

## Regional Capabilities, Transfers And Wide Of Area Influence To Capital Expenditures With Moderation Of Economic Growth

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**Abstract:** *The proper allocation of capital expenditure will support the smoothness of government tasks and public facilities so that it will increase the productivity of the regional economy and job creation. This study aims to determine the effect of local revenues, general allocation funds, surplus funding budget and the area of the capital expenditure with the moderation of economic growth. The population in this research is the district/city of Central Java province in 2012-2014 as many as 35 consisting of 29 districts and six municipalities. Research data were analyzed by using multiple linear regression analysis of quasi model with a base of interaction. The results of hypothesis testing can be concluded that the local revenue affects the capital expenditure with negative intensity. While general allocation fund, economic growth, and size of the region have a positive effect on capital expenditure. However, the surplus funding budget has no impact on capital expenditure. Economic growth can be moderated by the effects of local revenues and general allocation funds on capital expenditures. While economic growth does not moderate the influence of surplus funding budget on capital expenditures. The result of this research can be used as policy and correction of decision for the central government in determining fund allocation, and it is hoped that local government will be more selective in the use of fund as well as to develop the potential of a regional economic sector to increase local revenue to be more independent.*

**Keywords:** *Regional Capacity, Area, Economic Growth, Capital Expenditure*

**Intisari:** *Alokasi belanja modal yang tepat akan mendukung kelancaran tugas pemerintah dan fasilitas publik sehingga akan meningkatkan produktivitas ekonomi daerah dan penciptaan lapangan kerja. Penelitian ini bertujuan untuk mengetahui pengaruh pendapatan lokal, dana alokasi umum, anggaran dana surplus dan luas belanja modal dengan moderasi pertumbuhan ekonomi. Populasi dalam penelitian ini adalah kabupaten / kota provinsi Jawa Tengah pada tahun 2012-2014 sebanyak 35 yang terdiri dari 29 kabupaten dan 6 kotamadya. Data penelitian dianalisis dengan menggunakan analisis regresi linier berganda model kuasi dengan basis interaksi. Hasil pengujian hipotesis dapat disimpulkan bahwa pendapatan lokal mempengaruhi*

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*belanja modal dengan intensitas negatif. Sedangkan dana alokasi umum, pertumbuhan ekonomi dan luas wilayah berpengaruh positif terhadap belanja modal. Namun, anggaran dana surplus tidak berpengaruh pada belanja modal. Pertumbuhan ekonomi dapat dimoderasi efek pendapatan lokal dan dana alokasi umum pada belanja modal. Sementara pertumbuhan ekonomi tidak memoderasi pengaruh anggaran dana surplus pada belanja modal. Hasil penelitian ini dapat digunakan sebagai kebijakan dan koreksi keputusan bagi pemerintah pusat dalam menentukan alokasi dana dan diharapkan pemerintah daerah akan lebih selektif dalam penggunaan dana serta untuk mengembangkan potensi sektor ekonomi daerah untuk meningkatkan pendapatan menjadi lebih mandiri.*

**Kata Kunci:** *Kapasitas Daerah, Luas, Pertumbuhan Ekonomi, Belanja Modal*

## **1. Introduction**

Regional autonomy is intended to sharpen the essence of local financial management in the system of local government governance concerning the translation of rights and obligations in the management of public finances. This will affect the principles of management, mechanism of preparation, implementation and administration, control and supervision and local financial accountability (BPK, 2009). The benchmark for the success of regional autonomy is regional spending that includes both direct and indirect expenditures (Permendagri No. 25 Year 2009) in which the allocation of funds must be done effectively. Local Government allocates capital expenditure budget in Regional Expenditure Budget (APBD) to add fixed assets. Capital expenditures are expenditures whose benefits tend to exceed one year and will add to government assets or property such as equipment, buildings, infrastructure and other fixed assets, adding to the regular budget for operational and maintenance costs (Halim & Abdullah, 2006; Nuarisa, 2013).

Local governments should be able to allocate capital expenditures well because capital expenditure is one of the steps for local governments to improve public services. Capital expenditure has an essential role because it has a long-term benefit to provide services to the public. The allocation of capital expenditure is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for public facilities (Halim & Abdullah, 2006; Nuarisa, 2013). The existence of capital expenditures will lead to the consequences of

additional costs that are routine maintenance costs (Halim, 2004). However, based on the results of the BPK audit, the local government allocates more of its spending to less-needed sectors and more for less productive routine expenditures than for improving public services, since only 100% of regional spending is only 21.69% capital expenditure in the framework of asset procurement for public service investment.

