

## **PREDICTORS OF CAPITAL EXPENDITURES IN REGENCY/CITY REGIONAL GOVERNMENT IN WEST JAVA PROVINCE 2017-2022**

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### **ABSTRACT**

*This research aims to analyze the influence of Regional Original Income, Budget Surplus, and Profit-Sharing Funds on Capital Expenditures. Capital expenditure is important for regional governments to improve the welfare of their people because it has objectives related to public services, one of which is to obtain fixed assets such as equipment, buildings, infrastructure, and other fixed assets. Things that influence the absorption of capital expenditure effectively or not can be seen from the Budget Realization Report. This research method is quantitative research with a descriptive and verification approach. Based on the research results, it was found that (1) Regional Original Income has an influence but is not significant on Capital Expenditures (2) Budget Surplus does not have a significant influence on Capital Expenditures (3) Profit-Sharing Funds do not have a significant influence on Capital Expenditures. The implication of this finding is that these three factors do not significantly influence Capital Expenditures. However, it should be noted that the influence of Regional Original Income on Capital Expenditures still needs to be researched further to ascertain whether this influence is truly insignificant or only occurs in certain cases.*

*Keywords: Regional Original Income; More Remains Calculate Budget; Profit Sharing Funds; Capital Expenditures*

### **INTRODUCTION**

Global economy in 2023 according to the IMF in *World Economic Outlook* (WEO) April 2023 experienced a slight downward correction, namely growing 2.8%, 0.1% lower than the forecast in WEO January 2023. This follows various risks that occurred, especially in the financial sector which experienced vulnerability after tightening monetary policy for several periods. Apart from

that, the continued Russian invasion of Ukraine and the fragmentation of economic growth, especially in Europe and Asia, are also holding back optimism for global economic improvement in 2023.

Indonesia has entered a new era in the lives of its people with the implementation of regional autonomy policies. The delegation of decentralization principles that Indonesia currently adheres to is the

abundance of authority and responsibility as well as public functions from the central government to regional governments. In accordance with Law Number 23 of 2014, all central government authority is delegated to regional governments, so that public sector budget management is managed by the respective regional governments. Based on Law no. 23 of 2014 article 1 paragraph 6, the definition of Regional Autonomy is the right, authority, and obligation of autonomous regions to regulate and manage their own government affairs and the interests of local communities in the system of the Unitary State of the Republic of Indonesia.

Meanwhile at the provincial level, the performance of the West Java Province APBD for the first quarter of 2023 experienced a decline compared to the same period in 2022. Realized Regional Income reached IDR 15.49 trillion, a decrease of 40.05 percent from the realization in 2022.

The West Java Province APBD for the first quarter of 2023 has a spending budget of IDR 33.93 trillion, where the portion of operational spending and transfer spending dominates the overall spending

posture. Meanwhile, the realization of Provincial APBD expenditure in the first quarter of 2023 was recorded at 16.01%, which was recorded to be lower than the same period in 2022. This is due to the decrease in realization of transfer expenditure (financial assistance) and unexpected expenditure.

Meanwhile at the district/city level, the realization of government spending from 27 districts/cities throughout West Java was recorded at IDR 10.8 trillion or 10.97% of the budget ceiling, with the highest realization recorded by Pangandaran Regency, Sukabumi City and Kuningan Regency. In general, the realization of government spending on capital expenditure needs to be increased to ensure the progress of construction activities in West Java, especially on public facilities that are really needed by the community to support inter-regional connectivity.

For state administration, regional governments allocate funds in the form of a capital expenditure budget. This budget is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks

and for public facilities. Capital expenditures are budget expenditures for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Capital expenditure includes, among other things, capital expenditure for the acquisition of land, buildings and structures, equipment, intangible assets.

Regency or City Regional Governments in West Java Province due to the lack of absorption of capital expenditure towards the realization of the APBD performance of West Java Province which experienced a decline due to the realization of transfer spending (financial assistance) and unexpected spending decreasing.

Therefore, if viewed as a whole, the realization of government spending on capital expenditure needs to be increased to ensure the progress of construction activities in the Regional Government of West Java Province.

## **RESEARCH METHOD**

The research method used in this research is a quantitative method with a descriptive and verification approach.

According to Sugiyono (2019) quantitative research methods are: research techniques that are based on the positivist philosophy are employed to study specific populations or samples. Sampling methods are typically conducted in a random manner, while data collection involves the use of research tools. Data analysis is quantitative and statistical, with the goal of testing predetermined hypotheses.

