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## THE INFLUENCE OF REGIONAL INCOME, GENERAL ALLOCATION FUNDS AND REVENUE SHARING FUNDS ON THE ALLOCATION OF CAPITAL EXPENDITURES WITH ECONOMIC GROWTH AS A MODERATING VARIABLE IN GOVERNMENTS EAST JAVA PROVINCE 2019-2022

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**Abstract:** *This research aims to test and analyze the influence of Regional Income, General Allocation Funds, and Profit Sharing Funds on Capital Expenditures as well as the influence of Regional Income, General Allocation Funds, and Profit Sharing Funds with moderating economic growth on Capital Expenditures. This research was conducted at the Regency/City government in East Java Province. The sampling technique used was saturated sampling, and there were 36 districts/cities in East Java that were the sample for this research. This research uses the APBD Realization Report and GRDP Table for the 2019-2022 period as samples. The analytical method used to test the hypothesis in the research is Moderated Regression Analysis (MRA). The results of this research show that Regional Income, General Allocation Funds have an effect on capital expenditure in the Regency/City of East Java Province, but the Profit Sharing Fund variable has no effect on capital expenditure. The moderating variable (economic growth) is able to moderate the Profit Sharing Fund variable, but is not able to moderate the Regional Income and General Allocation Fund variables on capital expenditure.*

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## INTRODUCTION

The implementation of regional autonomy is based on the consideration that the regions themselves know better the conditions and needs of the people in their regions. According to (Bastian, 2010) with the decentralization policy currently being implemented in Indonesia, regional fiscal space is now available. The central government and regional governments now both have the opportunity to improve public services that were previously neglected. If fiscal funds are managed carefully, the disadvantage of certain regions and borders can be reduced. This system is expected to realize financial management in an orderly manner, in compliance with statutory regulations, efficiently,

economically, effectively, transparently and responsibly by paying attention to justice, propriety and benefits for society (Bastian, 2010). Regional Government and DPRD task organizers are financed from and at the expense of the Regional Revenue and Expenditure Budget. (Bratakusumah and Sholihin, 2004).

Funds which constitute the potential of each region are regional income. In increasing the funds obtained to become a source of regional spending, the regional government must increase the regional potential it has. Regional Income comes from regional taxes, tax levies, separated regional wealth management and other legitimate PAD. Allocation of capital expenditure uses regional income to improve facilities and infrastructure as well as infrastructure for the region to increase regional development. If public facilities and infrastructure as well as regional infrastructure increase, Regional Income will also increase, Capital Expenditure Allocations will also increase. Research studies conducted by Permata (2016) and Permatasari (2015) prove that PAD has a significant effect on Capital Expenditure Allocation.

Differences in the financial capabilities of each region in terms of funding government activities can trigger fiscal imbalances between regions. As an effort to deal with this fiscal imbalance, regional governments can allocate funds obtained from the APBN to fund regional household needs for the implementation of decentralization. The use of General Allocation Funds in the APBD must remain within the framework of achieving the goal of granting autonomy to regions, namely improving services and better community welfare, such as services in the fields of health and education. To support the improvement of public facilities and infrastructure as well as government infrastructure, capital costs are used. Allocation of funds obtained from the APBN for regional governments other than the General Allocation Fund, namely Profit Sharing Funds. This Profit Sharing Fund comes from taxes and regional assets. Profit Sharing Funds (DBH) are a potential source of regional income and are one of the basic capital for regional governments in obtaining development funds and meeting capital expenditures that do not come from Regional Income (PAD) and General Allocation Funds (DAU). Research studies conducted by Permatasari (2015) prove that DAU has a significant effect on Capital Expenditure Allocation. Likewise, the results of a study conducted by Heliyanto (2015) stated that DAU and DBH had an influence on the Allocation of Capital Expenditures.