Concerning public services, the allocation of capital expenditures is a significant concern because it will increase the productivity of the regional economy. The more capital expenditure, the higher the productivity of the economy because capital expenditure in the form of infrastructure has an impact on economic growth and job creation. In line with that Harianto & Priyo (2007) explained that the availability good infrastructure is expected to create efficiency and effectiveness in various sectors, society productivity is supposed to be higher and in turn, there is an increase of economic growth. But the general phenomenon that occurs, it seems that the allocation of capital expenditure has not been fully implemented for the fulfillment of public welfare, because the management of regional expenditure, especially capital expenditure is not yet publicly oriented. One of them is caused by the management of expenditure that collided with the interests of the class alone. The existence of the political interests of the legislative bodies involved in the budgeting process led to the allocation of capital expenditures distorted and often ineffective in solving problems in society (Keefer & Khemani, 2003). Therefore, it is required by local governments to manage regional finances, especially capital expenditures effectively, efficiently and economically with the ultimate aim of improving public services. This statement is following the concept of multi-term expenditure framework (MTEF) submitted by Allen & Tommasi (2001), stated that capital expenditure policy should pay attention to usefulness and budget capability in the management of long-term assets. This means in asset management related to maintenance expenditure and source of income. However, the fact that the allocation of local revenues by local governments is for routine spending rather than capital expenditure. Local government expenditure activities in the APBD are

regular activities of regional cash expenditures to finance government operations. The financing of the expenditure requires a source of regional revenue, namely the locally generated revenue (PAD) and the General Allocation Fund (DAU).

The existence of the PAD provides flexibility to regions to optimize their funding potential. The local government to allocate capital expenditures must adapt to local needs by considering the PAD received. The size of the PAD determines the size of capital expenditure. Furthermore, if the local government wants to improve public services and public welfare by increasing the Capital Expenditure, the local government should strive to dig the PAD as big as possible. The research conducted Ardhani (2011); Darwanto & Yustikasari(2007); Fatmawati& Riduwan (2013); Furqani & Titimmah (2015); Nora (2015); Sholikhah et al.( 2014); and Wertianti & Dwirandra (2013) found empirical evidence that PAD has a positive effect and significant to Capital Expenditures. Different results are found Adyatma & Oktaviani (2015); Hardiningsih & Oktaviani (2013); Hidayati (2015); and Mentayani & Rusmanto (2013) indicating that PAD has no effect on capital expenditures.

While DAU is a balancing fund that is transferred from central government to local government to overcome inequality among regions. Each regency/municipality has different capabilities in funding its operational activities; this is because the fiscal revenue of each region is different, causing inequality between regions. DAU is a fund derived from the APBN allocated for equitable distribution of finance between regions to finance the expenditure of local governments in connection with the implementation of decentralization. The funds are used to improve public services. The research conducted Adyatma & Oktaviani (2015); Sugiardi & Supadmi (2014); Tuasikal (2008); Wandira (2013); and Wulandari (2013) found empirical evidence of DAU to affect capital expenditure positively. However, different results by Wandira (2013) that DAU has a negative effect on capital expenditure. While Arwati & Hadiati (2013) found that the DAU does not affect capital expenditure. This is due to the DAU received by the most significant portion of the region used to finance routine spending, such as for personnel expenditure while a small part is used for capital expenditure.

Another source of regional income is utilizing the Over Time Budget Financing (SiLPA) in the previous year. In Government Regulation no. 71 Year 2010 SiLPA there is a difference between the realization of revenues-the Budget Realization Report (LRA) and expenditure, as well as the receipt and expenditure of financing in APBD / APBN during one reporting period. In the LRA, there are also financing receipts and financing expenditures. Financing receipts can be found in the form of disaggregated local property sales, domestic borrowings as well as from receipt of loans from local governments to other parties, while financing expenditures may include the formation of a reserve fund, local government capital participation, domestic loan repayment and lending to other parties. The difference between financing receipts and financing expenditures is net financing. The difference between the surplus/deficit and the net financing is what is called SiLPA (Ardhani, 2011). Research conducted by byFatmawati & Riduwan (2013); Mentayani & Rusmanto (2013); and Sugiardi & Supadmi (2014) found empirical evidence that SiLPA has a positive and significant impact on Capital Expenditure. While Setiyani (2015) research found that SiLPA had a negative effect on capital expenditure. In contrast to Febriana & Praptoyo (2015); Jariyah (2014); and Nora (2015) that SiLPA does not affect capital expenditures.

The size of Capital Expenditure also depends on the breadth of the region. The size of the area affects the capital expenditure because of the realization of capital expenditure for public interest tend to be physical development in an area (Ardhini, 2011). When a district wants to expand the area where there is a conflict between the region and the center, then the region experiences social jealousy at the center because the allocation and distribution of revenues returned from the pine to the region from the exploration of resources in the region are considered unfair. The existence of divisions indeed requires a variety of public service facilities that are more feasible, especially in areas where there is no development of public services such as health center, school building, telecommunication tower, market development, and transportation line. Moreover, the more area that needs to be built, the higher the capital expenditure to be budgeted. The research conducted by Nora

(2015) and Sholikhah et al. (2014) found that the area has a positive effect on capital expenditure, while the study conducted by Fatmawati & Riduwan (2013) found that the district has no impact on capital expenditure.

