





Analysis of factors affecting capital expenditures and their implications on government financial performance provinces in Indonesia 2011-2019

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ABSTRACT

The purpose of this research aims to determine the impact of Local Own Revenue, Balanced Funds, Economic Growth, and Excess of Budget Calculation (SiLPA) on Capital Expenditure as long as the implications to provincial government financial performance in Indonesia from 2011 to 2019. The province government financial reports from across Indonesia as population and in 2011 to 2019 as samples. This type of research is known as causal associative research, with quantitative descriptive analysis techniques, and Panel Data Regression Analysis with The Random Effect Model as the selected model, with secondary data including time-series data and panel data in 2011 to 2019 from The Supreme Audit Agency of the Republic of Indonesia, the Central Bureau of Statistics, and other official publications. According to the research results, R² was 79.08%. Partially Local Own Revenue had a positive value and did not affect Capital Expenditure. Balanced Funds, Economic Growth, and Excess of Budget Calculation had positive values and an effect on Capital Expenditures. Simultaneously, Local Own Revenue, Balanced Funds, Economic Growth, and Excess of Budget Calculation affect Capital Expenditure. Then Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation and Capital Expenditures simultaneously did not affect Financial Performance.

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Introduction

Reform of regional financial management requires the assistance of a more flexible budgeting mechanism that can assist efforts to increase efficiency while maintaining transparency and accountability. The decentralization policy that is broad, concrete, and accountable to the regions is a strategic step.

With regard to reforms in the financial system, Prabowo et al. (2017) in their research results explain that:

Reforms in the financial reporting system are part of broader public sector reforms in Indonesia. The Indonesian government initiated public sector reform through the enactment of Law (UU) Number 22/1999 on Regional Government. Between 1999 and 2004, the government issued five other laws that could be identified as the new legal framework for the public sector management system.

The government has an important role in the progress of the region as regulated in Law Number 32 of 2004 which subsequently underwent amendments to Law Number 23 of 2014. The amendment is intended to encourage the creation of more effective and effective results for the implementation of Regional Government in the welfare of the community and to spur synergies in various aspects in the implementation of Regional Government with the Central Government. One form of measurement is the regional financial performance. By looking at financial performance, it can determine the accountability of the power holders, this

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measurement can also be used as a basis for assessing the success of local governments in implementing regional autonomy which has an impact on regional economic growth.

With decentralization, it is expected that service improvements will occur, but from another point of view, this raises new problems, due to different levels of regional fiscal readiness. Therefore, a stimulus is needed to realize these ideals, namely by improving services and better public welfare, one of which is through improving public facilities and infrastructure, the results of which can be used directly by the community, as a form of support system.

Allocation for Capital Expenditures was influenced by local revenues and other regional revenues. Capital expenditures are regional government expenditures that exceed the benefits of one fiscal year and are allocated for the purchase of fixed assets that can be used for regional development that will increase regional assets based on the real needs of the community in accordance with developing demands and dynamics. An increase in capital expenditure will have an impact on the coming period, namely increasing public productivity and increasing investors.

In the 2015 - 2019 National Medium Term Development Plan (RPJMN), which is contained in Presidential Regulation Number 2 of 2015, that "sub-optimal regional financial management results in low effectiveness and efficiency of capital expenditures. This is shown by the allocation of capital expenditures that is still below the national average target." With the 2015-2019 Development Achievements in the 2020-2024 RPJMN as a support, that:

In 2018, the economic contribution of the island of Java was 60.1% and the island of Sumatra was 21.6% of the National Gross Domestic Product (GDP). Inequality between island regions is still very high, while inequality between provinces within island areas varies, with the highest being in the islands of Java – Bali, and Kalimantan. Likewise, inequality between villages and cities in the island region, the highest in Java - Bali, Nusa Tenggara, and Sulawesi (Presidential Regulation Number 18, 2020).

As contained in Government Regulation (PP) Number 71 of 2010 concerning Government Accounting Standards :

In the Revenue and Regional Expenditure Budget Realization Report, Revenue are Local Own Revenue, Transfer Revenue, Central Government Transfers, and Other Legitimate Revenues. Original Regional Revenue consists of regional tax revenue, regional levies, the results of separated regional wealth management, and other legitimate Local Own Revenue. Central Government Transfers - Balanced Funds consist of tax revenue sharing, natural resource sharing, general allocation funds, and special allocation funds (Government Regulation Number 71, 2010).

