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# The Factors Affecting of the Capital Expenditure Allocation Case: The Local Government of Indonesia

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**Abstract**

T test results showed that the variables of GDP, population density and per capita income has a significant effect on capital expenditure. This means that, in determining the amount of income allocated for capital expenditures, local governments will consider regional growth rates, population density, per capita income. But, Variable PAD and DAU do not have significant effect on capital expenditure. It can be interpreted that to finance capital expenditures, the local governments will use other sources of funds, not from the PAD and DAU

**Keywords**: Capital Expenditure, income per capita, population density, the General Allocation Fund (DAU), Gross Domestic Product (GDP), PAD

## A. Background

The problem faced by local governments in the organization of the public sector is on the allocation of the budget. The allocation of the budget is the amount of funds allocated to each program. With limited resources, local governments should be able to allocate the revenue received for the shopping area that is productive. Shopping areas are approximate expenditure allocated area in a fair and equitable so that the relative can be enjoyed by all groups in society without discrimination, particularly in the provision of public services (Kawedar et al, 2008). During this time, the local government more use of local income for the purposes of operating expenditure on capital expenditure.

Basically the budget allocation in group capital expenditures intended to meet local needs for public facilities and infrastructure provided by the government. However, the political interests of the legislature are involved in the budgeting process led to the allocation of capital expenditures distorted and often ineffective in solving problems in society (Keefer and Khemani, 2003; Ablo and Reinikka, 1998). In practice areas are often budgeted something that was not needed by society, while society needs not addressed (Diah Sulistyowati, 2011).

In the last five years, capital expenditures of government always showed the percentage of sad. Since 2008. The growth never exceeded 15 percent, while absorption was also never touched 100 percent. It was much different than spending on goods that the average increase in the same period reached 25 percent. Data from the Ministry of Finance even said that since 2009 the percentage of capital expenditures begin smaller than shopping goods. At that time, capital spending only 8.09 percent of total state spending amounted to Rp937,382 trillion, or about Rp75,87 trillion. Meanwhile, spending on goods reached 8.6 percent of state spending, or about Rp80,66 trillion. For personnel expenditure, even the figure reached 13 percent.

The year 2012 was not much different reality. Due to budget dominated by subsidies, government capital expenditure in 2012 is set Rp168.671 trillion, lower than the personnel expenditure amounting to Rp212.255 trillion. Again, capex per December 31, 2012 amounted to only 79.6 per cent of the target set. This realization is a lower percentage than last year's 83.6 percent. In 2013, expenditure personnel expenditure set at 241.121 trillion, while the lower capital expenditure of Rp 193.837 trillion. She tore up ahead of the last calendar year 2013, the ministries and agencies do not yet optimal capital expenditure. In fact the figures until the end of the end of November 2013 is still at the level of 55.7 percent (www.stabilitas.co.id)

On April 2, 2013, the Audit Board of the Republic of Indonesia found any irregularities in capital expenditures for public facilities. According to the BPK Chairman Hadi Purnomo, there are irregularities statutory provisions which resulted in state losses of Rp 817.47 billion from 1,453 cases. In general cases of irregularities statutory provisions for the capital expenditure of public facilities, among others occur due to negligence partner does not carry out the work as agreed in the contract.

In addition, CPC also found an inaccuracy consultant supervisor, Committing Officer (KDP), and the procurement committee in carrying out their duties. As well as the weakness of the supervision and control of officials / leaders entity, examination of capital expenditure for the public facility is a compilation of the financial audit, performance audit, and inspection with a specific purpose. Capital expenditures for public facilities which are used for the procurement of buildings, roads, bridges, irrigation, and network. Findings related to capital expenditures for public facilities occurred repeatedly over the years. So in this case the benefit of the capital expenditure is not used as on the concept of multi-term expenditure framework (MTEF).