Economic development is a series of efforts aimed at improving community welfare, reducing unemployment and minimizing income inequality in society. GRDP is one of the indicators used to measure economic activity in a region. The economy in a region is said to be growing and developing if the goods and services produced in this period are greater than in the previous period, which is then reduced to added value (BPS, 2015). The more funds available for public infrastructure and capital expenditure, the greater the community's ability to pay levies set by the government and should be able to increase the income obtained by local governments.

Economic growth in this research is used as a moderating variable. The level of economic growth is thought to strengthen the influence of Regional Income, General Allocation Funds and Profit Sharing Funds on capital expenditure allocations. The higher the level of economic growth in a region, the higher the Regional Income, General Allocation Funds, Profit Sharing Funds and Capital Expenditure Allocations. Research studies conducted by Jaya and Dwirandra (2012) prove that Economic Growth has an

influence and is able to moderate the influence of PAD on Capital Expenditure Allocation. Likewise, the results of a study conducted by Sugiardi and Supadmi (2012) stated that Economic Growth has an influence and is able to moderate the influence of PAD on Capital Expenditure Allocation. Research studies conducted by Sugiardi and Supadmi (2012) stated that Economic Growth has an influence and is able to moderate the influence of DAU on Capital Expenditure Allocations. This attracted the author's attention to re-examine the influence of Regional Income, General Allocation Funds and Profit Sharing Funds on capital expenditure allocations in order to confirm the results of previous research.

## **THEORETICAL**

### **Regional Autonomy**

Law Number 32 of 2004 concerning Regional Government is an amendment and improvement to Law Number 22 of 1999 on the same subject. This law regulates autonomy which is defined as the broadest possible autonomy which is a government affair, namely foreign policy, defense, security, justice, national monetary and fiscal affairs, and religion. Regions choose participation, initiative and community empowerment which ultimately aims to improve people's welfare. In Law no. 17 of 2003 concerning State Finances, there is an emphasis in the field of financial management, namely that the power to manage state finances is part of government power; and part of the power to manage state finances from the president is handed over to governors/regents/mayors as heads of regional governments to manage regional finances and represent regional governments in the ownership of separated regional assets.

### **Public Sector Accounting**

According to Erlina, et al (2015) public sector accounting is accounting used to record economic events in non-profit or non-profit organizations. In simple terms, public sector accounting is widely used by public sector organizations, such as political parties, mosques, health centers, hospitals, schools or universities, non-governmental organizations, and the central government.

### **Types of Public Sector Accounting**

Public sector accounting is differentiated into government accounting and social accounting. In government accounting, accounting data is used to provide information regarding economic, legislative, judicial and public transactions. Government accounting is differentiated into central government accounting and regional government accounting which is often referred to as regional financial accounting. Regional government accounting consists of provincial government accounting and district/city government accounting. This regional financial accounting is needed in line with the spirit of regional autonomy which must manage regional finances separately from the central government while reporting the results transparently to the public. Social accounting is a special field of accounting to be applied to institutions in the macro sense that serve the national economy Erlina, et al (2015).

### **Components of Regional Government Financial Reports**

In accordance with PSAP No. 1 Paragraph 14, the components contained in a set of financial reports consist of budget implementation reports (*budgetary reports*) and financial reports, so that all components are as follows Budget Realization Report (LRA),

Report on Changes in Excess Budget Balance (Changes in SAL), Balance Sheet, Operational Report (LO), Cash Flow Report, Report on Changes in Equity, Notes to Financial Statements (CaLK) Erlina et al (2015).

### **Regional Budget**

A budget is a detailed plan that is formally expressed in quantitative measures, usually in units of money (financial planning) to show the acquisition and use of an organization's resources (Yuwono, 2005). Based on the explanation of Law No. 17 of 2003, the budget is a tool for management accountability and economic policy. As an economic policy instrument, the budget functions to realize economic growth and stability as well as equal distribution of income in order to achieve state goals.