In Government Regulation Number 71/2010, Expenditures consist of Operational Expenditures, Capital Expenditures, and Unexpected Expenditures. Capital Expenditures are Expenditures for Land, Equipment and Machinery, and Buildings, Roads, Irrigation and Networks, Other Fixed Assets, and Other Assets. Based on information from the Indonesian Ministry of Finance in the 2016 Regional Budget Summary, that:

One of the main objectives to be achieved is to improve the quality of expenditure and the accountability of regional financial management through the development of basic infrastructure that encourages investment, accelerating absorption of regional spending, improving the quality of public services, and implementing empowerment programs. Then local governments need to allocate regional revenue resources into efficient regional government spending (Ministry of Finance of the Republic of Indonesia, 2016).

Apart from the above explanation, the results of previous studies indicate inconsistencies. In research conducted by Jaya and Dwirandra (2014) as well as Sholikhah and Wahyudin (2014) that Local Own Revenue affects capital expenditure. Contrary to Wandira's (2013) research results, Local Own Revenue has no effect on capital expenditure. Then, research by Sari, et al (2018) states that Balanced Funds have no effect on capital expenditure. On the other hand, the research of Wandira (2013) and Nuarisa (2013) has a significant effect.

Research by Nugroho and Rohman (2012) shows a significant effect of economic growth on capital expenditures. Meanwhile, the research results of Jaya and Dwirandra (2015) that economic growth has no effect on capital expenditure. Furthermore, Talluta, et al. (2018) did not find the effect of Excess of Budget Calculation on Capital Expenditures. In contrast to the case with Kusnandar and Siswanto (2012) as well as Sugiardi and Supadmi (2014) concluded that there is a significant effect of Excess of Budget Calculation on capital expenditure. In Al Qadar's research, et al (2014) as well as Antari and Sedana (2018) concluded that there was a significant effect of capital expenditure on financial performance. It is not in line with the results of research by Nugroho and Rohman (2012) that capital expenditure has no effect on financial performance.

The object of this research is the provincial government, because it is considered to have represented as a subsystem of the Indonesian state government system as a form of decentralization, this is supported by the opinion of Shah in his research, that:

The Provincial Government has a dual role as an autonomous region of government and as a regional representative of the central government. Law Number 32/2004 explicitly strengthens the coordinating role of provincial governments as representatives of the central government, a move based on the perception that closer central supervision and supervision is needed to make decentralization more effective (Shah, 2012).

The difference between the increase in Local Own Revenue and the Balanced Funds to Capital Expenditure is quite high, the use of regional spending for economic growth or the welfare of its citizens. The use of excess budget calculation to cover the deficit in regional spending and financial capacity as seen from financial performance attracts researchers to analyze it.

According to Mulyani and Wibowo's research, the relationship between capital expenditures and financial performance is supported by Antari and Sedana's (2018) research results that capital expenditure affects financial performance (2017). Furthermore, according to the research results of Mulyani and Wibowo (2017), local revenue has a negative impact on the financial performance of a company.

According to the research results of Suryantini et al. (2018), the relationship between regional financial performance and economic growth is not significant. This is attributed to the reason that economic growth is a macro variable that is effected by government policies, inflation factors, political conditions, and the investment climate. Astuti and Mispiyanti support the results of this study (2019). Meanwhile, Nasution and Panggabean (2017) concluded that economic growth has a negative impact on the financial performance of local governments.

In Andirfa's research, et al (2016) as well as Budianto and Alexander (2016) Balanced Funds have a negative effect on financial performance. Balanced Funds are one of the sources of income in the Regional Government Budget which should have a positive effect. Based on this condition, the research was conducted to identify and analyze empirical evidence through analysis of the factors that affect capital expenditure and their implications for financial performance in provincial governments in Indonesia in 2011 - 2019.

The difference between this research and previous is the year of research, in this research the data were collected from 2011 to 2019. The second difference is that the object of research includes all provincial governments in Indonesia, namely 33 provinces. This research first wants to determine the effect of Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation (SiLPA) on Capital Expenditures of provincial governments throughout Indonesia. Then to find out the effect of Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation (SiLPA) and Capital Expenditures on the Financial Performance of provincial governments throughout Indonesia.