In the context of financial management, the allocation of capital expenditure is associated with long-term financial planning, especially funding for maintenance of fixed assets resulting from the capital expenditure. The concept of multi-term expenditure framework (MTEF) states that capital spending policies must consider the usefulness (usefulness) and the financial capacity of the local government (budget capability) in the management of these assets in the long term (Abdullah and Halim, 2006). This means that if an area plan for capital expenditure in its budget, the government should also have a commitment to provide funding for the maintenance and rehabilitation of fixed assets obtained from the capital expenditure. Many factors affect capital expenditure include population density, area, general allocation funds, per capita income, financing surplus budget (SiLPA), revenue (PAD) and the Gross Domestic Product (GDP) and so on other.

Studies conducted by David Harianto and Priyo Hari Adi (2007) showed that the general allocation fund influence on capital expenditures, capital expenditures have a significant impact and negative in per capita income but also has a positive relationship in relation indirectly through local revenue , And local revenues are very influential on per capita income.

Meanwhile SiLPA in relation to capital expenditure has been investigated by Kusnandar and Dodik Siswantoro (2007) with the result that SiLPA effect on capital spending. This indicates that SiLPA is one source of funding capital expenditures.

Darwanto research and Yustikasari (2007) obtained results that revenue and capital expenditure have a positive relationship. The higher the PAD region, the capital expenditures that local governments have also increased.

**B. Problem Formulation and Objectives**

Based on the description on the background of the above, the formulation of the problem in this research is: "What is the population density, the general allocation fund, per capita income, revenue (PAD) and the Gross Domestic Product (GDP) affect the allocation of Capital Expenditure Provincial Government in Indonesia ?".

The goals to be achieved in this research is to analyze and obtain empirical evidence about the effect of population density, general allocation funds, income per capita, revenue (PAD) and the Gross Domestic Product (GDP) of the Allocation of Capital Expenditure Provincial Government in Indonesia ,

Results of this research is expected to help identify and give due consideration to the Provincial Government in Indonesia dominant factors in making the decision to finance capital expenditure areas can be managed optimally, particularly in relation to sources of funding capital expenditures.

**C. Literature Review, Framework and Hypotheses**

**1. The theory of agency**

In the agency theory (Jensen and Meckling, 1976) states the agency relationship is a contract in which one or more (the principal) delegation of authority to another person (the agent) to their interests. This agency relationship problems result in asymmetric information (information asymmetry) and conflicts of interest (conflict of interest). Linkages agency theory in this study can be seen through the relationship between the central government and local governments in channeling financing surplus budget (SiLPA) and also the relationship between society proxied by the Parliament (the principal) to the local government (agent). Pelimpahkan the central government to the local government authority to regulate independently of all government activities in the region. Therefore, as a consequence of the delegation of authority of the central government to lower financing surplus budget whose goal is to assist the local government in both the financing needs of daily administration and provide better public services to the community. In addition, the agency theory implicit in the relationship with the local government community. Society as a principal has provided resources to areas such as payment of taxes, levies and so on to be able to increase revenue.

**2. Fiscal federalism theory**

Fiscal federalism theory is a theory developed by Hayek (1945), Musgrave (1959) and Oates (1972). In this theory emphasized that economic growth is achieved by way of fiscal decentralization or delegation of authority by the center to the regions to set their own households or local authority often referred to regional autonomy (autonomy). The theory of fiscal federalism is divided into two theoretical perspectives that according to traditional theories (first generation theory) and new perspective theories (second generation theories). This emphasis on the advantages allocative of decentralization to gain ease of information from the public is a view of the traditional theory of fiscal federalism while according to Maggi and Ladurner (2009) new perspective theories emphasize to look into every political decision taken by the government, how the government (executive and legislative ) behave, act and think as well as their institutions.

**3. Framework and Hypotheses**

This study uses five independent variables, namely overcrowding, general allocation funds, income per capita, revenue (PAD) and the Gross Domestic Product (GDP) and one dependent variable Capex. The allocation of capital expenditures essential for local government capital spending is focused to increase regional asset that aims to improve services to the public. To be able to add to the region's assets capital spending is very influential on revenue while local revenues derived from local taxes and levies.