### **Budget Function**

The function of a budget according to Bastian (2010) is as follows, a budget is the final result of the work plan preparation process, a budget is a blueprint for activities that will be carried out in the future, a budget is an internal communication tool that connects various work units and work mechanisms between superiors and subordinates, budget as a means of controlling work units, budget as a means of motivation and persuasion for effective and efficient action in achieving the organization's vision, budget is a political instrument, budget is an instrument of fiscal policy.

### **Regional Revenue and Expenditure Budget (APBD)**

According to Halim and Abdullah (2004) regarding the Regional Revenue and Expenditure Budget (APBD), namely the Regional Revenue and Expenditure Budget (APBD) is a regional budget which has the following elements: a detailed description of the activity plan for a region, the existence of sources of revenue which are a minimum target to cover the costs associated with these activities, and the existence of costs which constitute the maximum limit for expenditures to be implemented, types of activities and projects expressed in the form of numbers, budget period, which is usually one year. Referring to Minister of Home Affairs Regulation Number 13 of 2006 concerning Guidelines for Regional Financial Management, it states that the APBD functions as an authorization function, planning function, monitoring function, allocation function, distribution function, and stabilization function.

### **Capital Expenditures**

According to PSAP No. 2 Regarding the Budget Realization Report, the definition of capital expenditure is expenditure made in the context of capital formation which is to increase fixed assets/inventory which provides benefits for more than one accounting period, including expenditure for maintenance costs which are to maintain or increase the useful life, as well as increase capacity and asset quality. Meanwhile, according to PP Number 71 of 2010, capital expenditure is Regional Government expenditure whose benefits exceed 1 budget year and will increase regional assets or wealth and will further increase routine expenditure such as maintenance costs in the general administration expenditure group. Fixed assets owned by local governments as a result of capital expenditure are the main requirement for providing public services. To increase fixed assets, local governments allocate funds in the form of capital expenditure budgets in the APBD. Capital expenditure can be categorized into 5 (five) main categories (Erlina, et al, 2015), namely capital expenditure on land, capital expenditure on equipment and machinery, capital expenditure on buildings and structures, capital expenditure on roads,

irrigation and networks, capital expenditure on other fixed assets, capital expenditure other physical capital.

### **Locally-generated revenue**

According to Law no. 33 of 2004, Regional Revenue is a source of regional revenue extracted in the area to be used as basic capital for regional governments in financing development and regional businesses to reduce dependence on funds from the central government. Regions that have adequate facilities and infrastructure can attract investors to invest in the area, thereby increasing PAD. Based on Law no. 32 of 2004, PAD consists of regional tax proceeds, regional levy proceeds, separated regional wealth management proceeds and other legal PAD.

According to Law Number 28 of 2009, it is stated that local taxes, hereinafter referred to as taxes, are contributions obliged to the area owed by a private person or entity coercive in nature based on the Law, with do not receive direct compensation and are used for regional needs for the greatest prosperity of the people . According to Law Number 28 of 2009 concerning Regional Taxes and Levies Regionally, it is stated that there are 2 (two) types of regional taxes , namely provincial taxes and district/city taxes . The types of provincial law consist of: Motor Vehicle Tax , Motor Vehicle Name Transfer Fee , Motor Vehicle Fuel Tax , Surface Water Tax , Cigarette Tax . Regency / City Tax Types consist of Hotel Tax , Restaurant Tax , Entertainment Tax , Advertisement Tax , Street Lighting Tax , Non-Metal Mineral and Rock Tax , Parking Tax , Ground Water Tax , Swallow's Nest Tax , Rural Land and Building Tax and Urban , Fees for Acquisition of Land and Building Rights . According to Constitution Number 28 Year 2009 mentioned that Regional Retribution is a regional levy as payment for certain services or permits which are specifically provided and/or granted by the Regional Government for the benefit of individuals or Entities. Regional levies are grouped into general service levies, business service levies, and certain licensing levies. Another PAD revenue that plays an important role after regional taxes and regional levies is the Regional Government's share of BUMD profits.