Literature Review

Theoretical Background and Hypotheses Development

Stewardship Theory

In terms of the public sector, the grand theory to this research is part of the agency theory, specifically the stewardship theory titled "Toward a Stewardship Theory of Management." Agency theory describes the relationship between the principal and the agent, whereas stewardship theory describes the relationship between principal and steward (Donaldson and Davis, 1991). The object of this research is part of public sector organizations, namely local governments.

Regional Government Budget

According to Article 16 paragraph 1 of Law Number 17 of 2003, "Regional Government Budget is a form of regional financial management determined annually by regional regulations consisting of the Revenue Budget, Budget, and Financing."

Government Financial Report

Regional government financial reporting is one form of accountability for state financial management, as the role of the accountability process (Eriadi et al, 2018). According to Article 31 paragraphs 1 and 2 of Law Number 17 of 2003, no later than 6-months after the fiscal year ends, the Governor / Regent / Mayor submits to the Regional People's Representative Council a draft regional regulation on the accountability of Regional Government Budget implementation in the form of a financial report audited by the Indonesian Audit Board.

Regional Government Financial Performance

According to Mardiasmo (2017), financial performance measurement accomplishes three goals: "improving government performance, assisting in the allocation of resources and decision-making, as well as realizing public accountability and improving institutional communication."

Capital Expenditure

Capital Expenditures are defined in Government Regulation Number 71 of 2010 concerning Government Accounting Standards in Statement Number 02 paragraph 37 as "budget expenditures to acquire fixed assets and other assets that provide benefits for more than one accounting period." Capital expenditures include, among other things, capital expenditures for the acquisition of land, buildings and structures, equipment, and intangible assets.

Local Own Revenue

In-Law Number 33 of 2004 Concerning the Financial Balance of the Central and Local Governments Local Own Revenue is derived from regional taxes, regional levies, proceeds from the management of separated regional assets, and so on, according to Chapter V,

Article 6 paragraphs 1 and 2 of Law Number 33 of 2004. Legitimate Local Own Revenue includes proceeds from the sale of non-separated regional assets, current account services, interest income, and profits from the difference in the rupiah exchange rate against the currency. Foreign currency, commissions, deductions, and other forms resulting from regional sales and/or procurement of goods and/or services.

Balanced Funds

Following Article 1 of Law Number 33/2004, funds allocated to regions to finance regional needs context of implementing decentralization are sourced from the Indonesian Budget, also known as Balanced Funds. The equalization fund in Articles 10 and 11 made up of the Tax Profit Sharing Fund, the General Allocation Fund, and the Special Allocation Fund.

Economic growth

Capital accumulation, such as investment in physical equipment, capital or resources, and land, population growth, to increase the workforce, and technological progress are three factors of economic growth in a country (Todaro and Smith, 2012).

Excess of Budget Calculation

Excess of Budget Calculation refers to the excess of realized budget revenues and expenditures over a single budget period, as defined in Minister of Home Affairs Regulation Number 13 of 2006 concerning Guidelines for Regional Financial Management.

The Effect of Local Own Revenue on Capital Expenditures

By allocating the amount of contribution of Regional Original Revenue to Capital Expenditures, such as infrastructure development, it has an impact on improving the quality of public services which are expected to improve the welfare and economy of the community, help accelerate the implementation of development programs in the regions and encourage increased investment. The balanced proportion between expenditure and income has a positive impact on the relationship between original regional income and capital expenditure. Capability / level of capital expenditure is influenced by the source of revenue from Local Own Revenue. As contained in Government Regulation Number 71/2010 "The government invests large funds in the form of assets with a long useful life." This is in line with the results of research conducted by Mulyani (2016), and Nuarisa (2013), Jaya and Dwirandra (2014).

H₁: Local Own Revenue has an effect on Capital Expenditure.