According to Sugiyono (2019), a descriptive approach is Research to determine the values of independent variables, one or more (independent) variables, without making comparisons and combining them with other variables.

According to Syahir (2022), the verification approach is "a research method through proof to test the hypothesis resulting from descriptive research with statistical calculations so that proof results are obtained that show the hypothesis is rejected or accepted.

Data Type In general, types of data research are grouped into two, namely qualitative and quantitative data. This research uses quantitative data. According to Saat & Mania (2020), quantitative data refers to data that can be expressed in numerical form, while qualitative data is

descriptive and cannot be measured numerically. Quantitative data was obtained from filling out questionnaires distributed to the West Java Province Department of Highways and Spatial Planning.

#### **Data Source**

According to Sujarweni (2019), "the data source is the subject from which it originates the research data was obtained".

The data source used in this research was taken from data Budget Realization Report obtained from the SIKD Portal (Information System Regional Finance) in Regency/City Regional Governments in Java Province West in 2017-2022.

#### **RESULT AND DISCUSSION**

Descriptive statistical results of the Capital Expenditure variable show that the minimum value occurs in Majalengka Regency with a percentage of 32.00% in 2022 and the maximum value occurs in Tasikmalaya Regency with a percentage of 317.27% in 2017. The average (mean) Capital expenditure is 121.7817% and standard deviation is 48.84507%.

In 18 districts and 9 cities from 2017-2022 with a total of 162 data, the

average value of capital expenditure above can be categorized as having good performance and financial management has been effective and efficient in managing the estimated budget. Because the use of funds for capital expenditure absorption has reached more than 100%.

From descriptive statistical result of the Regional Original Income variable show that the minimum value occurred in Pangandaran Regency with a percentage of 42.16% in 2020 and the maximum value occurred in Tasikmalaya Regency with a percentage of 190.31% in 2017. The average (*mean*) Regional Income is 101.9801% and standard deviation is 22.94343%.

According to Baswir (2016) Regional original income is said to be good for financing regional development if the percentage achievement exceeds 70% of total Regional Income revenue. From the table above, the average value of Regional Income is categorized as effective and efficient because the collection of potential regional taxes and levies has been carried out optimally, namely Regional Income generated from taxes, levies, and

results from regional management as well as other income has been carried out in an orderly manner and have been complied with by taxpayers in their respective regions.

From descriptive statistical result of the Budget Surplus variable show that the minimum value occurs in Depok City with a percentage-110.66% in 2022 and the maximum value occurs in Sumedang Regency with a percentage of 2510.14% in 2021. The average (mean) Budget Surplus is 101.9801% and standard deviation is 22.94343%.

According to Government Regulation No. 71 of 2010, in the State Budget, Budget Surplus number should be equal to zero. From the table above, the average value of Budget Surplus can be categorized as having poor performance and not yet maximizing effective and efficient financial management standards in managing the estimated budget. This happens because development achievements have not yet shown good results because they are still below national achievements, meaning that it indicates that APBD funds have not been optimally utilized in providing public services and economic development in

the regions considering that regional autonomy funding sources are contributed by the central government.

From descriptive statistical result of the Profit-Sharing Fund (DBH) variable show that the minimum value occurs in Bekasi Regency with a percentage 49,79% in 2017 and the maximum value occurred in West Bandung Regency with a percentage of 125.59% in 2018. The average (mean) Profit Sharing Funds (DBH) is 87.6716% and the standard deviation is 17.10979%.

According to PMK No. 03 of 2007, the DBH value that should be received is 80%, so the average percentage value of Profit-Sharing Funds shows poor results due to the lack of balance between budget and realization. This occurs because of the high regional needs in the context of implementing decentralization where regional development is not optimal and the amount received by the regions is often uncertain due to changes in value and differences in funds due to errors in calculation differences.

### **Partial Test**

Based on the results of statistical tests that have been carried out, it can be concluded that this means

that Regional Original Income (X1) has an influence and is not significant on Capital Expenditures (Y). So, the first hypothesis which states that Regional Original Income on Capital Expenditures is rejected. The decision to reject the hypothesis partially is where the t-value is obtained count for Original Regional Income (X1) of 2.701 and t-table 1.97509 with a sig value of  $0.008 < 0.050$ . Due to the t-value  $>$  t-table, H0 rejected and H1 accepted, meaning that Regional Original Income (X1) has an influence and is not significant on Capital Expenditures (Y). This is in accordance with research conducted by Okynawa et al. (2018), Marsyaf (2019) and Riswandi (2023) which states that Regional Original Income influence on Capital Expenditures.

