

## The Effect of Regional Dependence, Regional Independence, Effectiveness of Regional Original Fund (Pad), General Allocation Fund (Dau) and Special Allocation Fund (Dak) on Capital Expenditure at District/City Government of Aceh Province, Indonesia

Nasrullah<sup>1</sup>, Ridwan Ibrahim<sup>1</sup>, Lukman Hakim<sup>1</sup> and Muslim A. Djali<sup>1\*</sup>

<sup>1</sup>Faculty of Economics and Business, Universitas Syiah Kuala, Banda Aceh, Indonesia

\*Corresponding author: Muslim A. Djali

| Received: 03.05.2020 | Accepted: 20.05.2020 | Published: 30.05.2020 |

**Abstract:** This study aims to determine and analyze how to identify and analyze the influence of the region's dependence, the region's autonomy, effectiveness of PAD, DAU, and DAK towards capital expenditures in the governance of the regency / city of the expansion in Aceh Province. The population in the study became members of the study sample were the districts / cities of expansion in Aceh Province which amount 13 districts / cities for fiscal year the 2014-2016. The data analysis method used is multiple linear regression. The results showed that regional dependence, regional independence, and effectiveness of PAD did not have a significant effect on capital expenditure. Whereas DAU and DAK have a significant influence on capital expenditure.

### INTRODUCTION

Local government expenditure activities in the APBD are routine expenditure activities for regional treasury to finance operational activities in the government. Regional expenditure which includes direct and indirect expenditure (Permendagri number 25 of 2009), is an allocation of funds that must be carried out effectively and efficiently, where regional expenditure can be a benchmark for the success of regional autonomy. Capital expenditure has an important role because it has a long-term useful life to provide services to the public. Allocation of capital expenditure is given based on regional needs for facilities and infrastructure, both for the smooth implementation of government duties and for public service facilities.

Aceh Province is one of the provinces in Indonesia which has received special autonomy from the central government through Law No. 18 of 2001 concerning Special Autonomy for the Special Province of Aceh as the Province of Nanggroe Aceh Darussalam. Under the Law, Aceh Province gets a proportion of income for oil and gas resources which is 70%. This provision exceeds ordinary autonomy which regulates the distribution of provincial revenues to only 15% of oil and 35% of gas. Although Aceh gets this large proportion of income, the regional government has not

been able to optimize its capital expenditure allocation for the public interest. The DGT shows that the aggregate average allocation of district / city capital expenditure in Aceh Province during 2010-2014 is still below 30%, which is around 7.80% (DGT, 2014).

Regional independence is empowered to explore the financial resources in their respective regions so that they can afford to finance their own regional expenditures which consist of routine (capital expenditure) and capital expenditure. If capital expenditure rises, regional financial independence will also increase because capital expenditure is financed more by local revenue, so the area can be said to be independent. Regional financial independence can be seen from the amount of PAD obtained by each Regency / City Government. The greater the PAD compared to the assistance provided by the Central Government, the Regency / City Government can be said to be independent (Muliana, 2009). PAD itself is the main thing in measuring the level of regional financial independence. Therefore, it is necessary to look at the effectiveness of PAD by comparing PAD budgeted with the realization of PAD.

Between Revenue Sharing Funds (DBH), General Allocation Funds (DAU) and Special Allocation Funds (DAK) and various other forms of transfers from the Central Government should only be

Quick Response Code



Journal homepage:

<http://crosscurrentpublisher.com/ccemms/>

**Copyright © 2020 The Author(s):** This is an open-access article distributed under the terms of the Creative Commons Attribution 4.0 International License (CC BY-NC 4.0) which permits unrestricted use, distribution, and reproduction in any medium for non-commercial use provided the original author and source are credited.

supportive for the implementation of government and regional development. So that the level of regional dependence on the Central Government in financing the area is getting smaller. With the smaller level of dependence, then an area can be said to be independent. In addition there is a dependence on donations and assistance from the central government. Fiscal imbalances that occur between the central and regional governments have led to the lack of independence of regional governments and the lack of maximization in managing sources of funds originating from their own regions.