### **Profit Sharing Fund**

Profit sharing funds are funds sourced from the APBN which are allocated to regions based on a percentage figure to fund regional needs in the context of implementing decentralization. Profit Sharing Funds (DBH) are a potential source of regional income and are one of the basic capital of regional governments in obtaining development funds and meeting regional expenditures that do not come from Regional Income (PAD) in addition to General Allocation Funds (DAU) and Special Allocation Funds. (DAK). According to Law Number 33 of 2004, this profit sharing fund comes from taxes and regional assets. The government determines the allocation of Profit Sharing Funds originating from natural resources in accordance with the calculation basis and producing areas. Profit Sharing Funds originating from taxes consist of Land and Building Tax (PBB), Land and Building Rights Acquisition Fee (BPHTB), Income Tax (PPh) Article 25, PPh Article 29 for Domestic Individual Taxpayers, PPh Article 21, Meanwhile, Profit Sharing Funds sourced from natural resources come from forestry, general mining, fisheries, petroleum mining, natural gas mining, geothermal mining.

### **General Allocation Fund**

Based on Law Number 33 of 2004 concerning Financial Balance, it is explained that the total amount of DAU is set at at least 26% of the Net Domestic Income determined by the APBN. Provincial regions receive 10% of the designated DAU, while districts/cities receive 90%. Furthermore, from the 90% DAU amount intended for districts and cities, each district and city will receive DAU according to the results of the "DAU Formula" calculation which is determined based on the Fiscal Gap and Basic Allocation.

$$\text{DAU} = \text{Alokasi Dasar (AD)} + \text{Celah Fiskal (CF)}$$

Basic Allocation (AD) is calculated based on the actual salary of regional Civil Servants (PNS) in the previous year (t-1) which includes the basic salary and attached allowances in accordance with applicable civil servant salary regulations. Fiscal Gap (CF) is the difference between fiscal needs and fiscal capacity.

### **Economic Growth**

Economic growth, which means the expansion of economic activities, is the only way to increase the income of community members and open up new jobs (Boediono, 2010). There are factors that influence the development of facilities and infrastructure, including natural resources, labor, capital investment, entrepreneurship, transportation, communications, industrial sector composition, technology, export markets, international economic situation, regional government capacity, government spending and support. development. In regional government, the development of facilities and infrastructure has a positive effect on economic growth (Darwanto, 2007). In fact, it is one of the macroeconomic indicators that is generally used to measure economic performance in a country. Meanwhile, at the regional, provincial and district/city levels, Gross Regional Domestic Product (GRDP) is used. Gross regional domestic product (GRDP) is the total value of final goods and services produced by all production units in a region or area in a certain period (usually one year) without taking into account ownership and GDP per capita is the result of dividing Gross Regional Domestic Product by population. mid-year (BPS, 2008).

### **Hypothesis**

#### **The Influence of Regional Income on Capital Expenditure Allocation**

Regional Income is a source of funds obtained from direct contributions from the community such as levies, taxes and so on. The income obtained by the region is used to support public facilities and infrastructure as well as good infrastructure. If the development of various public facilities and infrastructure can increase Regional Income. The development of facilities and infrastructure as well as infrastructure issued by regional governments through capital expenditure costs has an effect on Regional Income. Permata (2016) proves that PAD has a significant effect on Capital Expenditure Allocation. Likewise, the results of a study conducted by Permatasari (2015) stated that PAD has an influence on the Allocation of Capital Expenditures. Likewise, the results of a study conducted by Heliyanto (2015) prove that PAD has an effect on capital expenditure allocation.

$H_1$ : Regional Income influences Capital Expenditure Allocation

#### **The Influence of General Allocation Funds on Capital Expenditure Allocations**

An important source of income obtained by the region besides PAD is the Balancing Fund. One of them is the General Allocation Fund, which is a transfer from the central

government's APBN to regional governments to assist regional finances in organizing or managing their own finances for decentralization purposes. Many regional governments still need assistance funds from the central government to improve public facilities and infrastructure to improve regional development. This is in line with the objectives of the General Allocation Fund, namely improving services and better community welfare. This provides a strong indication that capital expenditure will be influenced by the General Allocation Fund. So it can be concluded that if Allocation Funds are generally high then Capital Expenditures will also be high. Permatasari (2015) which proves that DAU has a significant effect on Capital Expenditure Allocation. Likewise, the results of a study conducted by Firnandi Heliyanto (2015) stated that DAU has an influence on the Allocation of Capital Expenditures.

