

# The Effect of Regional Income on Capital Expenditure of The Government of Alor –NTT

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**Abstract -** The expenditure budget, especially capital expenditure, is seen as important because it is related to the continuity of government activities. Capital Expenditures are one part of regional expenditures used in the purchase or procurement of tangible fixed assets used in infrastructure development and the provision of public facilities. The purpose of this study is to find out and analyze how the influence of Regional Income on Capital Expenditure of the Alor Regency Government. The research method used in this research is the survey method and the type of descriptive verification research. The data used is time series data regarding Regional Income and Capital Expenditures of Alor Regency in 2017-2019. Data analysis methods include simple linear regression analysis, t test, and analysis of the coefficient of determination. The results of this study found that Regional Income had a positive effect on the Capital Expenditure of the Alor Regency Government.

**Keywords:** *Regional Income, capital expenditure*

## I. INTRODUCTION

The implementation of fiscal decentralization in Indonesia formally began with the implementation of Law Number 33 of 2004 [12] which explains the financial balance governing funding from the center to local governments. Fiscal decentralization is a way to improve the performance of the public economy so that it has a positive impact on economic growth. Each region has different financial capabilities in funding its government activities, especially in managing its Regional Revenue. Differences in financial capacity in

each region can lead to financial inequality between one region and another. Fiscal decentralization policy is based on Regional Revenue assistance from the central government to assist local government needs through financing in the implementation of decentralization. The implementation of decentralization has the consequence of increasing the authority of local governments in increasing regional revenues. With the provision of regional autonomy, it provides an understanding that each region is required to be able to meet the needs of all service activities, infrastructure development and the provision of public facilities which are the obligations of every regional government.

The increase in decentralization is related to how the regions are able to explore revenues or income originating from within the region itself. Regional income extracted from available resources in the region which does not include balancing funds and other revenues. Regional income is all the rights of local governments that are recognized as adding to the value of net worth (Mangowal, 2013) [7]. Regional income consists of regional original income, balancing funds, and other legitimate regional income (Adres, 2015). [1] The regional income sector plays a very important role, because through this sector it can be seen the extent to which a region can finance government activities and regional development (Baldric, 2017:33) [3]. Regional Expenditures, which include capital expenditures, should be taken into account because they are related to the sustainability of infrastructure development and public facilities. Regional Capital Expenditure Budgets that increase in their achievements can mean that local governments can provide maximum public facilities. Kainde (2013) [6] stated that, "Regional spending is all local government obligations that are recognized as a deduction from the value of net assets (equity funds) in the period of the relevant fiscal year". Regional

revenues, including regional revenues, are intended for local governments to improve services to the community through public facilities, which can later increase capital expenditures. Increased regional economy accompanied by increased regional revenues, should be able to increase regional capital expenditures (Adyatama and Rahmawati, 2015).

Previous research was conducted by Ariv Cahyono (2010),[2] Cherrya Dhia (2012), [4] Maria Reka Novianti (2013),[8] but the results were different. This research has never been done in Alor district, therefore this research needs to be done to find out whether there is an effect of Regional Income on Capital Expenditure of the Alor Regency Government.

### Formulation Of The Problem

The problem in this study is whether there is an effect of Regional Income on Capital Expenditure of the Alor Regency Government.

## II. RESEARCH METHODS

### Type of Research

In this study, the author uses a quantitative approach. Quantitative research methods can be interpreted as research methods based on the philosophy of positivism, used to examine the Regional Income of certain populations and samples, data collection using research instruments, data analysis is quantitative or statistical, with the aim of testing established hypotheses (Sugiyono, 2017: 8 ).[11] This research is associative (relationship), which is a research method that aims to determine the relationship between two or more variables. where this study aims to determine the relationship between the independent variables (independent) and namely Regional Income (X) and the dependent variable (dependent) Capital Expenditures (Y)

### 2. Types and Sources of Data

1. Quantitative data According to Sugiyono (2017),[11], the quantitative method is called the traditional method, because this method has been used for a long time so that it has become a tradition as a method for research. This method is called the positivistic method because it is based on the philosophy of positivism. This method is a scientific/scientific method because it has fulfilled scientific principles, namely concrete/empirical, objective, measurable, rational, and systematic. This method is also called the discovery method, because with this method, various new science and technology

can be found and developed. This method is called the quantitative method because the research data is in the form of numbers and the analysis uses statistics.

2. Secondary Data In this study, using one type of data, namely secondary data, Sugiyono (2018;137) [11] explains that secondary data is a source that does not directly provide data on Regional Income for collecting data, for example through documentation. Secondary data is generally in the form of evidence, historical records or reports that have been compiled in archives (documentary data).