The Effect of Balanced Funds on Capital Expenditures

The balanced funds is an incentive for local governments to finance regional expenditures. The Balanced Funds has a considerable contribution in supporting regional development to provide better services to the community so that it is hoped that an increase in public services can be carried out and the welfare of the community is getting better. Balanced funds has a very large role in the allocation of capital expenditures. Therefore, excellent public services must be supported by qualified capital expenditures. Transfer income from the central government or the balanced funds, one of which is in the form of a special allocation fund as described in Government Regulation Number 71/2010. Then, from the results of research conducted by Abdullah and Rona (2014), it was explained that the specific grant for the balanced funds had been determined for its use by the central government. In CHAPTER II Article 2 paragraph 3 according to Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments. The Balanced Funds Initiative intends to reduce the fiscal gap between the Central Government and Regional Governments, as well as between Regional Governments. It is in line with the results of research conducted by Wandira (2013).

H₂: Balanced Funds has an effect on Capital Expenditure.

The Effect of Economic Growth on Capital Expenditures

One important indicator to determine economic conditions in an area in a certain period is shown by Gross Domestic Regional Product (GDRP) data, either at current prices or at constant prices. GDRP (Gross Domestic Regional Product) is one of the macroeconomic indicators that can provide an indication of the extent of economic development and regional economic structure. Local budget allocations are used for infrastructure development that will increase regional economic capacity and improve public services. Increasing the capacity of the regional economy will encourage an increase in community welfare as explained in the results of the research by Purbadharmaja, et al. (2018). In line with Jumiati's research, et al (2019) and Afonso and Jalles (2014) that with data from 1970 to 2010 in 155 developed and developing countries, the results of their research explain that the Granger causality is strong from GDP per capita to government spending. That is, the greater the economic growth, the greater the capital expenditure.

H₃: Economic growth affects capital expenditure.

The Effect of Excess of Budget Calculation (SiLPA) on Capital Expenditures

At the beginning of the following fiscal year, the remaining budget from the previous year is an important source of financing for local governments, because revenue cannot be realized at the beginning of the fiscal year. Excess of Budget Calculation (SiLPA) is a component of financing receipts as described in accordance with Domestic ministerial regulations Number 13 of 2006, this is in

line with the results of research conducted by Abdullah and Rona (2014). Then it is similar to the research conducted by Sari, et al (2018) that the Excess of Budget Calculation has an effect on capital expenditure.

H4: Excess of Budget Calculation has an effect on Capital Expenditures.

The Effect of Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation, And Capital Expenditure on Financial Performance

Financial performance can be used to measure regional progress in implementing regional autonomy, as it indicates regional financial capacity. Good economic growth shows the progress of a region, especially in terms of increasing regional income. One of the factors that influence economic growth is investment issued by local governments as an economic stimulus. The large capital expenditure is a reflection of the large number of infrastructure and facilities being built. Infrastructure development is carried out to facilitate the convenience of various activities, so from a logical point of view, with an increase in quality infrastructure development, it is hoped that it can improve the economy and provide good public services. The income and expenditure realization report is prepared on an accrual basis, which presents information on operating income, expenditure based on functional and economic classifications, surplus and deficit, which can be defined as a form of financial performance report as described in Government Regulation Number 71 of 2010. The relationship between financial performance and capital expenditures is strengthened by the results of research conducted by Mulyani and Wibowo (2017), and Antari and Sedana (2018) which show that capital spending has an influence on financial performance. Then, the results of research conducted by Nasution and Panggabean (2017) concluded that economic growth has a negative effect on the financial performance of local governments. Balanced funds have a negative effect on the financial performance of local governments found in the research of Andirfa, et al. (2016) as well as Budianto and Alexander (2016). Balanced funds are one of the sources of income in the Regional Government Budget which should have a positive effect.

H5: Local Own Revenue, Balanced Funds, Economic Growth, Excess Budget Calculation, and Capital Expenditures have an effect on financial performance.

Research and Methodology

The type of research conducted in this research is causal associative research, which aims to determine the effect or relationship between variables that affect and are influenced (Sugiyono, 2016: 59). The analysis technique of this research uses quantitative descriptive analysis techniques, as well as panel data regression analysis. This research comes under the category of research with balanced panel data. The data used in this research is secondary data that is quantitative in nature, from the Central Statistics Agency, the Republic of Indonesia Audit Board, and other official publication sources to complement the research references, which include time series data and panel data from 2011-2019. Data is processed using *Eviews* software. In this study, the population is the financial statements of provincial governments throughout Indonesia. The sample in this study is the financial statements of provincial governments throughout Indonesia in 2011 - 2019.