H<sub>2</sub>: General Allocation Funds influence Capital Expenditure Allocation

### **The Influence of Profit Sharing Funds on Capital Expenditure Allocation**

Profit Sharing Funds are funds sourced from the APBN which are allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization. This Profit Sharing Fund comes from taxes and regional assets. Profit Sharing Funds also support local governments to fulfill public facilities and infrastructure as well as regional infrastructure using capital expenditure. It can be concluded that if capital expenditure increases, Profit Sharing Funds will also increase. Wandira (2012) who proves that DBH has a significant effect on Capital Expenditure Allocation. Likewise, the results of a study conducted by Firnandi Heliyanto (2015) stated that DBH had an effect on Capital Expenditure Allocation.

H<sub>3</sub>: Profit Sharing Funds influence Capital Expenditure Allocation

### **The Effect of Economic Growth as a Moderating Variable in the Relationship between Regional Income and Capital Expenditure Allocation**

Good economic growth for a region influences regional development. Good regional development can be categorized as improving public facilities and infrastructure as well as regional infrastructure. If the development of public facilities and infrastructure as well as regional infrastructure can increase Regional Income. This also affects the allocation of capital expenditure because public facilities and infrastructure as well as regional infrastructure are spent using capital expenditure. Economic growth can be a determining factor in the influence of PAD on capital expenditure. Jaya and Dwirandra (2012) who prove that Economic Growth has an influence and is able to moderate the influence of PAD on Capital Expenditure Allocation. Likewise, the results of a study conducted by Sugiardi and Supadmi (2012) stated that Economic Growth has an influence and is able to moderate the influence of PAD on Capital Expenditure Allocation. So it can be concluded that economic growth can moderate or influence the relationship between Regional Income and capital expenditure allocation.

H<sub>4</sub>: Economic Growth influences the relationship between Regional Income with Capital Expenditure Allocation

### **The Effect of Economic Growth as a Moderating Variable in the Relationship between General Allocation Funds and Capital Expenditure Allocations**

Many regional governments still need assistance funds from the central government to improve public facilities and infrastructure to increase regional development. Good regional development can be categorized as improving public facilities

and infrastructure as well as regional infrastructure. Good economic growth for a region influences regional development. Economic growth can be a determining factor in the influence of DAU on capital expenditure. Sugiardi and Supadmi (2012) stated that Economic Growth has an influence and is able to moderate the influence of DAU on Capital Expenditure Allocation. So it can be concluded that economic growth can moderate or influence the relationship between General Allocation Funds and Capital Expenditure Allocations.

H<sub>5</sub>: Economic growth influences the relationship between the General Allocation Fund and Capital Expenditure Allocation

### **The Effect of Economic Growth as a Moderating Variable in the Relationship between Profit Sharing Funds and Capital Expenditure Allocations**

Profit Sharing Fund (DBH) is a potential source of regional income and is one of the basic capital of regional governments in obtaining development funds and meeting capital expenditure. Profit Sharing Funds are regional support to meet public facilities and infrastructure as well as infrastructure in regional development. Good regional development can be categorized as improving public facilities and infrastructure as well as regional infrastructure. Economic growth can be a determining factor in the influence of Profit Sharing Funds on Capital Expenditures. So it can be concluded that economic growth can moderate or influence the relationship between General Allocation Funds and Capital Expenditure Allocations.