Based on the results of the statistical tests that have been carried out, it can be concluded that this means that Budget Surplus (X2) has no significant effect on Capital Expenditures (Y). So, the second hypothesis which states that Budget Surplus on Capital Expenditures is accepted. The decision to accept the hypothesis partially is where the t value is obtained count for Budget Surplus

(X2) of 0.075 and t-table 1.97509 with a sig value of  $0.940 > 0.050$ . Due to the t-value  $<$  t-table, H0 accepted and H2 rejected, meaning that Budget Surplus (X2) has no significant effect on Capital Expenditures (Y) This is in accordance with research conducted by Marliana et al. (2022), and Widya et al. (2023) which stated that Budget Surplus did not have a significant effect on capital expenditure.

Based on the results of statistical tests that have been carried out, it can be concluded that this means that Profit-Sharing Funds (X3) have no significant effect on Capital Expenditures (Y). So, the third hypothesis which states that Profit Sharing Funds on Capital Expenditures is accepted.

The decision to accept the hypothesis partially is where the t-value is obtained count for Profit Sharing Funds (X3) of -0.128 and t-table 1.97509 with a sig value of  $0.940 > 0.050$ . Due to the t-value  $<$  t-table, H0 accepted and H2 rejected, meaning that Profit-Sharing Funds (X3) have no significant effect on Capital Expenditures (Y). This is in accordance with research conducted by Nugroho & Hardi (2018) and Mulyadi et al. (2023),

which stated that Profit-Sharing Funds have no effect on Capital Expenditures.

### **Simultaneous Test**

The Influence of Original Regional Income, Budget Surplus, and Profit-Sharing Funds on Capital Expenditures.

Based on the results of statistical tests that have been carried out, it can be concluded that Regional Original Income, Budget Surplus, and Profit-Sharing Funds on Capital Expenditures have a positive and significant effect simultaneously on Capital Expenditures. So, hypothesis four is accepted. The decision to accept the fourth hypothesis based on the table data above is known: F-value as 2,802 with *p-value* (sig) 0.042. So, the resulting value from the table above is  $N = 162$ ;  $k = 3$  then we get  $F\text{-table} = 3;162-3 = 3;159 = 2.60$ . Due to the  $F\text{-value} > F\text{-table}$  ( $2.802 > 2.60$ ), then  $H_0$  is rejected and  $H_4$  is accepted, meaning that the variables Original Regional Income (X1), Budget Surplus (X2) and Profit-Sharing Funds (X3) simultaneously influence Capital Expenditures (Y).

Apart from that, based on the coefficient of determination test carried out, a coefficient of determination

value of 5.0625% was obtained, which shows that Regional Original Income (X1), Budget Surplus (X2) and Profit-Sharing Funds (X3) provide a simultaneous relationship of 5.0625% to Expenditures Capital (Y). Meanwhile, the remaining 94.9375% is influenced by other factors such as Other Income, Regional Expenditures, Special Allocation Funds, General Allocation Funds which were ignored in this research.

### **CONCLUSION**

From the results of research regarding the Influence of Original Regional Income, Budget Surplus and Profit-Sharing Funds on Regency/City Regional Governments in West Java Province for the 2017-2022 Period, the following conclusions were obtained: (1) The capital expenditure value has an average of more than 100%, so it is included in the poor category because the use of funds to absorb budget realization must be balanced and must be worth 100%. The results of descriptive analysis of the Capital Expenditure variable show that the minimum value occurs in Majalengka Regency with a percentage of 32.00% in 2022 and the maximum value occurs

in Tasikmalaya Regency with a percentage of 317.27% in 2017.

The average (*mean*) of Capital expenditure is 121.7817% and standard deviation is 48.84507%. (2) The value of Original Regional Income has an average of more than 70%, so it is included in the category of government with good budget realization management.

The results of the descriptive analysis of the Regional Original Income variable show that the minimum value occurred in Pangandaran Regency with a percentage of 42.16% in 2020 and the maximum value occurred in Tasikmalaya Regency with a percentage of 190.31% in 2017. The average (*mean*) Original Regional Income is 101.9801% and the standard deviation is 22.94343%. (3) The average Budget Surplus value is not equal to 0, so it is included in the category of government with poor budget realization management. The results of the descriptive analysis of the Budget Surplus variable show that the minimum value occurs in Depok City with a percentage -110.66% in 2022 and the maximum value occurs in

Sumedang Regency with a percentage of 2510.14% in 2021. The average (*mean*) Budget Surplus is 101.9801% and standard deviation is 22.94343% (4) The value of Profit-Sharing Funds has an average of more than 80%, so it is included in the poor category because the use of funds to absorb budget realization must be balanced and must be worth 80%.