Economic growth is a parameter of development activity because economic growth can measure the rate of development of activity in the economic sectors of the economy (Hasan, 2012). Economic growth as a condition of activity in the economy that causes the production of goods and services increased to increase the prosperity of society (Sukirno, 2010). One of the goals of regional governments is that economic growth is growing every year. Ismail (2013); and Jaya & Dwirandra (2014) found that economic growth had a significant positive effect on capital expenditure. However, by Adyatma & Oktaviani (2015); Darwanto & Yustikasari (2007); Furqani & Titimmah (2015); and Hidayati (2015) found that economic growth does not affect capital expenditure.

The economic growth in this research is used as a moderating variable. Increased regional economic growth has an impact on the increase in per capita income of the population so that the level of consumption and productivity of the population is increasing. The higher the income earned by the community, the higher the ability of the community to pay the levies set by the local government. This will increase the source of local revenue, namely PAD. Research Jaya & Dwirandra (2014); Nugraha & Dwirandra (2016); and Sugiardi & Supadmi (2014) found that economic growth proved to moderate PAD relationships to capital expenditures. However, the different research conducted by Adyatma & Oktaviani (2015); Hidayati (2015); and Verawaty (2015) that economic growth is not proven to moderate the effect of PAD on capital expenditures. Meanwhile, by Hidayati (2015) economic growth proved to moderate the DAU to capital expenditure. Verawaty (2015) found that economic growth was not shown to moderate the effect of DAU on capital expenditures.

Economic growth can strengthen SiLPA's relationship with capital expenditure. The higher economic growth affects the increase in local revenue, where SiLPA is a component of local revenue. Most SiLPA donated to direct expenditure in the form of capital expenditures that directly touch the needs of the community (Ardhini, 2011).

Wakhidati (2015) research found that economic growth moderated the influence of SiLPA on capital expenditures. Based on the above description, it can be concluded that economic growth can strengthen the positive relationship between SiLPA with capital expenditure. The opposite result is found by Sugiardi & Supadmi (2014) that economic growth is not proven to moderate the influence of SiLPA on capital expenditures.

The size of an area influences the economic growth of a growing region. The more areas supported by the increase in income per capita population, so that the level of consumption and productivity of the population is increasing, then the need for capital expenditure also increases. Capital expenditure budget is based on regional needs for facilities and infrastructure, both for the smooth implementation of government tasks and for public facilities. Areas with larger areas require more facilities and infrastructure as a requirement for public services when compared with areas with limited area. Based on the above explanation, it can be formulated the problem that how big the influence of PAD, DAU, SiLPA and Area on capital expenditure with economic growth as a moderating variable. Thus, this research aims to analyze the effect of PAD, DAU, SiLPA and Regional Area to capital expenditure with economic growth as a moderating variable in the province of Central Java.

## **2. Literature Review and Hypothesis Development**

### *2.1 Stewardship Theory.*

Government as a steward with the function of resource managers and the people as the principal owners of resources. Agreement between government (stewards) and people (principal) based on trust, collective according to organizational goals. Public sector organizations have the intention of providing services to the public and accountability to the public. Stewardship theory assumes a strong relationship between organizational success and owner satisfaction. The government will try maximally in running the government to achieve the goal of improving people's welfare. If the government can accomplish this goal, then the people as owners will be satisfied with the performance of the government.

The implications of the stewardship theory of this researches can be explain be the existences of local government as a trustworthy institution to acts in an accordance with the public interests by performing its duties and functions appropriately, making financial responsibility mandated to it, so that economics, public services, and communities welfare objectives can be achieved maximally. To carry out these responsibilities, stewards direct all their capabilities and expertise in streamlining internal controls to produce quality financial information reports. Financial information is viewed from the government's financial performances through local government budgets. Local governments budgets are seen from the state of regional financial independence. The level of financial independence is one of the crucial factors in regional developments.

## *2.2 Hypothesis*

### *2.2.1 The Effect of Local Revenue (PAD) On Capital Expenditure*

PAD is a source of financing for local governments in creating local infrastructures. PAD was derived from local taxes, regional retributions, separated wealth management results and other legitimates PAD. With the decentralization systems, local governments are required to be able to develop and improved their PAD by maximizing their resources to finance the creation of infrastructures or through the allocation of capital expenditures in APBD. The higher the PAD of an area, the higher the allocation of capital expenditures (Ardhani, 2011). The authority of local governments in implementing autonomy is strongly influenced by the ability of the region to generate regional incomes. The higher the PAD received, the higher the authority of local governments in implementing autonomy policies. Implementation of regional autonomy (regional autonomy) aims to improve public services and promote the regional economies. One way to improve public services by spending on investments is realized through capital expenditures (Ardhani, 2011). This is following Government Regulation No. 58 of 2005 which stated that APBD was prepared following the needs of governments administrations and the ability of the regions to generate incomes. Each APBD preparations, capital expenditure allocation must be adjusted to the needs of the region by considering the received revenues. So, if



the local government wants to increase the capital expenditure for public services and public welfare, then the local government should dig as much as possible. Researches by (Darwanto & Yustikasari, 2007; Fatmawati & Riduwan, 2013; Furqani & Titimmah, 2015; Jaya & Dwirandra, 2014; Kristiyan, 2016; Nora, 2015; Sholikhah et al., 2014); and Fatmawati & Riduwan (2013) found empirical evidences that PAD has a positive effect on capital expenditures. Based on the above description, it can be formulated hypothesis as follows:

**H1:** Local revenue (PAD) positively affects capital expenditures

### 2.2.2 *Influence of General Allocation Fund (DAU) to Capital Expenditure*

Based on Law No.33 of 2004 DAU is a balancing fund derived from APBN allocated for equitable distributions of finance between regions to finance the needs of local household expenditure. LGs can use DAU to provide public services through capital expenditures (Ardhani, 2011). The independence of the regions does not get better, on the contrary, the local government's dependence on DAU transfers is getting higher. This gives a strong indication that the behavior of regional expenditures, primarily capital expenditures will be significantly influenced by the revenue source of DAU. The above exposures can be concluded that the higher DAU, the allocation of capital expenditure also increases. The researches (Adyatma & Oktaviani, 2015, Hardiningsih & Oktaviani, 2013; Jaya & Dwirandra, 2014; Kristiyan, 2016; Sugiarthi & Supadmi, 2014) found that DAU has a positive effect on capital expenditure.

**H2:** General Allocation Fund (DAU) has a positive effect on capital expenditure

### 2.2.3 *The Effect of Remaining More Budget Financing (SiLPA) On Capital Expenditure*

The presences or absences of SiLPA and its size depends on the level of spending by the local government and the performance of regional income. If in a given fiscal year the level of regional expenditure is relatively low or there is a budget efficiency, then it is possible to obtain a higher SiLPA. But on the contrary, if the regional spending is high, then the acquired SiLPA will be smaller. Most SiLPA donated to direct expenditure in the form of capital expenditures that directly touch

the needs of the community. One source of funding is SiLPA from the previous fiscal years, which can be used to cover the budget deficit if the realization of revenues is less than the actual expenditure. SiLPA also finances the implementation of further activities on direct expenses (goods and services expenditures, capital expenditures and personnel expenditures) and fund other liabilities that have not been finalized until the end of the fiscal years. The bigger the resulting SiLPA shows, the lower allocation of capital expenditure otherwise the smaller SiLPA generated then the capital expenditure allocation will be higher. The better the budget management and the high spending of an area then the resulting SiLPA is also getting smaller (Febriana & Praptoyo, 2015). This is supported by research conducted by Setiyani (2015) which concludes that the larger SiLPA generated shows lower capital expenditures. These conditions indicate ineffective financial management. Thus, the higher the SiLPA fund earned in the previous year, is the financing receipt and will be used for various purposes such as: closing the budgetrealisation, funding the implementation of further activities on direct expenses and funding other obligations until the end of the year. Based on the description above, it can be formulated hypothesis as follows:

**H<sub>3</sub>:** Remaining more budget financing (SiLPA) has a positive effect on capital expenditure

#### *2.2.4 The Size Effect of Area On Capital Expenditure*

When an area wants to expand the area where there is a conflict between the regions and the centers. The regions are experiencing social jealousy at the center because the allocations and distribution of revenues returned from central government to districts from resource exploration resulting in the regions are perceived to be unfair so that the local governments need to spend more capital on public facilities in the regions. The bigger the area, the higher the capital expenditure that the local governments must spend on the public interests in the form of physical constructions and other service facilities in an area. Researches conducted by Nora (2015) and Sholikhah et al. (2014) found empirical evidence that the size of the regions has a positive effect on capital

expenditures. Based on the above descriptions, it can be formulated hypothesis as follows:

**H4:** Size of an area has a positive effect on Capital Expenditure

#### *2.2.5 The Effect of Economic Growth on Capital Expenditure*

Economic growth is a number that indicates an increase in the economic activity of a region. The responsibility of local governments to the public is to provide excellent public services to the public through capital expenditures. To facilitate the economic growth of the community must be supported by adequate infrastructure. The facilities and infrastructure obtained from the allocation of capital expenditure budget that has been budgeted in the APBD. If the economic growth of a region is good, then the regional government will increase its capital expenditure allocation to complete and improve the facilities and infrastructure but adapted to the condition and situation of regional capability. The higher the economic growth, hence odal expenditure will increase. Research by Ismail (2013); Kristiyan (2016); Wertianti & Dwirandra (2013); and Wulandari (2013) found that economic growth had a positive effect on capital expenditure. Based on the above explanation, it can be formulated hypothesis as follows:

**H5:** Economic growth has a positive effect on capital expenditure

#### *2.2.6 The Effect of Local Revenue (PAD) On Capital Expenditure with Moderation of Economic Growth*

Increased regional economic growth has an impact on the increase in per capita income of the population so that the level of consumption and productivity of the population also increases. The higher the income of the community, the higher the ability of the community to pay the fees set by the regional government. This, of course, will increase the source of PAD. Increased regional economic growth is also able to attract investors to invest in the region so that will boost PAD. The high contribution of PAD in APBD will be used to improve public services to be more adequate. If local revenues increase and followed by high economic growth, it will

increase capital expenditure. Research Jaya & Dwirandra (2014); Sugiardi & Supadmi (2014); and Verawaty (2015) found that economic growth moderated the effect of PAD on capital expenditures. Based on the explanation above, it can be hypothesized as follows:

**H6:** Economic growth moderates the positive influence of PAD on capital expenditure

#### *2.2.7 The Effect of General Allocation Fund (DAU) On Capital Expenditure with Moderation of Economic Growth*

Local Government can use DAU to provide public services through capital expenditures (Ardhani, 2011). The independence of the regions does not get better, on the contrary, the local government's dependence on DAU transfers is getting higher. This gives a strong indication that the behavior of regional expenditures, primarily capital expenditures will be significantly influenced by DAU revenues. When local governments have a significant share of DAU, capital expenditures are also high if supported by high economic growth, as economic growth is an indication of the success of economic development. Thus, the local government will make capital expenditures for public service facilities to support the smoothness of public activity. The rate of economic growth can strengthen the effect of DAU on capital spending. The higher rate of economic growth of a region should be able to increase the DAU to capital expenditure. The economic growth of an increasing region has an impact on the increase in income per capita of the population so that the level of consumption and productivity of the population is increasing. This will raise funds from the APBN allocated for equitable distribution of finance between regions to finance the spending of local governments in providing adequate public services that will increase capital spending. Research by Hidayati (2015); Sugiardi & Supadmi (2014); and Verawaty (2015) found that economic growth moderated the influence of the General Allocation Fund on Capital Expenditures.

**H7:** Economic growth moderates the positive influence of DAU on capital expenditures

### 2.2.8 The Effect of SILPA On Capital Expenditure with Moderation of Economic Growth

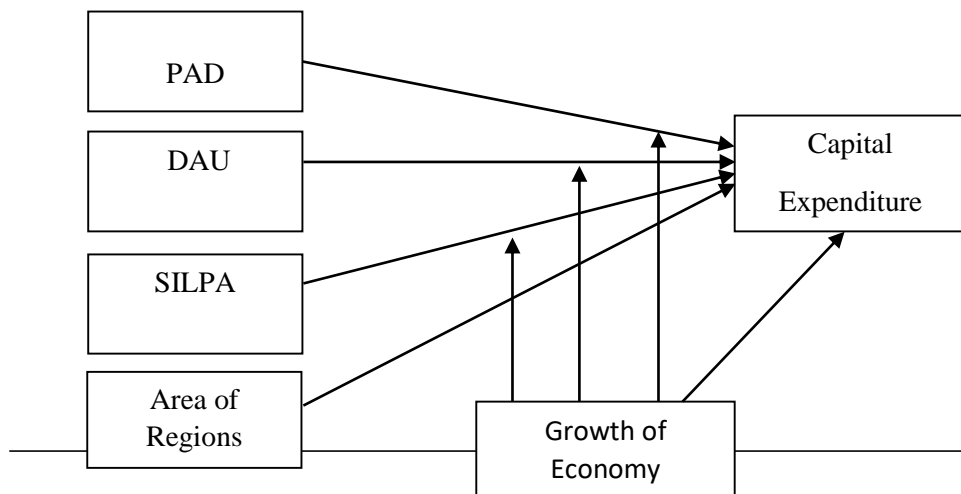
The higher economic growth will affect the increase in local revenue. SILPA is a component of local revenue. Most SiLPA donated to direct expenditure in the form of capital expenditures that directly touch the needs of the community (Ardhani, 2011). If regional spending is high, then the acquired SiLPA will be smaller. One source of funding for the allocation of capital expenditure for the provision of public facilities is from the previous budget SiLPA. SiLPA will be used to cover the budget deficit if the revenue realization is less than the realization of expenditure, fund the implementation of further activities on direct expense and fund other obligations until the end of the fiscal year has not been completed. When SiLPA increases and followed by high economic growth conditions, local governments need more financing to accelerate the implementation of follow-up activities, so that capital expenditure allocation will be higher. The results of Wakhidati (2015) found that economic growth can moderate SiLPA's influence on capital expenditure. Based on the above description, it can be formulated hypothesis as follows.

**H8:** Economic growth moderates the influence of SiLPA on capital expenditures

### 2.3 Research model

The empirical model in this research can be described as follows:

Figure 1. Research Model



### **3. Research Method**

#### *3.1 Population and Sample.*

Population in this research is the regency/city of the province of central java counted 35 which consist of 29 regencies and six municipalities. The sampling technique in this research is a census that is the technique of determining the sample when all member of the population used as a sample (Halim, 2004 and Sugiyono, 2010). The sampling technique used in this study used a census.