The objective to be achieved in this study is to find out and analyze the influence of regional dependency, regional independence, effectiveness of PAD, DAU, and DAK on capital expenditure in the regency / city division in Aceh Province

## LITERATURE REVIEW

### Capital Expenditures

Capital expenditure according to Halim & Kusufi (2012: 107) is "Capital expenditure is expenditure for the acquisition of other assets that provide more benefits than the accounting period. Capital expenditures include, 1) land expenditure, 2) expenditure on equipment and machinery, 3) capital expenditure for buildings and buildings 4) road capital expenditures, irrigation, and networks, 5) other fixed assets expenditure".

In SAP, capital expenditure can be categorized into 5 (five) main categories, namely: (1) land capital expenditure; (2) capital expenditure on equipment and machinery; (3) capital expenditure for buildings and buildings; (4) capital expenditure for roads, irrigation and networks; and (5) other physical capital expenditure.

### Regional Dependency

Mahmudi (2010) explains the regional financial dependency ratio is calculated by comparing the amount of transfer income received by regional revenues with total regional revenue. The higher the ratio, the greater the level of dependence of the regional government on the central government and / or the provincial government. Regional financial dependency ratio can be formulated as follows:

$$RKKD = \frac{\text{Transfer income}}{\text{Total regional revenue}} \times 100\%$$

### Regional Independence

The regional financial independence ratio shows the level of ability of a region in self-financing of government activities, development and services to communities that have paid taxes and levies as a source of income needed by the region (Halim 2012: 5). In simple terms, the independence ratio can be formulated

as follows Mahsun (2014):

$$\text{independence ratio} = \frac{\text{regional original income}}{\text{Total regional expenditure}} \times 100\%$$

### Effectiveness of Regional Original Income (PAD)

The PAD Effectiveness Ratio shows the ability of the government regions in mobilizing revenue from PAD according to the target (Mahmudi 2010: 143). The PAD effectiveness ratio is calculated by comparing the realization of PAD revenue with the target of PAD (budgeted) revenue. The effectiveness ratio is measured by Main (2008):

$$\text{PAD Effectiveness ratio} = \frac{\text{Realization of PAD}}{\text{budget of PAD}} \times 100\%$$

### General Allocation Fund (DAU)

According to Halim (2012), DAU is funds originating from the State Revenue and Expenditure Budget (APBN) which are allocated with the aim of equitable distribution of regional financial capacity to finance its expenditure needs in the framework of implementing decentralization. DAU is one of the transfers of Government funds to regional governments sourced from APBN revenues, which are allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the context of implementing decentralization.

### Special Allocation Funds (DAK)

Definition of special allocation funds according to Law No. 25 of 1999 is funds originating from the state budget allocated to the regions to help finance special needs, including those originating from reforestation funds. According to Widjaja (2007), DAK aims to help finance specific regional needs. Special allocation funds are balanced funds originating from APBN revenues allocated to certain regions with the aim of helping to fund special activities which are regional affairs and in accordance with national priorities.

### Previous Research

Previously there were several studies conducted by Fitri (2014) with the research title Effect of Regional Financial Ratios, Regional Original Revenues (PAD), and General Allocation Funds (DAU) on Allocation of Capital Expenditures to Districts / Cities in Riau Province in 2009-2012. Based on the results of statistical testing using multiple linear regression, the conclusions obtained by individual test results (t test) show that regional financial independence ratios, regional financial effectiveness ratios, regional financial efficiency ratios, and general allocation funds do not have a significant effect on the allocation of capital expenditure. Furthermore, Pradana's research (2017) examines the effect of PAD,

DAU and DAK on Capital Expenditures. The results in this study show that

Regional Original Income (PAD), General Allocation Fund (DAU) and Special Allocation Funds (DAK) have a significant effect on capital expenditure, but for General Allocation Funds has a negative influence. If DAU rises, Capital Expenditures go down and vice versa.

### RESEARCH METHOD

The approach used in this study is a quantitative approach. The population in this research is all newly created districts / cities in Aceh Province. The population in this study was a member of the study sample totaling 13 districts / cities, with the year of observation taken in 2014-2016. The author uses the method of sample selection conducted by purposive sampling with the following criteria:

1. Districts / cities that publish APBD data that have

undergone changes and are available on the internet for the 2014-2016 fiscal year.

2. Districts / cities that have capital expenditure data, regional dependency, regional independence, effectiveness of PAD, DAU and DAK.