**a. Per Capita Income influence on Capital Expenditure Allocation**

Construction of facilities and infrastructure by local governments positive effect on economic growth (Kuncoro, 2004). Increased public sector services in a sustainable manner will improve public infrastructure, government investment also includes the improvement of educational facilities, health, and other supporting facilities. Require- fundamental to economic development is the level of capital provision of balanced development with the growth of population. Capital formation should be defined broadly to include all expenses that are raising productivity (Ismerdekaningsih & Rahayu, 2002). By ditambahnya infrastructure and improvement of existing infrastructure by local governments, is expected to spur economic growth in the region. Regional economic growth will stimulate the rising incomes of the population in the areas concerned, along with the increasing income of the population will result in increased pandapatan per capita.

If regional development spending set a budget greater than the routine expenses, the expansion policy of the regional budget will boost economic growth in the region (Saragih, 2003). In his research, Lin and Liu (2000) states that the government needs to increase capital investment in order to boost economic growth in the region. Research conducted by Adi (2006) proved that capital spending has a positive influence on economic growth. Capital expenditure for the development of infrastructure to support the economy, will drive the level of productivity of the population. In turn this can increase people's income is generally reflected in per capita income. From this picture, the research hypothesis can be structured as follows:

H1: Income Per Capita positive effect on capex

**b. Effect of Population Density Against Capital Expenditure Allocation**

Law No. 33 of 2004 states that one of the indicators is the determination of the fiscal needs of population and land area. Regions with more densely populated areas in need of infrastructure is more as a condition for public services when compared with the population density areas are smaller. Anasmen prove that capital expenditure has positive correlation with the growth of the Gross Regional Dosmestik income (GDP) and population significantly affect GDP growth. Kusnandar and Siswantoro (2012) prove that the capital expenditure is influenced by the area. Therefore, the hypothesis of Population Density of the capital expenditures are:

H2: Population density significantly affect the allocation of capital expenditures.

**c. The influence of the General Allocation Fund Against Capital Expenditure Allocation**

David Priyo Hadi research shows if DAU influential and significant capital expenditures. Gunawan and Erlina also shows that, DAU significant effect on capital spending. Based on the above concepts, then the alternative hypothesis to see the effect of general allocation funds towards capital expenditure budget allocation is as follows:

H3: DAU positive effect on capex.

**d. Effect of Gross Regional Domestic Product (GDP) of the Capital Expenditure Allocation**

Economic growth is the increase in output per capita proxy for Gross Domestic Product (GDP) per capita (Boediono, 1985 in Darwanto and Yustikasari, 2007: 9). Economic growth is a long-term change slowly and steadily occurring through higher savings and penduduk.Sedangkan according Nanga (2001: 279), economic growth is defined as an increase in the ability of the economy darisuatu in producing goods and services can be interpreted as jasa.PDRB the added value generated by all business units within a region, or the entire amount of the value of final goods and services produced by all economic units in a region (BPS, 2009: 1). However, economic growth is one of the main features in the development process, it is necessary due to the fact the population increase. Increasing the population by itself adds to their need for food, clothing, shelter, education and health services. Besides economic growth can have an impact on the increase in per capita income, will ultimately affect the revenue growth indicated by the numbers on GDP at constant 2000 prices is one indicator to see the success of development (BPS, 2009: 531). Blakely (1994) in Anggiat (2009: 27) also noted the importance of the role of government, by presenting a number of factors affecting regional development. These factors are natural resources, labor, capital investment, entrepreneurship, transport, communication, composition of the industrial sector, technology, export markets, the international economic situation, the capacity of local government, government spending and support development. Based on these descriptions tingkatpertumbuhan concluded the higher the economy would lead to growth of private and public capital investment. This is resulting in more flexibility in formulating government capital expenditure. (Indarti and Sugiartiana, 2009)

