
GOVERNMENT INVESTMENT: REVIEW OF REGIONAL REVENUE AND CENTRAL GOVERNMENT ALLOCATION FUNDS FOR REGIONAL DEVELOPMENT

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ABSTRACT

Purpose: This study aims to examine the role of regional and central government through general allocation funds in making capital expenditures oriented to public services. The research conducts in the West Java Province, Indonesia by analyzing the financial reports of the local government of Bogor City, Depok City and Bekasi City for 10 years, from 2008 to 2018.

Design/methodology/approach: Hypothesis testing carries out using multiple linear regression.

Findings: This research succeeds in revealing that regional autonomy in managing regional revenue increased the government capital spending. The involvement of the central government also plays an important role in regional development through general allocation funds.

Research limitations/implications: This shows that local governments are still very dependent on the availability of funds to meet public needs.

Practical implications: Economic aspects in investment decisions could not be fully applied, especially considering the rate of return on investment. So that with the available funds, the government still prioritizes social and cultural aspects in performing public services through capital expenditures.

Originality/value: The research explored the unrevealed value from technical financial report aspects that affect the government investment.

Paper type: Research paper.

Keyword: *Public Sector Investment, Public Services, Regional Development.*

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I. INTRODUCTION

The granting of regional autonomy to districts and cities in Indonesia makes local government financial management managed independently, by granting the authority to make policies in the financial sector and budget management on the revenue and expenditure side. Original regional income becomes a source of revenue that managed by the regional government, while expenditures aimed at carrying out development and public services are budgeted through general allocation funds. Based on this, the demand to change the spending structure is getting stronger, especially in low-income regions. This is done, because the capital expenditure or investment of the regional government, which comes from the original regional income, always receives a significant portion of the regional government budget.

Capital expenditure decisions or referred as public sector investment, require consideration of aspects of economic and social feasibility (Safri and Hidayat, 2018). Business feasibility through profit and loss considerations is a consideration in the economic aspect (Nawaz, 2018), (Rahmi and Aliasuddin, 2020). On the other hand, community satisfaction with services and the availability of public facilities for the community is the government's obligation in fulfilling aspects of social feasibility and performing public service functions (Warka, 2019), (Yang *et al.*, 2019).

Research on public sector investment focuses a lot on the process of accessing public facilities provided by the government and the construction of high-cost public facilities with considerable reciprocity (Li, Li and He, 2018), (Owen, Brennan and Lyon, 2018), (Wong *et al.*, 2018). The discussion regarding the feasibility of economic aspects in determining public sector investment is more dominant than social and cultural aspects, not yet clearly explaining the financial factors that can affect capital spending. This study aims to complement the study of public sector investment, by involving regional revenue variables and general allocation funds that thought to have an effect on government capital spending.

II. METHODOLOGY

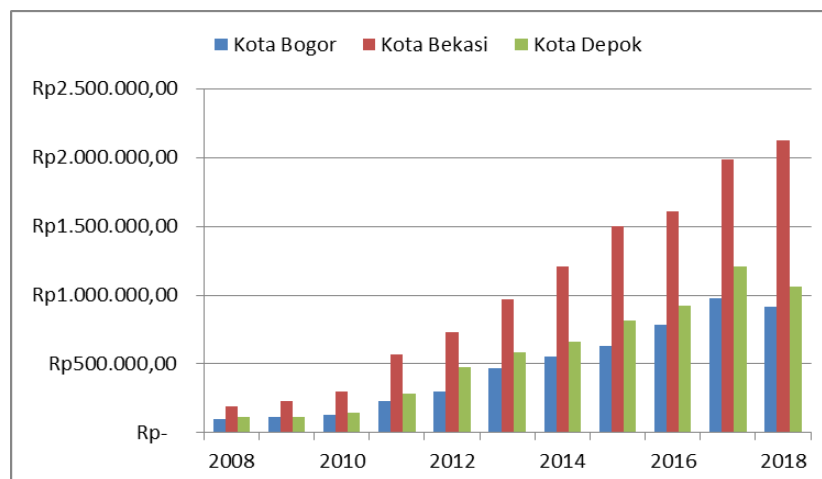
The General Allocation Fund is a fund sourced from the State Revenue and Expenditure Budget which is allocated with the aim of equal distribution of financial capacity between regions to fund regional needs in the context of implementing regional autonomy (Safri and Hidayat, 2018). The use of general allocation funds is left to the regions in accordance with regional priorities and needs. Capital expenditures are used to obtain fixed assets of regional governments such as equipment, infrastructure and other fixed assets used for public services. Original Regional Income is a significant source of revenue for routine financing and development in an area because it is obtained and managed independently by utilizing the sources of income they have (Rahmi and Aliasuddin, 2020). The amount of general allocation funds, regional revenue, and capital expenditure is reported by the regional government through the regional government financial reports. One of the sources of local government revenue is the region's own revenue which is collected by the region based on regional regulations in accordance with statutory regulations.

