, General Allocation Fund, Special Allocation Fund, and Total Population, together affect Capital Expenditure.

From the table above, it can also be concluded that if the significance value is < 0.05 (0.000 < 0.05), then Ho is rejected. So it can be concluded that Regional Original Revenue, General Allocation Fund, Special Allocation Fund, and Total Population together affect Social Assistance Expenditure.

T- test

The t-test was used to determine the effect of each independent variable on the dependent variable. If the significance value is less than 0.05, then the independent variable has a significant effect on the dependent variable. The hypothesis is accepted if the significance value (α) < 0.05 and the hypothesis is rejected if the significance level (α) > 0.05. The test results can be seen in the following table:

TABLE 4

T-Test Results for Capital Expenditures and Social Aid Expenditures

Hypothesis	Sig	Criteria	Conclusion
H1	0,000	0,05	H1 Received
H2	0,362	0,05	H2 Rejected
H3	0,000	0,05	H3 Received
H4	0,529	0,05	H4 Rejected
H5	0,198	0,05	H5 Rejected
H6	0,008	0,05	H6 Received
H7	0,001	0,05	H7 Received
H8	0,003	0,05	H8 Received

Based on the table above, the following results can be concluded:

a. The significance value is 0.000 <0.05, so the Regional Original Income variable has a positive and significant effect on Capital Expenditures.

b. The significance value is 0.362 > 0.05, so the General Allocation Fund variable does no effect on Capital Expenditures.

c. The significance value is 0.000 <0.05, so the Special Allocation Fund variable has a positive and significant effect on Capital Expenditure.
d. The significance value is 0.529 > 0.05, so the population variable does not have a positive and significant effect on capital expenditure.
e. The significance value is 0.198 > 0.05, so the Regional Original Income variable does not affect Social Assistance Expenditure.
f. The significance value is 0.008 < 0.05, so the General Allocation Fund variable has a positive and significant effect on Social Assistance Expenditure.
g. The significance value is 0.001 < 0.05, so the Special Allocation Fund variable has a negative and significant effect on Social Assistance Expenditure.
h. The value of the total population is 0.003 <0.05, so the JP variable has a positive and significant effect on Social Assistance Expenditure.

V. CONCLUSION

Based on the results of the research and discussion in the previous chapter, the conclusion in this study is that local revenue, and general allocation funds affect capital expenditures, while special allocation funds and population do not affect capital expenditures. The results of this study also show that general allocation funds, special allocation funds, and population have an effect on social assistance spending, but local revenue does not affect social assistance spending.

For further research, it is hoped that researchers can expand the research year, and expand the discussion of research that can be done by adding a discussion of spending policies, and income receipt posts that can affect capital expenditures and social assistance spending in districts/cities on the island of Java and add other variables that relevant in further research such as SILPA, Employee Expenditure, etc.

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