Findings and Discussion

Description of Research Variables

The object of this research is Provincial Governments throughout Indonesia. This research is classified as a research with a balance panel data. In this study, using per capita data from Local Own Income, Balanced Funds, Excess of Budget Calculation (SiLPA), and Capital Expenditures. Per capita data is intended to reduce the gap in the value of each variable between the provinces with the highest and lowest scores.

Result of Selection Testing Estimation

Equation Model 1

Panel data regression uses three models, namely the Common Effect Model, Fixed Effect Model and Random Effect Model for the variables of Local Own Revenue (X_1), Balanced Funds (X_2), Economic Growth (X_3), and Excess of Budget Calculation (X_4).

Final Model Selection Equation 1

The results of statistical tests are used to determine the best model. In general, statistical tests show that The Random Effect Model is a good model for interpreting the results of the analysis.

Table 1: Regression Results Using the Random Effect Model Equation 1

Method: Pooled EGLS (Cross-section random effects)				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-152.6738	88.32430	-1.728559	0.0849
Local Own Revenue (X1)	0.007022	0.022566	0.311180	0.7559
Balanced Funds (X2)	0.249345	0.032652	7.636528	0.0000
Economic Growth (X3)	66.23419	28.50982	2.323206	0.0208
Excess of Budget Calculation (X4)	0.712053	0.070076	10.16120	0.0000
Effects Specification			S.D.	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			847.9294	1.0000
Weighted Statistics				
R-squared	0.790813	Mean dependent var	1188.703	
Adjusted R-squared	0.788033	S.D. dependent var	1797.087	
S.E. of regression	827.3769	Sum squared resid	2.06E+08	
F-statistic	284.4756	Durbin-Watson stat	1.849667	
Prob(F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.790813	Mean dependent var	1188.703	
Sum squared resid	2.06E+08	Durbin-Watson stat	1.849667	

Source: Processed data, 2021

The regression results can be made the following equation:

$$Y_1 = -152,67 + 0,007X_1 + 0,249X_2 + 66,23X_3 + 0,712X_4 + e$$

Statistical Testing of Equations 1

Coefficient of Determination (R²)

Based on the value of the coefficient of determination (R²) in Table 1, it shows that the coefficient of determination is 0.7908 or 79.08 percent, meaning that 79.08 percent of the variables of Local Own Revenue, Balanced Funds, Economic Growth, and Excess of Budget Calculation are able to explain Capital Expenditure. The rest (20.92 percent) is explained by other variables that are not included in the regression model.

t test

Based on Table 1, the results of the t test show that, The probability value of the t-statistic of Local Own Revenue is 0.755 or the value is > 0.05. This means that H₀ is accepted and H₁ is rejected, which means that partially the Local Own Revenue variable has no effect on Capital Expenditures, where the regression coefficient value of Regional Original Income is 0.007, meaning that if there is an increase in Local Own Revenue by 1% it will increase Local Own Revenue by 0.007 percent. The probability value of the t-statistic of Balanced Funds is 0.00 or the value is < 0.05. This means that H₀ is rejected and H₂ is accepted, which means that partially the Balanced Funds variable has an effect on Capital Expenditures, where the value of the Balanced Funds regression coefficient is 0.249 meaning that if there is an increase in the Balanced Funds by 1% it will increase the Balanced Funds by 0.249 percent. The probability value of t-statistic of Economic Growth is 0.02 or the value is < 0.05. This means that H₀ is rejected and H₃ is accepted, which means that partially the Economic Growth variable has an effect on Capital Expenditures, where the Economic Growth regression coefficient value is 66.23, which means that if there is an increase in Economic Growth by 1%, it will increase Economic Growth by 66.23 percent. The probability value of t-statistic of Excess of Budget Calculation (SiLPA) is 0.00 or the value is < 0.05. This means that H₀ is rejected and H₄ is accepted, which means that partially the Excess of Budget Calculation variable has an effect on Capital Expenditure, where the value of the Economic Growth regression coefficient is 0.712 which means that if there is an increase in the Excess of Budget Calculation by 1%, it will increase the Excess of Budget Calculation by 0.712 percent.