#### *3.2 Method of collecting data.*

Secondary data collection was obtained from the Regional Asset Finance Management Agency (DPKAD) in Central Java Province / Central Java Provincial Realization Budget Report in Figures Year 2015. While from the Central Bureau of Statistics (BPS) of Central Java Province in the form of the data size of the area and economic growth derived from Gross Regional Domestic Product (PDRB) from 2012 to 2014.

#### *3.3 Operational and Variable Measurements*

##### *3.3.1 Capital Expenditure*

Capital expenditure is spending on local government with benefits exceeding one year of the budget and will increase the assets or wealth of the area and will add routine expenditure such as maintenance cost to public administration expenditure group (Halim, 2004). Capital expenditures are measured in rupiah amounts obtained from total capital expenditures

##### *3.3.2 Locally Generated Revenue*

PAD is revenue derived by the area levied according to the local regulations following the legislation. PAD is measured in rupiah units obtained from the amount of PAD from APBD.

### 3.3.3 *General Allocation Fund*

DAU is a general transfer from central government to local government to overcome horizontal inequality with the primary objective of equitable distribution of inter-regional financial capability. DAU for each regency/municipality can be seen from the balancing fund post in the APBD realization report.

### 3.3.4 *SiLPA*

SiLPA is the remainder of the previous year's budget financing calculated from the total regional revenue minus the total regional expenditure. Total regional revenues include DAK balance funds, acceptance of other legitimate regional revenues, expenditure savings and remaining funds of follow-up activities. Total regional spending consists of personnel expenditures, capital expenditures, general administration expenditures, operational and maintenance expenditures, revenue-sharing and financial assistance, and other expenditures.

### 3.3.5 *Size of Area*

The area is a space that is a geographic entity and all elements related to it whose limits and systems are determined based on administrative aspects and/or functional aspects.

### 3.3.6 *Economic Growth*

Economic growth is the process of increasing per capita output produced by the Gross Regional Domestic Product (PDRB) per capita (Boediono, 1992). PDRB per capita is one indicator for measuring public welfare that is measured by using a one year lack of the total value of final goods and services produced by various units of production in one year divided by the number of people in the same year and calculated at constant prices.

## 3.4 *Data Analysis Method.*

The analytical technique used to test the hypothesis using multiple linear regression analysis is Moderated Regression Analysis (MRA). MRA is a specialized application of multiple linear regression model of moderation quasi with interaction based (Ghozali, 2011). The mathematical equations of research are formulated as follows:

$$BM = \alpha + \beta_1 PAD + \beta_2 DAU + \beta_3 SiLPA + \beta_4 LW + \beta_5 PE + \beta_6 PAD * PE + \beta_7 DAU * PE + \beta_8 SiLPA * PE + e$$

- BM = Capital Expenditure
- PAD = Locally Generated Revenue
- DAU = General Allocation Funds
- SiLPA = Over Time Budget Financing
- LW = Size of Area
- PE = Gross Regional Domestic Product
- PAD\*PE = Interaction between PAD with PDRB
- SiLPA\*PE = Interaction between SiLPA with PDRB
- A = Constant
- $\beta_1 \dots \beta_6$  = Regression Coefficient Variable

## 4. Results

### 4.1 Descriptive statistics.

Descriptive analysis of research data year 2012-2014 as many as 105 observations. Descriptive statistic distribution gives descriptions of data seen from the mean, standard deviation, variance, maximum, minimum, (Ghozali, 2011) as in table 1 as follows:

Tabel 1.  
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
BM	105	86187,97	804093,76	233198,9507	106271,25835
PAD	105	55401,34	819742,24	139127,1823	113624,63203
SILPA	105	,00	432324,71	90085,8215	74111,52207
LW	105	18,12	2138,51	929,8320	543,07196
PE	105	4484268,08	1,03E8	20773159,8984	19515263,23836
DAU	105	2,38E8	9,92E8	6,0393E8	1,70212E8



Based on PAD data, the lowest value of Rp 55,401 million is Wonosobo Regency in 2012, while the highest value of 819,742 million is Semarang City in 2014. While the PAD for the period 2012-2014 has a mean value of Rp 139,127.18 million, this shows the overall PAD Province in Indonesia is still low. Further, based on DAU data, the lowest value of Rp 2.38M million is Wonosobo Regency in 2012, while the highest value of Rp 6,039M is Semarang City in 2014. While DAU for the period 2012-2014 has a mean value of Rp 1,702M million, this condition indicates that provincial government financing in Indonesia is relatively quite dependent on central government.

Moreover, based on data SiLPA, the lowest value of Rp 0 million is Sragen regency in 2013, while the highest value of Rp 432,325 million is the city of Semarang in 2014. SiLPA period 2012-2014 has a mean value of Rp 90,085.82 million, SiLPA is relatively low enough that local governments are quite effective in allocating capital expenditures. While based on the data area, the lowest value of 18 is the city of Magelang while the highest value of 2139 is Cilacap district. The total area of the 2012-2014 period has a mean value of 929.83 million, indicating that the area of the regional government is large enough so that local governments need more capital expenditure for public facilities.