3. Data Collection Techniques In this study, researchers used quantitative techniques

4. The analysis technique used in this study is Simple Regression Analysis. Simple regression analysis was carried out to determine the effect of one variable on other variables. Sugiyono (2014:270) [11] states that simple linear regression is based on Regional Income, a functional or causal relationship, one independent variable with one dependent variable. The formula for simple linear regression is as follows:  $Y = a + bX + e$  Where: Y = Government Capital Expenditure X = Regional Revenue (Regional Income) a = Constant b = Regression coefficient e = Error. Coefficient of Determination Test (**R**) According to Imam Ghazali (2013) [5] the coefficient of determination (**R**<sup>2</sup>) of Regional Income essentially measures how far the model's ability to explain the variation of independent variables. In explaining the variation of the dependent variable is very limited. a value close to one variable means that the independent variables provide almost all the information needed to predict the variation of the independent variable. The coefficient of determination (**Kd**) is calculated by the following formula:  $Kd = r^2 \times 100\%$  Description: Kd: coefficient of determination r<sup>2</sup>: quadratic coefficient of multiple correlation 3. Partial test (t test) The t test serves as a test of the difference in the average of two samples. This test aims to determine whether the independent variable affects the dependent variable. The conclusion is drawn by comparing the t-count value with the t-table value with the provision that if  $t\text{-count} > t\text{-table}$  with a significant level of 5% (0.5), the independent variable individually has a significant effect on the dependent variable. On the other hand, if the value of  $t\text{-count} < t\text{-table}$ , the independent variable individually has no significant effect on the dependent variable. •  $t\text{-count} < t\text{-table}$  then the hypothesis is accepted, this means that there is no influence by the variable (X) on (Y) 53 •  $t\text{-count} > t\text{-table}$  then the hypothesis is rejected, this means that there is an effect of variable (X) on (Y).

### III. RESULTS AND DISCUSSION

#### **Regional Revenue Development of Alor Regency**

Regional Revenue (Regional Income) is a reliable source of income for each region, including the regional finances of the Alor Regency which is used by the regional government to finance regional government activities and is added with balancing funds as the main source of local government revenue. The development of Alor Regency's Regional Revenue can be seen in Table 1's Regional Revenue below:

Table 1. Regional Revenue Development of Alor Regency in 2017-2019

<b>Receipt Type</b>	<b>Realization of Alor Regency Government Revenue by Type of Revenue (Rupiah)</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
Regional Income	1 061 263 672	1 115 866 924	1 129 708 334
1. Local Revenue	81 915 473	62 931 360	59 776 483
1.1 Local tax	8 812 987	11 019 956	10 139 866
1.2 Regional Retribution	21971873	22 048 568	26 586 644
1.3. Company Owned results Region & Management Regional Wealth separated	2 127 702	2 024 066	2 990 000
1.4 Other Income Legitimate Area	49 002 911	27 838 770	20 059 973
2. Balancing Fund	821 724 202	873 629 424	865 657 388
2.1 Tax Profit Sharing	9 952 357	7 609 273	7 867 090

1.2 Taxes/Resource	951 638	791 742	1 067 479
2.3 General Allocation Fund	594 896 230	600 599 295	627 365 367
2.4 Special Allocation Fund	215 923 977	264 629 14	229 357 452
3 Other Income Legitimate	157 623 997	179 306 140	204 274 463

Based on Table 1, it can be explained that the Regional Revenue of Alor Regency Regional Revenue in 2017 is IDR 1 061 263 672 and Regional Revenue in 2018 has increased with the value of Regional Revenue of IDR 1 115 866 924. Regional Revenues in 2019 Regional Revenues of Alor Regency also increased with a value Regional Income Rp1 129 708 334

Development of Capital Expenditure in Alor Regency Capital expenditures are expenditures made in the framework of capital formation which are to increase fixed assets/inventory that provide benefits for more than one accounting period, including expenditures for maintenance costs which are to maintain or increase the useful life, increase capacity and quality of assets. (Nur, 2015) [9] explained that Capital Expenditure cannot be directed to households or individuals. In this case, Capital Expenditure is one of the productive indicators of the use of the budget by local governments so that it cannot be addressed to individual communities or households because in its implementation it must intersect with public services. capital expenditure indicates that local governments are more productive. The development of capital expenditure in Alor Regency can be seen in Table 2 of Regional Income below:

Table 2. Development of Capital Expenditure of Alor Regency in 2017-2019

<b>Receipt Type</b>	<b>Realization of Alor Regency Government Capital Expenditure (Rupiah)</b>		
	<b>2017</b>	<b>2018</b>	<b>2019</b>
Capital Expenditure	249.816.273	233.851.536	230.312.116

From Table 2 it can be seen that in 2017 the capital expenditure of Alor Regency was Rp. 249.816.273 and then decreased in 2018 to 233.851.536. In 2019 capital expenditure decreased to Rp 230.312.116

### **The Effect of Regional Income on Capital Expenditures in Alor Regency**

Based on the research that has been done, the Effect of Regional Income on Capital Expenditure of the Alor Regency Government. Every increase in Alor Regency's Regional Income has an effect on Government Capital Expenditure in the 2017-2019 period.

### **IV. CONCLUSION**

Based on the results of testing the hypothesis that has been tested and the discussion put forward by Regional Income in the previous section, it can be concluded in this study that Regional Income has a positive effect on Capital Expenditure of the Alor Regency Government with a constant value of -420,875 which means that if the Regional Income variable does not change or remains constant the Alor Regency Government Capital Expenditure is -420.875% and the regression coefficient is 0.357 which means that every 1% increase in Regional Income causes an increase in Alor Regency Government Capital Expenditure by 0.357%. This significant effect can be seen from the value of t-count > t-table, namely ( $8,029 > 2,552$ ) Regional Income alpha 5% (0.05). while the coefficient of determination of 0.901 this value states that the capital expenditure of the Alor Regency Government of 90.5% is influenced by Regional Revenue and the remaining 9.5% is influenced by other variables outside this research model.

### **Suggestion**

- Capital Expenditure Expenditures need to be prioritized for Regional Income, increasing people's welfare which is able to encourage regional economic growth, so that it can increase Regional Income in Alor Regency. economic independence of the community in a sustainable manner.
- For further researchers who examine the Effect of Regional Income and Capital Expenditures, it is hoped that the variables used are more complete and varied, for example, include the variable balancing funds, regional expenditures and so on and add research areas so that more samples are obtained and more accurate results.

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