The source of data in this study uses secondary data derived from the financial statements of the regency / city regional governments in Aceh Province which are accessed through online data at the site <http://www.djpk.kemenkeu.go.id>. This study uses multiple linear regression analysis. The formula of multiple linear regression equations, namely:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where Y is capital expenditure;  $\alpha$  is a constant;  $b_1, \dots, b_5$  is the research coefficient;  $X_1$  is the dependency of the region;  $X_2$  is regional autonomy;  $X_3$  is the effectiveness of PAD;  $X_4$  is DAU;  $X_5$  is DAK; and e is an error term.

### FINDINGS AND DISCUSSIONS

The results of hypothesis testing are shown in Table 1.

	$Y = 6,358 - 0,693X_1 - 1,214X_2 + 0,082X_3 + 0,505X_4 + 0,268X_5$				
<i>Sig.-value</i>	0,174	0,414	0,574	0,017	0,003
<i>t-value</i>	-1,389	-0,828	0,567	2,515	3,210
<i>F-value</i> = 166,160	<i>Sig.value</i> = 0,000				
<i>R/R<sup>2</sup>/Adjusted R<sup>2</sup></i>	0,787/0,620/0,562				

Source: Data processed, 2018

Based on Table 1 above, the analysis of the linear regression equation can be explained that the value of the correlation coefficient (R) of determination ( $R^2$ ) is 0.787 and 0.620, respectively, meaning that 78.7% of capital expenditure variables can be explained by regional dependence, independence area, effectiveness of PAD, DAU, DAK, and there are still 21.3% of other factors that can explain capital expenditures that have not been included in this research model.

Taken together, all independent variables are regional dependence, regional independence, effectiveness of PAD, DAU and DAK affecting capital expenditure. Statistically, the effect is significant at the level of  $\alpha = 5\%$ . This is based on the amount of the number Sig. Value of 0,000 which is smaller than 0.050.

Individually (partially), the effect of each independent variable on the dependent variable is not uniform. The influence of independent variables in the regional dependency variable shows that the regression coefficient of 0.693 is negative. This means that whenever there is a change of one percent of the regional dependency variable, then the negative (negative) variable will affect the capital expenditure variable by 0.693. That is, regional dependency will

cause capital expenditure to be lower, and vice versa if the regional dependency is high, then capital expenditure will be higher. Statistically the effect of regional dependence on capital expenditure is not significant at the tolerance level of five percent or  $\alpha = 5\%$ . The results of this study are in line with the research conducted by Indriatno (2016), finding that regional dependency ratios have no effect on the allocation of capital expenditures, this means that local governments are unable to optimize their own local revenues, so that the dependence of regional governments on central government capital expenditure cannot be normally distributed.

Furthermore, the influence of the regional kemadirian independent variable shows a regression coefficient of 1.214 which is negative. This means that whenever there is a change of one percent of the regional marriages variable, then (negatively) will affect the capital expenditure variable of 1.214. That is, regional independence will cause capital expenditure to be lower, and vice versa if the regional independence is high, then capital expenditure will be higher. Statistically the effect of regional independence on capital expenditure is not significant at the tolerance level of five percent or  $\alpha = 5\%$ , which is 0.414. The results of this study are in line with the research

conducted by Lestari (2016), explaining that capital expenditure has no significant influence on regional financial independence of the Southeast Sulawesi Provincial Government. The size of the changes that occur in capital expenditure does not have a role in increasing regional financial independence.

The independent variable of the PAD effectiveness variable is 0.082 which is positive with a significance value (sig. Value) of 0.505. This coefficient implies that every 1 percent change in the effectiveness of PAD, it will relatively increase capital expenditure by 0.082. Changes in the effectiveness of PAD can be in the form of increases or decreases in capital. However, statistically the effect of the effectiveness of PAD on the district / city capital expenditure in Aceh Province is not significant at the tolerance level of five percent or  $\alpha = 5\%$ . This means that the lower the value of this ratio indicates the smaller the degree of success of local government in the public sector in providing community services which are predetermined targets.

The next independent variable DAU is 0.505 which is positive with a significance value (sig. Value) of 0.017. This coefficient means that every 1 percent of the DAU changes, it will relatively increase capital expenditure by 0.505. The DAU change can be in the form of an increase or a decrease in capital expenditure. However, statistically the effect of DAU on the expansion of district / city capital expenditure in Aceh Province is significant at the tolerance level of five percent or  $\alpha = 5\%$ . This means that the allocation of DAU which emphasizes the aspects of equity and justice in harmony with the administration of government affairs has been appropriately distributed equally and thoroughly.