Furthermore, based on Economic Growth data measured by PDRB, the lowest value of Rp 961,024.62 million is Salatiga City in 2011, while the highest value of Rp102,501,386 million is Semarang City in 2014. PDRB for the period 2012-2014 has a mean value of Rp 20,773,159.90 million; this condition shows the economic growth of the provincial government is relatively increased. While, based on Capital Expenditure data, the lowest value of Rp 86,188 million is Tegal City in 2012, while the highest value is Rp 804.094 million, Semarang City in 2014. Capital Expenditure for the period 2012-2014 has a mean value of Rp 233,198.95 million; This shows that the allocation of capital expenditures is starting to increase.

Table 2.

F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	8,851E11	7	1,475E11	52,546	,000 <sup>a</sup>
Residual	2,723E11	98	2,807E9		
Total	1,157E12	105			

F test results show the level of significance 0.000 can be interpreted that independent variables together affect the capital expenditure. Therefore it can be concluded that the overall research model is fit.

Table 3.

Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
	,889 <sup>a</sup>	,790	,787	50077,60399	2,070

Based on the above table Durbin-Watson value of 2.070. With a sample size of 105 with independent variables of 8 with one-tailed test method obtained  $dl = 1.54$   $du = 1.83$ . Then the D-W coefficient (2.070) between DU (1.83) and 4-DU (2.17), it is concluded that the regression model does not occur autocorrelation problem.

4.2 Hypothesis testing

Hypothesis test results can be seen that the estimation of the regression model as in table 4.

4.3 Discussion

PAD has a significant negative effect on capital expenditure; it can be interpreted that the higher the PAD will decrease the BM. This condition is attributed to the fact that PAD in district/central java city has a high gap, while the routine expenditure of each regency and city is also too high. This condition shows that local taxes and levies

are still low. So the local government needs to work hard to increase the PAD to improve people's welfare. The results of this study do not support the stewardship theory, in which the government as a steward has not fully completed regional development due to limited PAD obtained. Therefore, the people's welfare has not been fully realized. If this goal is achieved, then the people will be satisfied with the performance of the government. These findings contradict Ismail (2013); Wertianti & Dwirandra (2013) to prove a positive and significant impact on capital expenditures.

As a consequence, the transfer of central government authority to the regional government embodied in the DAU, which is the APBN funds allocated for the equitable distribution of finance between regions to finance regional needs. Thus, there is a significant transfer in the APBN to the local government. The local government can use the financial balancing fund (DAU) to provide public services realized through capital expenditures (Ardhani, 2011). DAU revenue will significantly influence regional expenditure behavior, especially capital expenditure. Various empirical evidence concluded that the higher the DAU then the allocation of capital expenditure also increased. This is because large-income regions (DAU) are more significant then allocations for regional budgets will also increase. These findings are consistent with Adyatma & Oktaviani (2015); Ardhani (2011); Laksmi & Hadi (2013); Nugroho (2012); and Sugiardi & Supadmi (2014) found that DAU has a positive effect on capital expenditure.

While SiLPA does not affect capital expenditure. This condition indicates that local government expenditure is effective according to Government Regulation Number 71 Year 2010 due to SiLPA obtained local governments are only slightly allocated for capital expenditure. However, the SiLPA earned in previous years represents the financing receivables used to cover the budget deficit if the realization of revenues is less than the realization of expenditures. SiLPA also funds the implementation of further activities on direct expenses (expenditures on goods and services, capital expenditures and personnel expenditures) and finances other liabilities up to the end of the budget year. The presence or absence of SiLPA and its size depend on the level of spending made by the local government and the

performance of regional income. This research is in line with the study conducted by Febriana & Praptoyo (2015); Jariyah (2014); and Nora (2015) that SiLPA does not affect capital expenditure.

While the greater wide of an area will increase capital expenditure because in the realization of capital expenditure for public interest tend to be physical development in the region or region (Ardhini, 2011). The relationship between the regional area and the allocation of capital expenditure can be seen when an area wants to expand the area where there is a conflict between local governments and the central government. The regions are experiencing social jealousy at the center because allocations and distribution of revenues returned to regions from an exploration of resources in the regions are perceived as being unfair. This study is in line with that done by Nora (2015), and Sholikhah et al. (2014) found empirical evidence that the area has a positive effect on capital expenditure.