The results of the descriptive analysis of the DBH variable show that the minimum value occurs in Bekasi Regency with a percentage of 49,79% in 2017 and the maximum value occurred in West Bandung Regency with a percentage of 125.59% in 2018. The average (*mean*) Profit Sharing Funds (DBH) is 87.6716% and the standard deviation is 17.10979%.

Based on the results of research on the t test (partially) on X-Y, the following results were obtained:

(1) T-Test of Regional Original Income (X1) has an influence and is not significant on Capital Expenditures (Y). So, the first hypothesis which states that Regional Original Income on Capital Expenditures is rejected, meaning that Regional Original Income (X1) has an influence and is not significant on Capital Expenditures.



Apart from that, based on the results of the correlation test carried out, the magnitude of the correlation between Original Regional Income (X1) and Capital Expenditure (Y) is 0.224. This shows that there is a weak positive correlation between Original Regional Income (X1) and Capital Expenditure (Y). This means that if the variable Original Regional Income (X1) increases, Capital Expenditures (Y) will also increase. Where the greater the Regional Original Income, the greater the Capital Expenditure.

Budget Surplus t test (X2). (2) Budget Surplus (X2) has no significant effect on capital expenditure. So, the second hypothesis states that Budget Surplus on Capital Expenditures is accepted, meaning that Budget Surplus (X2) has no significant effect on Capital Expenditures (Y). Apart from that, based on the results of the correlation test carried out, the magnitude of the correlation between Budget Surplus (X2) and Capital Expenditure (Y) is 0,039. This shows that there is a very weak positive correlation between Budget Surplus (X2) and Capital Expenditure (Y). This means that if the Budget Surplus variable (X2) increases, Capital

Expenditures (Y) will also increase. Where the greater the Budget Surplus, the greater the capital expenditure.

T-test Profit Sharing Funds (X3). Profit Sharing Funds (X3) have no significant effect on Capital Expenditures (Y). So, the third hypothesis which states that Profit Sharing Funds on Capital Expenditures is accepted. The decision to accept the hypothesis partially is where the t value is obtained count for Profit Sharing Funds (X3) of -0.128 and t-table 1.97509 with a sig value of 0.940 > 0.050. Due to the t-value < t-table, H0 accepted and H2 rejected, meaning that Profit Sharing Funds (X3) have no significant effect on Capital Expenditures (Y). Apart from that, based on the results of the correlation test carried out, the magnitude of the correlation between Profit Sharing Funds (X3) and Capital Expenditures (Y) is equal to -0,074. This shows that there is a very weak negative correlation between Profit Sharing Funds (X3) and Capital Expenditures (Y). This means that if the Profit-Sharing Fund variable (X3) increases, Capital Expenditures (Y) will decrease. Where the greater the Profit-Sharing

Fund, the lower the Capital Expenditure.

Based on the results of research on the F test (simultaneously) on X1, X2, X3-Y, the following results were obtained: Based on the results of statistical tests that have been carried out, it can be concluded that Regional Original Income, Budget Surplus, and Profit-Sharing Funds towards Capital Expenditure has a positive and significant effect simultaneously on Capital Expenditure. So, hypothesis four is accepted. The decision to accept the fourth hypothesis based on the table data above is known: F-count as 2,802 with p-value (sig) 0.042. So, the resulting value from the table above is  $N = 162$ ;  $k = 3$  then we get  $F\text{-table} = 3;162-3 = 3;159 = 2.60$ . Due to the  $F\text{-value} > F\text{-table}$  ( $2.802 > 2.60$ ), then  $H_0$  is rejected and  $H_4$  is accepted, meaning that the variables Original Regional Income (X1), Budget Surplus (X2) and Profit-Sharing Funds (X3) simultaneously influence Capital Expenditures (Y).

Apart from that, based on the coefficient of determination test carried out, a coefficient of determination value of 5.0625% was obtained, which shows that Regional Original Income

(X1), Budget Surplus (X2) and Profit-Sharing Funds (X3) provide simultaneous relationship of 5.0625% to Expenditures. Capital (Y). Meanwhile, the remaining 94.9375% is influenced by other factors such as Other Income, Regional Expenditures, Special Allocation Funds, General Allocation Funds which were ignored in this research.

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