And for the effect of the DAK independent variable is 0.268 which is positive with a significance value (sig. Value) of 0.003. This coefficient means that every 1 percent changes in DAK, it will relatively increase capital expenditure by 0.268. Changes in DAK can be in the form of increases or decreases in capital expenditure. However, statistically the effect of DAK on the expansion of district / city capital expenditure in Aceh Province is significant at the tolerance level of five percent or  $\alpha = 5\%$ . This means that every allocation of capital expenditure is affect by the DAK, thus the higher the DAK, the higher expenditure of district / city government capital expenditure in Aceh Province will be.

## CONCLUSIONS AND RESEARCH LIMITATIONS

### Conclusions

1. Regional dependence does not have a significant effect on capital expenditure;
2. Regional independence does not have a significant effect on capital expenditure; (3) The effectiveness

of PAD does not have a significant effect on capital expenditure;

3. DAU has a significant effect on capital expenditure;
4. DAK has a significant effect on district / city expansion of capital expenditure in
5. Aceh Province.

### Research Limitations

1. This study only focuses on the newly created districts / cities in Aceh Province which do not reflect all the governments in the District / City in Aceh Province.
2. This study only includes five independent variables used for know the effect on capital expenditure, namely regional dependence, regional independence, effectiveness of PAD, DAU and DAK.
3. This study only uses the Timeseries method derived from financial statements with a 3-year research period, so conclusions taken are only based on data collected through regional financial statements.

## REFERENCES

1. Fitri, Vella Kurniasih. (2014). Pengaruh Rasio Keuangan Daerah, Pendapatan Asli Daerah (PAD), dan Dana Alokasi Umum (DAU) terhadap Alokasi Belanja Modal Pada Kabupaten/Kota Di Provinsi Riau Tahun 2009-2012. *Jurnal Fakultas Ekonomi Universitas Riau*.
2. Halim, A. (2012). *Akuntansi Sektor Publik: Akuntansi Keuangan Daerah*. Jakarta: Salemba Empat.
3. Halim, A., & Syam, K. (2012). *Akuntansi Sektor Publik : Teori, Konsep Dan Aplikasi*. Jakarta: Salemba Empat.
4. Indratno, N. (2016). Pengaruh Rasio Keuangan terhadap Alokasi Belanja Modal pada Kabupaten/Kota di Provinsi Jawa Tengah. *Jurnal publikasi*, Universitas Muhammadiyah Surakarta.
5. Lestari, A. (2016). Pengaruh Dana Alokasi Umum (DAU) dan Pendapatan Asli Daerah (PAD) terhadap Belanja Modal dan Kemandirian Keuangan Daerah Provinsi Sulawesi Tenggara. *Jurnal Progres Ekonomi Pembangunan*, Volume 1, Nomor 2.
6. Mahmudi. (2010). *Manajemen Keuangan Daerah*. Jakarta: Erlangga.
7. Mahsun, M. (2014). *Pengukuran Kinerja Sektor Publik*. Yogyakarta: BPF.
8. Muliana. (2009). Pengaruh Rasio Efektivitas PAD, DAU, dan DAK Terhadap Tingkat Kemandirian Keuangan Daerah. *Skripsi*. Medan: Fakultas Ekonomi Universitas Sumatera Utara.
9. Pradana, Yosea, Eka. (2017). Pengaruh PAD, DAU Dan DAK Terhadap Belanja Modal. *Jurnal Ilmu dan Riset Akuntansi*, Volume 6, Nomor 3.
10. Utama, M. S. (2008). Pengaruh Kinerja Keuangan

Daerah Terhadap Kesejahteraan Masyarakat Pada Kabupaten/Kota di Provinsi Bali Tahun 2001 – 2006. Studi Kasus Pada 9 Kabupaten/Kota di Provinsi Bali. *Skripsi* (tidak dipublikasikan).

11. Widjaja, H.A.W. (2007). *Penyelenggaraan Otonomi di Indonesia dalam Rangka Sosialisasi UU No. 32 Tahun 2004 tentang Pemerintahan Daerah*. Jakarta: RajaGrafindo Persada.z