Economic growth has a positive effect on capital expenditure. This condition indicates that economic growth has a positive contribution to capital expenditure. This finding supports the stewardship theory that the government will make the maximum effort in running the government to achieve people's welfare. If the government can accomplish these goals, then the people as owners will feel satisfied. In the context of economic growth, society acts as a principal is an object of measuring economic growth. The government is responsible to the people to improve regional economic growth by providing excellent services through the allocation of capital expenditure so that the activities of the community develop. To facilitate the economic growth of the community must be supported by adequate infrastructure. The facilities and infrastructure obtained from the allocation of capital expenditure budget that has been budgeted in the APBD. The executive will propose a larger budget than what happens today. If the economic growth of a region is good, then the regional government will increase its capital expenditure allocation to complete and improve the facilities and infrastructure but adapted to the conditions and situations of regional capability. This finding is in line with research Ismail (2013); Kristiyan (2016); and Wertianti & Dwirandra (2013) that economic growth has a positive effect

on capital expenditure. However, it is not in line with Darwanto & Yustikasari (2007; Furqani & Titimmah ( 2015); andHidayati (2015).

PAD revenue is still low, indicating the ability of people to pay levies set by the local government is still low. Such conditions mean public awareness in compliance with taxes and retribution is still small. While the high rate of economic growth will require a high level of capital expenditure. The increasing regional economic growth has an impact on the increase in income per capita of the population so that the level of consumption and productivity of the population is increasing. This condition demands a substantial amount of funding. However, low-yield local revenue is not sufficient to cover capital expenditures. So demanding local governments have to work hard to increase PAD. High PAD can be used by local governments to improve public services and as a consequence will increase capital expenditures. This finding is not in line with Jaya & Dwirandra (2014); and Sugiardi & Supadmi (2014)that economic growth has a significant effect and can moderate the PAD relationship in capital expenditures. If higher regional revenues accompany economic growth increases and, then it should be able to increase regional capital expenditure.

Economic growth moderates DAU on capital expenditures. This indicates the source of local government financing in the context of the financial balance of central government and the regions implemented by decentralization, deconcentration, and assistance. A form of decentralization is the provision of balancing funds to local governments. This balancing fund aims to reduce the fiscal gap between central government and local government (Law No. 33/2004). DAU is a fund derived from APBN allocated for equitable distribution of finance between regions to finance expenditure needs. The financial balancing fund is a consequence of the transfer of central government authority to the regional government. Local governments can use financial balancing funds to provide public services realized through capital expenditures (Ardhani, 2011). There are strong indications that the behavior of regional expenditures, primarily capital expenditures will be significantly influenced by DAU revenues. This condition will be triggered in high economic growth, so the local government should improve public services better, so the share of capital

expenditure becomes greater. Then a region with a large DAU will allocate a more substantial capital expenditure budget. These findings are in line with research Hidayati (2015); Sugiardi & Supadmi (2014); and Verawaty (2015) found that economic growth moderates the effect of DAU on Capital Expenditures.

Economic growth does not moderate the influence of SiLPA on capital expenditures. This is due to the existence of agency problems that arise among executives (central government) tend to maximize the utility (self-interest) in the creation or compilation of APBD because it has information asymmetry. As a result, executives tend to do "budgetary slack." This resulted in the executive will secure his position in the government in the eyes of legislative society/people, even for the benefit of the next local election. However, budgetary slack APBD more for self-interest than for the benefit of society. So that opportunistic behavior is exploited by the central government and local government can influence the economic growth gap between each region. Gaps can result in disrupted economic growth unable to moderate the effect of SiLPA on Capital Expenditures.

Table 4.

Hypothesis Test

Variabel	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
B				
(Constant)	-2,958			
PAD-3,655-4,526	-3,443 ,001			
DAU	,056	2,153	5,636	,000
SiLPA	242	1,544	1,541	,590
LW	,275	,374	2,013	,047
PE	,004	1,395	4,539	,000
PAD_PE	-,543	-8,900	-3,780	,000
DAU_PE	,268	6,219	2,019	,049
SiLPA_PE	,019	1,607	1,158	,250

Based on table 2 can be formulated equation moderation regression model as follows:

$$Y = -2,958 - 3,655PAD + 0,056DAU + 0,242SILPA + 0,275LW + 0,004 PE - 0,543PAD\_PE + 0,268 DAU\_PE + 0,019 SILPA\_PE + e$$

## 5. Conclusion, Implication and Limiation

### 5.1 Conclusion

Based on the previous explanation, it can be concluded that the PAD has a negative effect on capital expenditure. While DAU has a positive effect on capital expenditure. Similarly, SiLPA has no positive effect on capital expenditure. The wide of area positive influence on capital expenditure. Economic growth has a positive effect on capital expenditure. Economic growth weakens the effect of PAD on capital expenditure. Economic growth strengthens the effect of DAU on spending capital. Economic growth does not moderate the influence of SiLPA on capital expenditure. Moreover, wide of an area has a positive effect on capital expenditure.

### 5.2 Implication and Limitations

The results of this research can be used as policy and correction in decision-making related to the allocation and use of funds. Local governments are expected to develop further the potential and regional economic sector to increase the PAD to be more financially independent in funding all government activities. Local governments should be wiser in utilizing PAD, SiLPA, and DAU to improve the procurement of public infrastructure, facilities, and infrastructure to be more equitable in the region so that it can increase public productivity. A more precise proxy needs to be used for economic growth to describe the real conditions.

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