This research was conducted by observing the financial reports of local governments in the province of West Java - Indonesia for 10 years. West Java Province has a population of 20% of the total population in Indonesia or around 50 million inhabitants. Data reduction is done by selecting data, namely the amount of capital expenditure, regional revenue, and general allocation funds. Data testing was carried out using normality, heteroscedasticity, autocorrelation and multicollinearity tests. Hypothesis testing uses multiple linear regression analysis using SPSS version 22 software.

III. RESULTS AND DISCUSSION

A. Results

Analysis of local government financial reports in the province of West Java on regional revenue, general allocation funds, and capital expenditures presents in the following graph:

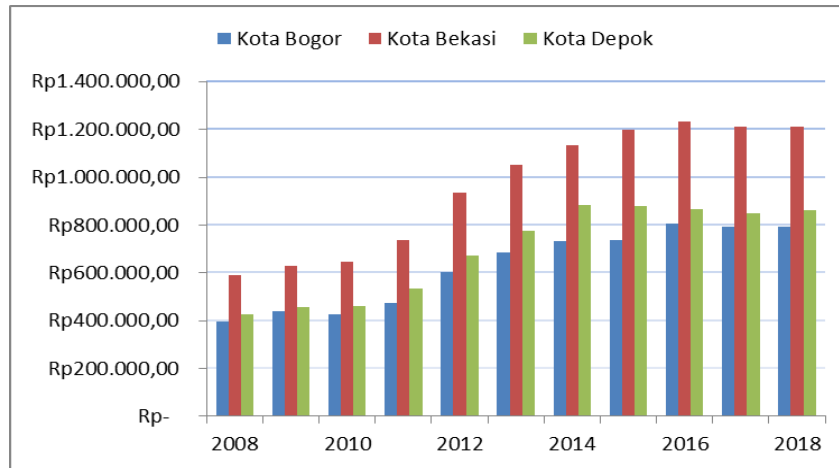


Source: BPK Representative of West Java Province, 2020 (in thousands)

Figure 1 - Graph of Regional Original Revenue for the City of Bogor, Depok, and Bekasi 2008-2018

Three major cities in the West Java Province have proven to be trying to optimize regional revenue. It happens because the local government has full authority to explore the potential for regional revenue. In

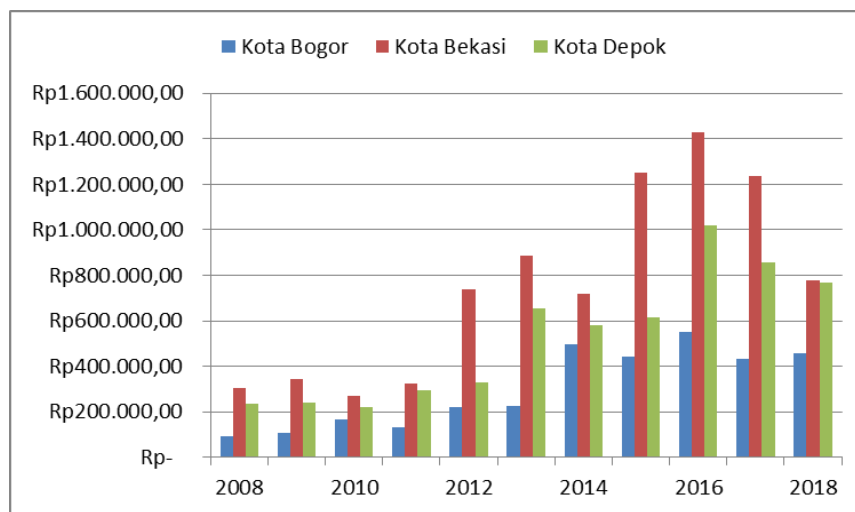
Figure 2, it can be seen that the general allocation funds have been increasing for 10 years. This shows that local governments are able to optimize the contribution of the central government in carrying out regional development. The size of the general allocation funds reflects the confidence of the central government that local governments, which receive these funds, will use them to improve public services.