Research conducted by Darwanto and Yustikasari (2007) showed variable economic growth significantly influences variable capital expenditure. While research Nugroho Suratno Putro (2009) shows that economic growth does not affect the capital expenditure budget, due to an increase in economic growth of a region is not necessarily accompanied by an increase in the capital expenditure budget, depending on the circumstances of each region, and research by farah Roberts yovita (2011) who obtained the result that GDP positive and significant impact on capital expenditures, then the alternative hypothesis to see the effect of GDP on capital expenditure budget allocation is as follows:

H4: Gross Regional Domestic Product (GDP) positive effect on capex

**e. Effect of Local Revenue (PAD) to the Capital Expenditure Allocation**

PAD is a source of financing for capital expenditure. PAD obtained from direct contributions from the community, such as taxes, levies, and other agencies responsible sebagainya.Tanggung (local government) to the principal (society) is to provide a public service (public service) is good to the community through the capital budget, because the community has given Part of the money to the government daerah.Bentuk provide public services to the public administration denagn provision of adequate infrastructure in daerahnya.Pengadaan infrastructure or facilities such infrastructures financed from the budget allocation for capital expenditure in the budget each tahunnya.Dengan Thus, there is a relationship between PAD with allocation capital expenditures. But not all areas of high argued followed by good economic growth as well.

Darwanto and Yustikasari (2007) obtained results that revenue (PAD) positive and significant impact on capital expenditures. But sometimes the increase in revenue is not always followed by an increase in capital expenditure due to PAD much absorbed to finance other expenditures, then the alternative hypothesis to see the effect of PAD to capital expenditure budget allocation is as follows:

H5; Regional Income Allocation positive effect on capital spending

**f. Conceptual Model Research**

Based on the framework of ideas and hypotheses, then conceptual model of this study are as follows:

## C. Methods

The research design used in this research is causal, a study to determine the effect of one or more independent variables, namely overcrowding, general allocation funds, income per capita, revenue (PAD) and the Gross Domestic Product (GDP) and a variable namely the allocation of capital expenditures dependent.

The population in this study is a province in Indonesia that covers 33 provinces. The sample of this research is the realization of capital expenditures, per capita income, population density per km2, general allocation funds, revenue (PAD) and the Gross Domestic Product (GDP) in the period 2011-2013 in 33 provinces. The amount of data to be processed in the overall study into 99 data.

## D. Results and Discussion

Test classic assumptions used to derive the regression model that produces a linear estimator is not bias the best (Best Linear unbias). The goal in order to get valid research models and can be used in making estimates. Hasi obtained from testing the valid models so that it can continue testing the hypothesis by multiple linear regression.

**Tabel 1**
**Tabel Uji t**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 3,243 | ,676 | | 4,794 | ,000 |
| | PAD | -,295 | ,226 | -,128 | -1,304 | ,196 |
| | DAU | ,003 | ,053 | ,003 | ,055 | ,956 |
| | PDRB | ,517 | ,061 | ,734 | 8,428 | ,000 |
| | KP | 2,165E-005 | ,000 | ,144 | 2,311 | ,023 |
| | KAPITA | ,000 | ,000 | ,363 | 4,840 | ,000 |

a. Dependent Variable: BM

From the results of linear regression analysis were done, it can be obtained the following equation:

Capex = 3.243 + 0,295PAD + 0,003DAU + 0,517PDRB + 0,0000216KP + 0,000Kapita + e

Where :

a. The constant of 3.243 states if no PAD, DAU, GDP, KP, and Income Per Capita, the allocation of capital expenditure will increase by Rp 3.243

b. PAD variable regression coefficient of 0.295 means that if another independent variable value is fixed and revenue increased to Rp. 1, then the capital expenditures will be decreased by Rp. 0.295. The coefficient is negative means going negative relationship between PAD with capital expenditure, increasing revenue is not necessarily the higher capital expenditure.

c. DAU variable regression coefficient of 0.003 means that if another independent variable value is fixed and DAU increased to Rp. 1 - then the capital expenditure will be increased by Rp. 0.003. Coefficient is positive, it means there is a positive relationship between DAU and capital expenditures, increased DAU, the higher the value of the budgeted capital expenditures.