F test

Based on Table 1, it can be seen that the probability F-statistic is 0.00 with a confidence level of 95% ($\alpha = 0.05$), then the null hypothesis of the study is rejected because the probability value of the F-statistic is smaller than α which indicates that simultaneously Local Own Revenue, Balanced Funds, Economic Growth, and Excess of Budget Calculation affect Capital Expenditures.

Equation Model 2

Panel data regression uses three models, namely the Common Effect Model, Fixed Effect Model and Random Effect Model for the variables of Local Own Revenue (X_1), Balanced Funds (X_2), Economic Growth (X_3), Excess of Budget Calculation (X_4), and Capital Expenditures (Y_1).

Final Model Selection Equation 2

The results of statistical tests are used to determine the best model. In general, statistical tests show that The Random Effect Model is a good model for interpreting the results of the analysis.

Table 2: Regression Results Using The Random Effect Model Equation 2

Method: Pooled EGLS (Cross-section random effects)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	103.4830	1.212618	85.33852	0.0000
Capital Expenditures (Y1)	-0.002016	0.000958	-2.103753	0.0362
Local Own Revenue (X1)	-0.000402	0.000241	-1.666867	0.0966
Balanced Funds (X2)	0.000931	0.000333	2.798159	0.0055
Economic Growth (X3)	-0.084487	0.927873	-0.091055	0.9275
Excess of Budget Calculation (X4)	0.002894	0.001182	2.448817	0.0149
Effects Specification			S.D.	Rho
Cross-section random			5.241932	0.1357
Idiosyncratic random			13.22910	0.8643
Weighted Statistics				
R-squared	0.022816	Mean dependent var		67.08046
Adjusted R-squared	0.006529	S.D. dependent var		13.34091
S.E. of regression	13.29728	Sum squared resid		53045.32
F-statistic	1.400908	Durbin-Watson stat		1.831183
Prob(F-statistic)	0.223745			
Unweighted Statistics				
R-squared	0.018543	Mean dependent var		104.2033
Sum squared resid	61517.19	Durbin-Watson stat		1.579001

Source: Processed data, 2021

The regression results above can be made the following equation:

$$Y_2 = 103,483 - 0,0004X_1 + 0,0009X_2 - 0,0844X_3 + 0,0028X_4 - 0,0020Y_1 + e$$

Statistical Testing of Equations 2

Coefficient of Determination (R^2)

According to the coefficient of determination (R^2) value in Table 2, the coefficient of determination is 0.022 or 2.2 percent, indicating that 2.2 percent of the variables of Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation (SiLPA), and Expenditure Capital can explain financial performance. The remaining amount (97.8%) is explained by other variables.

F test

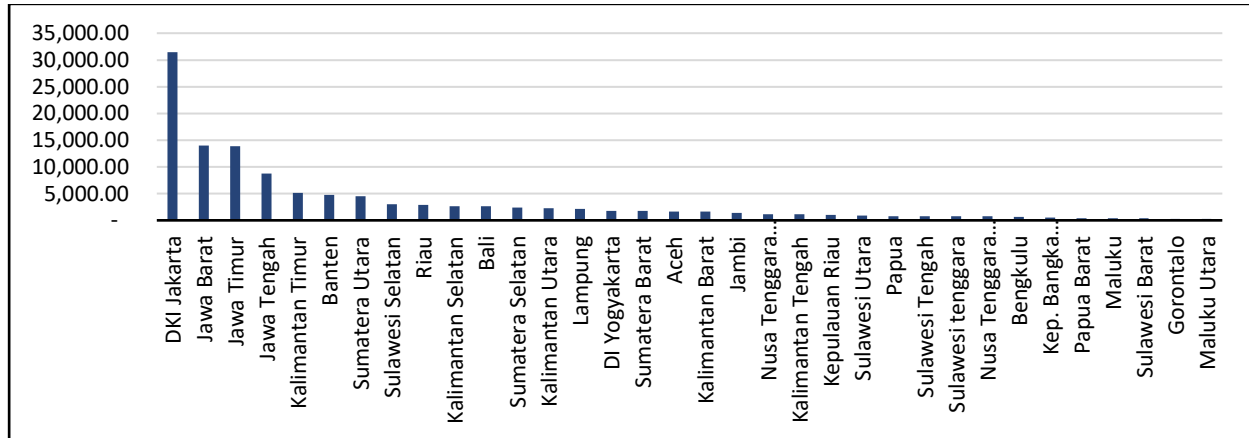
Based on Table 2, it can be seen that the probability F statistic is 0.223 with a confidence level of 95% ($\alpha = 0.05$). This means that H_0 is accepted and H_5 is rejected, because the probability value of F-statistic is larger than α which indicates that Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation, and Capital Expenditures simultaneously did not affect Financial Performance.