Source: BPK Representative of West Java Province, 2020 (in thousands)

Figure 2 - Graph of the General Allocation Funds for the City of Bogor, Depok, and Bekasi 2008-2018

The graph fluctuates in the local government capital expenditure allocations. This shows that efforts to provide public services in an optimal manner, still cannot be done consistently and increase in a sustainable manner. Furthermore, the statistical test will reveal how regional revenue and general allocation funds affect local government capital expenditures in West Java Province.



Source: BPK Representative of West Java Province, 2020 (in thousands)

Figure 3- Capital Expenditure Graph for the City of Bogor, Depok, and Bekasi 2008-2018

The correlation of original regional income and general allocation funds to regional government capital expenditures is included in the very significant category, with a positive effect. This shows that local governments will allocate more capital expenditure funds if the regional revenue and general allocation funds increase.

Table 1 - Research Hypothesis Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	R	R Square
		B	Std. Error	Beta				
1	(Constant)	33,204	9,680		3,430	0,02	0,945	0,892
	PAD	1,243	0,527	2,310	2,512	0,00		
	DAU	2,164	0,540	1,019	4,006	0,00		

B. Discussion

1. Regional revenue toward Capital Expenditure

Based on the results of the partial test, regional revenue has a significant effect on capital expenditure. It can be seen from the results of the t test is done, t-value of the variable local revenues amounted to 2.512 greater than the value t-table of 1.701. The effect of local revenue to the Capital Expenditure of Bogor, Bekasi, and Depok shows that the higher local revenues, the public service through the local government capital spending will be higher. Managed Regional Original Income can provide facility benefits to increase the provision of public facilities through the construction of facilities and infrastructure, especially infrastructure development (Beugelsdijk, Klasing and Milionis, 2018), (Deng *et al.*, 2019). This can be interpreted that Regional Original Income makes a significant contribution to Capital Expenditures. The results of this study support research (Rokicki and Stepniak, 2018), (Wong *et al.*, 2018), (Zhang *et al.*, 2018) reveals that local government revenue should be allocated for the benefit of regional development and public services.

2. General Allocation Funds to Capital Expenditures

Based on the partial test results, the General Allocation Funds have a positive and significant effect on capital expenditures. It can be seen from the results of the t test is done; the t-value of the variable General Allocation Fund of 4,006 is greater than the value of t-table of 1.701. The effect of the General Allocation Fund for the City of Bogor, Bekasi and Depok can still be said to be high, this is based on data during the 2008-2018 budget year the General Allocation Fund for the three regions has always increased every year. General Allocation Fund has a significant effect on Capital Expenditure in a positive direction, meaning that the greater the general allocation fund in the area, the greater the Capital Expenditure. Because the general allocation fund will encourage large regional expenditures, it will also finance local government activities. The results of this research are supported by (Ambroziak and Hartwell, 2018), (Ohotina *et al.*, 2018), (Ribeiro *et al.*, 2018), (Kim and Kang, 2020) which states that the involvement of the central government in supporting local government development is part of an effort to equalize development of a very important country to do.

IV. CONCLUSION

This research has succeeded in revealing that the performance of local governments in providing public services is still dependent on the capacity of their financial resources. Local governments have not been able to provide public facilities based on the necessary needs. Local government investment allocations are still limited to priorities in accordance with the availability of funds. This supports previous research which revealed that access to services publicis still very limited in terms of capacity and quality of service (Seliutina and Bulgakova, 2018). The high cost of investment and social orientation are also factors that cause return on investment to be a non-dominant factor in considering capital expenditures for public services (Mesonada and Manteiga, 2020). Social and cultural aspects are still the government's main consideration in investing because the government's performance prioritizes public services (Haddad, 2018).

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