



Is Regional Original Income, General Allocation Funds, and Special Allocation Funds in South Sumatra Influencing Capital Expenditure?

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Abstract. Balancing funds include general allocation funds, specific allocation funds originating from the Regional Revenue and Expenditure Budget, and money originating from the center to fund decentralization implementation with the goal of generating efficient and effective regional resource management. The researcher's goal is to determine whether regional revenue, general allocation funds, and special allocation funds have an impact on capital expenditure in South Sumatra district/city governments from 2018 to 2022. The saturated sampling conditions are met by seventeen districts/cities. The data analysis technique utilized to evaluate the hypothesis in this study is Eviews 10. The panel data regression test was utilized by the author for analysis. According to the findings of the study, regional income and special allocation funds have no substantial positive effect on capital expenditure, although general allocation funds do.

Keywords: Regional revenue, local government, capital expenditure.

1 Introduction

The regions have the authority to allocate money for capital expenditure while adhering to the criteria of propriety, needs, and capabilities [1], [2]. Local governments must first prepare allocations and realizations in the Regional Revenue and Expenditure Budget (RREB) before providing services to the public. A RREB is a complete report of regional revenues and expenditures for a given year. A balanced fund comprised of the Profit Sharing Fund (PSF), General Allocation Fund (GAF), and Special Allocation Fund (SAF) is one of the regional incomes [3].

Regional Original Revenue (ROR) is one of the grounds utilized to optimize regional independence. ROR can use Government of the Republic Minister of Home Affairs Regulation 37 of 2014 about Guidelines for RREB Preparation [4]. According to the regulation, ROR is one component of the budgeted regional revenue for the fiscal year, is a rationally quantifiable revenue forecast, and has certainty and a legal basis for

receipt. ROR contains regional taxes, regional levies, the results of segregated regional wealth management, and other valid local original revenues [3].

Each region's financial capacity in funding activities is not the same, resulting in fiscal imbalance between areas [5]. To address this, the government provides funds from the State Budget in the implementation of decentralization to fund regional requirements, i.e. general allocation funds. GAF [6] is a fund drawn from the State Budget that is provided with the goal of distributing finance equitably among regions to support expenditure needs in the context of achieving decentralization. Local governments can use financial balancing funds, one of which is the General Proxy Fund, to provide public services that are funded through capital expenditure.

Other than the GAF, funds from the State Budget are given to regions and utilized to fund unique activities, namely regional affairs and in accordance with national priorities [3]. Special allocation funds are used for health, education, bridge infrastructure, road infrastructure, drinking water infrastructure, local government infrastructure, rural facilities and infrastructure, trade agriculture, and fisheries and marine, which are all components of capital expenditure whose use is regulated and determined by the central government [7]. The use of these activities is predicted to improve public services realized in capital expenditure [5]. Regional spending [8] is divided into two categories: operating expenditure and capital expenditure. Operating expenditure, which is essentially an expense to finance non-investment activities with a useful life of less than one year, differs from capital expenditure in that it is investment expenditure in the form of costs that is recognized on the balance sheet. Local governments must prioritize regional spending management in order to optimize regional financial management.

Capital expenditure, which is one of the regional expenditures, must be considered because it is tied to the long-term viability of infrastructure development and public amenities. [5] explained that regional governments, which include ROR, GAF, and SAF, are intended for local governments to improve community services, specifically through public facilities, which can later increase capital expenditure. Low capital spending might have an impact on the performance of several government entities. Capital expenditure is crucial in boosting the economy, thus government services, including the low level of budget disbursement, must be intervened in this situation [9]. Capital expenditure for the public good must be increased so that there is enough fiscal room for genuine community projects [10].

Four hypotheses will be tested in this investigation. Hypothesis testing will be done on the four research variables, either partially or concurrently. ROR influences capital spending (H_1); GAF influences capital expenditure (H_2); SAF influences capital expenditure (H_3); and ROR, GAF, and SAF all influence capital expenditure (H_4).

2 Research Methodology

Research methods are scientific ways of obtaining data with specific purposes and uses. The author uses a research method, namely with quantitative research methods. Quantitative research methods [11] are methods based on the philosophy of positivism, used to examine certain populations or samples, sampling techniques are generally carried out randomly, data collection using research instruments, quantitative/statistical data analysis with the aim of testing hypotheses that have been determined.