Coefficient Analysis Per Provinces

Based on the results of the fixed effect regression model equation 1, the highest coefficient per province in this study was first obtained by Southeast Sulawesi with a positive value of 774,918. Second, Aceh Province with a positive score of 409.65. Then, Maluku Province has the lowest first with a negative value of -431,977. The second lowest was obtained by the Province of East Kalimantan with a negative value of -216.22. The different coefficient values in each province illustrate that there are factors or advantages of other variables that are owned by one province but not owned by other provinces.

Discussion

Local Own Revenue had positive values and did not affect Capital Expenditures, in general it means that any changes in the increase of Local Own Revenue variable that occur partially did not affect the overall capital expenditure. The results of this study support Law Number 17 of 2003 article 17 which, among other things, states that "the drafting of the Regional Revenue and Expenditure Budget is guided by the work plan of the local government in order to achieve the goals of the state."



Source: Data processed from the Provincial Government's Budget Realization Report (LRA) in Indonesia, The Supreme Audit Agency, 2021

Figure 1: Average Local Own Revenue in Indonesia in 2011 – 2019

Based on that graph it can be seen that there is a high gap in Local Own Revenue from each province. The highest per capita local revenue for 2011-2019 was obtained by the Provincial Government of DKI Jakarta Rp31,439.54 billion, while the Provincial Government with the lowest average Local Own Revenue per capita was the Provincial Government of Maluku Rp228.29 billion.

The results of this study are in line with the results of Wandira's research (2013), which concluded that Local Own Revenue did not effect on capital expenditure. However, it is not the same as the research results of Sari et al. (2018) which concluded that Local Own Revenue has an effect on Capital Expenditure.

The Balanced Funds had positive values and an effect on Capital Expenditures, meaning that any increase in the Balanced Funds variable will partially affect the increase in Capital Expenditure. The results of this study are in accordance with those stipulated in Law Number 33 of 2004 that the balanced funds is a fund allocated to the regions to finance regional needs which comes from The Indonesian Budget in the context of implementing decentralization, because there are still parts of the province that still depend on the acquisition of Balanced Funds to finance capital expenditures in infrastructure development for public services, where if only relying on regional revenue will not be sufficient, so a stimulus is needed through the Balanced Funds to finance capital expenditures.

Economic growth had positive values and an effect on Capital Expenditures, in general it means that any increase in the Economic Growth variable will partially affect the increase in capital expenditure. This is in line with the theory of economic growth. According to Todaro and Smith (2003) an important factor of economic growth in a country, namely the accumulation of capital includes all forms / types of new investments invested in land, physical equipment and human capital or human capital. This is also in line with the research of Suryantini, et al. (2018) which concluded that in developing countries, if expenditure is used productively, it will affect economic growth, but if it is used excessively, it will reduce economic growth.