d. Variable regression coefficients Economic Growth, as measured by GDP amounted to 0.517 means that if another independent variable value is fixed and GDP increased Rp. 1 - then the capital expenditure will be increased by Rp. 0.517. Coefficient is positive, it means there is a positive relationship between economic growth and capital expenditures, increasing economic growth, the higher the budgeted capital expenditures.

e. KP variable regression coefficient of 0.0000216 means that if another independent variable value is fixed and KP increased 1 people / km2, the capital expenditure will be increased by Rp. 0.0000216. Coefficient is positive, it means there is a positive relationship between the KP with capital expenditure, increasing the density of the population of a province, the higher capital expenditure budgeted.

f. Capita variable regression coefficient of 0.000 means that if another independent variable value is fixed and Capita increased Rp. 1, - the allocation of capital expenditures remained unchanged

1. Effect of Local Revenue (PAD) to the Capital Expenditure

For the independent variable PAD (sig 0.196> 0.05) did not have a significant impact on capital expenditures. Results of this study are not consistent with research conducted by Kusnandar and Dodik in his research Siswantoro that PAD positive effect on capital expenditures. This shows the increase in revenue is not necessarily followed by an increase in capital expenditure allocation.

2. Effect of the General Allocation Fund (DAU) to the Capital Expenditure

For the independent variable DAU (sig 0.956> 0.05) had no effect on capital spending. Results of this study was consistent with research Kusnandar and Dodik Siswantoro that DAU has no effect on capital spending. But not in line with Darwanto and Yulia Yustikasari research that shows that DAU effect on capital spending. This shows that DAU is not the main source of income for the region to fund capital expenditures, the possibility of local governments feel burdened to account for the use of the funds that are used to finance capital expenditure.

3. Effect of Economic Growth of the Capital Expenditure

Economic Growth variables measured by Gross Regional Domestic Product (sig 0.000 <0.05) had a significant effect on capital spending. Results of this study are not consistent with research Suratno Putro Nugraha that economic growth is not significant. This shows that economic growth is directly proportional to capital expenditure. If economic growth in the region increases, the reception area will also be increased so that the allocation for capital expenditure to fund unmet infrastructure.

4. Effect of Population Density (KP) to the Capital Expenditure

Variable Density (sig 0.023 <0.05) had a significant effect on capital spending. The results are consistent with research that influence population Hadi Sasana effect on government spending in the province of West Java. This shows that the rate of population density in this study a significant effect on capital spending. Areas that have a high population density will require a lot of facilities and infrastructure as well so that local governments should allocate additional budget to build public facilities.

5. Effect on Per Capita Income Capital Expenditure

Variable Income Per Capita shows (0.000 <0.05) had a significant effect on capital spending. The results are consistent with the research of David and shocking, this shows that the high Per Capita Income will directly improve the allocation of capital expenditures.

## E. Conclusions and Recommendations

### 1. Conclusion

Based on testing of the effect of variable revenue (PAD), General Allocation Fund (DAU), Gross Domestic Product (GDP), Population Density (KP), Income Per Capita (capita) of the Policy Capital Expenditure (BM) can be summarized as follows :

a. From the results of the t test variables GDP, KP and Capita significant effect on capital expenditure, which means that the local government in the allocation of revenues for capital expenditure will consider regional growth rates were seen dri increase in GDP. The total population is also a consideration because of the dense population of the region will require additional investment in public facilities. Per capita income of the region reflects the level of prosperity of the community, if the high per capita income, the government could reduce subsidies and allocate funding to higher capital expenditure

 

b. Variable PAD and DAU no significant effect on capital expenditure, in this case the government has considered the possibility to finance capital expenditures from other sources that are not derived from PAD and DAU

## 2. Recommendations and limitations of the study

a. This study was only done on 5 independent variables with coefficient 76%, there are still about 24% of other variables that affect the allocation of capital expenditure in the provincial government in Indonesia to do the following research

b. Subsequent research can be done at the district and city to see the growth of capital spending several years in Indonesia

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