H<sub>6</sub>: Economic growth influences the relationship between Profit Sharing Funds and Capital Expenditure Allocation

## **RESEARCH METHODS**

### **Population and Sample**

Population is a generalized area consisting of objects/subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions drawn (Sugiyono, 2015). The population used in this research is the APBD Realization Report for all City/Regency Governments in East Java Province which consists of 29 Regencies and 9 Cities for 2019-2022 and the Gross Domestic Product (GRDP) of East Java Province. The sample is part of the number and characteristics possessed by the population and samples taken from the population are expected to be truly representative or representative of the population (Sugiyono, 2015). The sampling method used is the saturated *sampling method* or census. Based on the saturated or census *sampling method*, a sample of 29 regencies and 8 cities was obtained from 38 regencies/cities member population and the number of observations was 108 obtained from 36 regencies/cities multiplied by 3 years for the 2019 – 2022 period.

### **Operational Definition of Variables**

#### **Dependent Variable**

##### **Capital Expenditures**

According to PP Number 71 of 2010, capital expenditure is budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Capital Expenditures for each Regency/City can be seen in the 2019-2022 APBD Realization Report.



## Independent Variable

### Regional Income (PAD)

According to Law no. 33 of 2004, Regional Revenue is revenue obtained by a region from sources within its own region which is collected based on regional regulations in accordance with applicable laws and regulations. The indicator value of the regional income variable is measured by:

Regional Income = Regional Tax Revenue + Regional Levy Revenue + Revenue from Management of Separated Regional Wealth + Other Regional Income

### General Allocation Fund (DAU)

Based on Law no. 33 of 2004, General Allocation Funds (DAU) are funds originating from the APBN, which are allocated with the aim of equalizing financial capacity between regions to finance their expenditure needs in the context of implementing decentralization. General Allocation Funds for each Regency/City can be seen in the 2019-2022 APBD Realization Report.

### Profit Sharing Fund

Revenue Sharing Funds (DBH) are funds sourced from APBN revenues which are allocated to regional governments based on percentage figures to fund regional needs in the context of implementing decentralization. According to Law Number 33 of 2004, this profit sharing fund comes from taxes and regional assets. Profit Sharing Funds for each Regency/City can be seen in the 2019-2022 APBD Realization Report.

## Moderating Variable

### Economic growth

Economic growth is a quantitative measure that describes the development of a regional economy in a particular year. Economic growth is one indicator of the success of development. The higher the economic growth, the higher the welfare of the community. Economic growth is the basis for sustainable development. Economic growth is calculated using the formula:

$$\text{Economic Growth} = \frac{\text{PDRBt} - \text{PDRBt-1}}{\text{PDRBt-1}}$$

Information :

GRDPt = Gross Regional Domestic Income for period t.

GRDPt-1 = Gross Regional Domestic Income for the previous year period t-1.

### Data Types and Sources

The type of data used in this research is quantitative data. The data source used in this writing is secondary data, namely data collected by data collectors and published to the data user community (Kuncoro, 2003). This data comes from the 2019-2022 APBD Realization Report for all Regency/City Governments in East Java which was obtained from *the website* of the Director General of Regional Government Financial Balance. Data on Gross Regional Domestic Product (GRDP) per capita as a measure of Economic Growth for 2019-2022 for all Regency/City Governments in East Java was obtained from the Central Statistics Agency (BPS) website via the *website*.

## Analysis Techniques

In testing the proposed hypothesis, this research uses multiple regression analysis and interaction regression methods. In the regression equation through interaction regression or often called *Moderated Regression Analysis* (MRA) as follows (Ghozali, 2006):

Information :

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4(X_1X_4) + b_5(X_2X_4) + b_6(X_3X_4) + e$$

Y	=	Capital Expenditure Allocation
a	=	Constant
b <sub>1-6</sub>	=	Regression Coefficient
X <sub>1</sub>	=	Regional Income
X <sub>2</sub>	=	Profit Sharing Fund
X <sub>3</sub>	=	General Allocation Fund
X <sub>4</sub>	=	Economic Growth
X <sub>1</sub> xX <sub>4</sub>	=	Interaction of Regional Income and Economic Growth
X <sub>2</sub> xX <sub>4</sub>	=	Interaction of General Allocation Funds and Economic Growth
X <sub>3</sub> xX <sub>4</sub>	=	Interaction of Profit Sharing Funds and Economic Growth
e	=	Error Estimate