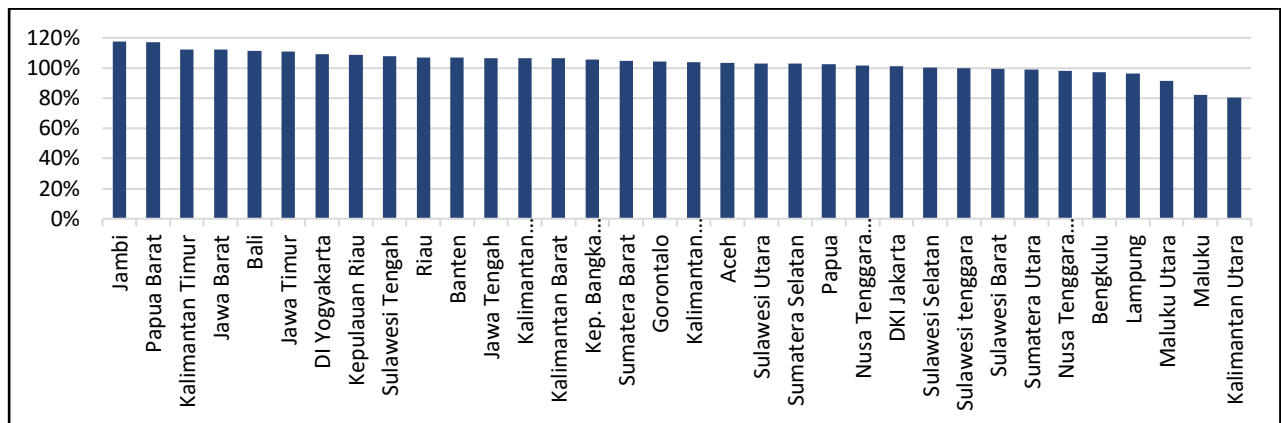
Excess of Budget Calculation (SiLPA) had positive values and an effect on Capital Expenditures. In general, it means that any increase in the Excess of Budget Calculation variable will partially affect the increase in capital expenditure. This condition is due to the excess balance of the budget calculation is one of the stimuli that has an important role in funding the allocation of capital expenditures if regional revenues are insufficient for the allocation of capital expenditures. The results of this study are consistent with those stipulated in domestic ministerial regulations Number 13 in 2006, article 137, which states that Excess of Budget Calculation is a financing receipt to cover the budget deficit, if the revenue realization is less than the expenditure realization, funds

the implementation of additional activities on direct expenditure, and funds other liabilities that were not previously funded until the end of the year. The results of this study are consistent with the result of Kusnandar and Siswantoro's research (2012).

Based on the test results, simultaneously Local Own Revenue, Balanced Funds, Economic Growth and Excess of Budget Calculation had effect on Capital Expenditure. The significant research results are in line with Law Number 17 / 2003 article 17. It shows that the provincial government uses all elements of revenue in the Regional Government Budget for capital expenditures. The findings of the research right close the conclusions of Sularso and Restianto (2011) that "Good regional financial management will affect regional progress. The efforts of local governments to explore financial capacity can be seen in their regional financial performance. A good performance measurement means that the region has the ability to finance the implementation of regional autonomy. "

The results of this study support the conclusion of Shah (2012) which states that "the provincial government has a dual role as an autonomous region of government and as a regional representative of the central government." As an autonomous region, the use of all regional revenues for capital expenditure is necessary to achieve a more effective decentralization.

The results showed that simultaneously Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation and Capital Expenditures had no effect on financial performance. The results of research that have not found an effect can manifest as shown in Figure 2.



Source: *Data processed from the Provincial Government's Budget Realization Report (LRA) in Indonesia, The Supreme Audit Agency, 2021*

Figure 2: Average Financial Performance in Indonesia in 2011 – 2019

Based on this graph, it can be seen that the provinces that receive the highest Local Own Revenue, Balanced Funds, Economic Growth, and Capital Expenditures are not in the highest place of average financial performance. The highest average financial performance in 2011 - 2019 was achieved by the Jambi Provincial Government with a value of 117.36% and second place was the Provincial Government of West Papua with a value of 117.08%.

The results of this study support the research conducted by Sularso and Restianto (2011) which states that "the efforts of local governments in exploring financial capacity can be seen from the performance of regional finances."

Conclusions

This research was conducted at the provincial government in Indonesia as many as 33 provincial governments. This research covers the data range from 2011 to 2019. The conclusions of the research results are as follows Local Own Revenue had positive values and did not affect Capital Expenditures. Balanced Funds had positive values and an effect on Capital Expenditures. Economic growth had positive values and an effect on Capital Expenditures. Excess of Budget Calculation (SiLPA) had positive values and an effect on Capital Expenditures. Simultaneously Local Own Revenue, Balanced Funds, Economic Growth, and Excess of Budget Calculation affect Capital Expenditures. Local Own Revenue, Balanced Funds, Economic Growth, Excess of Budget Calculation, and Capital Expenditures simultaneously did not affect Financial Performance.

The limitation in this study is not found the effect of Local Own Revenue on Capital Expenditures. Subsequent research is suggested to be wiser in taking research objects, by classifying the form of division of the Provincial Government based on the level of regional and regional financial welfare.

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