Population [11] is the number of generalized regions made up of items or individuals whose features and characteristics are determined by researchers and from which conclusions are generated. The population in this study is 17 districts/cities in South Sumatra province, with observation years ranging from 2018 to 2022. The sample [11] is a subset of the population. The samples in this study were chosen via saturation sampling. The complete population that has active regional income and may generate their own regional income is visible in the RREB Realization Report, based on data acquired from the website of the Director General of Local Government Financial Balance via the www.djpk.depkeu.go.id website. A summary of the RREB has been released by 17 districts/cities [12]. Within 5 years of observation, researchers collected samples from 17 districts/cities and evaluated 85 units.

Data analysis activities include combining and tabulating data depending on variables, presenting data from each variable analyzed, performing calculations to answer issue formulations, and performing calculations to test hypotheses that have been provided [11]. Eviews 10 data analysis was utilized to evaluate hypotheses in study. A panel data regression test was performed to examine the effect of regional revenue, general allocation funds, and special allocation funds on capital spending.

3 Result and Discussion

Descriptive statistics are used to transform data into clearer and more understandable information about the association of variables proxied by the influence of regional revenues, general allocation funds, special allocation funds, and capital expenditures. Regional income variables have mean, maximum, and minimum values of 179.4833, 1158.880, and 18.01000, respectively, with a standard deviation of 238.3283. Musi Rawas Utara regency has the lowest local revenue, while Palembang city has the highest. The mean, maximum, and minimum values for the general allocation fund variables are 611.0582, 1357.510, and 291.0700, respectively, with a standard deviation of 251.3160. Penungkal Abab Lematang Ilir district has the lowest public allocation fund, whereas Palembang has the most. The mean, maximum, and minimum values for the special allocation fund variable are 656.6545, 2263.650, and 244.9100, respectively, with a standard deviation of 447.6296. Penungkal Abab Lematang Ilir district has the lowest special allocation fund while Palembang city has the most. Furthermore, capital expenditure has a mean, maximum, and minimum of 418.6095, 1115.910, and

81.70000, respectively, with a standard deviation of 231.3493. Penungkal Abab Lematang Ilir district has the lowest capital expenditure while Palembang city has the most.

Multiple regression analysis with panel data was utilized in this work to gain an overview of the effect of regional revenue, general allocation funds, and special allocation funds on capital spending. The random effect model (REM) is the best estimating method employed in this investigation. The linear regression equation can be deduced:

$$CE = -380,1886 + 0,487081 ROR + 1,034814 GAF + 0,120373 SAF + e$$

If all independent variables have values of 0, then the capital expenditure variable has a value of -380.1886. The regional revenue coefficient is 0.487081, which means that if all other variables remain constant and regional income increases by 1%, capital expenditure will increase by 0.4870. Regional revenue and capital spending have a favorable link. That is, if regional revenues rise, so will capital expenditure.

The general allocation fund coefficient is 1.034814, which means that if all other variables remain constant and the general allocation fund increases by 1%, capital expenditure will increase by 0.3488%. General allocation money and capital spending have a favorable association. That is, as the general allocation fund grows, so will capital expenditure. If the other variables remain constant and the ratio of special allocation funds increases by 1%, capital expenditure will increase by 0.120373. Special allocation money and capital spending have a favorable association. That is, as the special allocation fund grows, so will capital expenditure.

4 Conclusion

Regional revenues, general allocation funds, and special allocation funds all have an impact on capital expenditure in South Sumatra district/city administrations from 2018 to 2022. Regional income and special allocation funds, on the other hand, have no effect on capital expenditure. General allocation funds have an impact on capital expenditure in South Sumatra's district/city governments.

The findings of this study can be utilized to advise local governments on factors that influence the allocation of capital spending budgets. Other consequences are intended to assist local and national governments in developing a more effective regional budget. The implementation of the budget can attract investors, increasing regional revenues and interest in their regions, and can be considered by provincial governments when establishing policies, particularly regarding capital expenditure.

It is recommended that future researchers add additional components beyond this discussion so that other variables that can effect capital expenditure are known. Area, economic growth, gross regional domestic product, and remaining more budget finance (SiLPA) are among these variables.

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