## RESEARCH RESULTS AND DISCUSSION

### Hypothesis test

#### F test

**Table 1**

#### F Test Calculation Results

F	Sig.
141,009	0,000

Source: Data processed

The results of the F test show that all variables are Regional Income (X<sub>1</sub>), General Allocation Fund (X<sub>2</sub>), Profit Sharing Fund (X<sub>3</sub>), Economic Growth (X<sub>4</sub>), PADxEconomic Growth (X<sub>1</sub>xX<sub>4</sub>), DAUxEconomic Growth (X<sub>2</sub>xX<sub>4</sub>), DBHxEconomic Growth ( This can be seen in the F test of 141.009 with a significant value of 0.000 which is smaller than  $\alpha = 0.05$ .

### Analisis Regresi Moderat

**Table 2**

#### Uji t

Model		Unstandardized Coefficients		Standardized t	Sig.
		B	Std. Error	Beta	
1	(Constant)	-188896732,627	180107646,152		
	PAD	,440	,112	,977	3,939 ,001
	DAU	,614	,228	,665	2,690 ,009

DBH	-,073	,112	-,037	-,655	,525
Economic growth	3211060072,550	3432168790,886	,238	,936	,355
PADxPE	-1,297	1,889	-,176	-,687	,493
DAUxPE	-6,859	4,355	-,585	-1,575	,117
DBHxPE	4,271	1,132	,274	3,774	,000

a. Dependent Variable: Capital Expenditure Allocation

Source: Data processed

## Discussion

### The Influence of Regional Income on Capital Expenditure Allocation

Based on the research results, it was found that the Regional Income variable has a partial influence on the Allocation of Capital Expenditures in the Regencies/Cities of East Java Province, this can be seen from the t test of 3.939 with a significant value of 0.000 which is smaller than  $\alpha = 0.05$ . This shows that the regional government of the Regency/City of East Java Province relies on Regional Income to spend capital used for expenditure in the context of purchasing/procuring or building tangible fixed assets that have a useful value of more than 12 (twelve) months, with the aim of supporting good public facilities and infrastructure as well as infrastructure that improves regional development. Regional Income is also the potential of each region. In increasing the funds obtained to become a source of regional spending, the regional government must increase the regional potential it has. If the development of various public facilities and infrastructure can be improved, the Regional Income obtained will also increase. Because improvements in facilities and infrastructure are spent through capital expenditure. So the higher the Regional Income, the higher the capital expenditure allocation obtained. The results of this research are in line with a study conducted by Zhara Saski Widoasri Permata (2016) which proves that PAD has a significant effect on Capital Expenditure Allocation. Likewise, the results of a study conducted by Isti Permatasari (2015) stated that PAD has an influence on the Allocation of Capital Expenditures.

### The Influence of General Allocation Funds on Capital Expenditure Allocations

Based on the research results, it was found that the General Allocation Fund variable has a partial influence on the Allocation of Capital Expenditures in the Regencies/Cities of East Java Province, this can be seen from the t test of 2.690 with a significant value of 0.008 which is smaller than  $\alpha = 0.05$ . This shows that the General Allocation Fund obtained from transfers from the central government's APBN to regional governments for the purpose of assisting regional finances for the implementation of decentralization, is used by regional governments to spend their capital. In allocating capital expenditure, it cannot be separated from the General Allocation Fund because the aim of the General Allocation Fund is to improve services and better community welfare. This is because many regional governments still need assistance funds from the central government to improve public facilities and infrastructure for regional development. The higher the General Allocation Fund obtained, the greater the capital expenditure allocation. The results of this research are in line with a study conducted by Isti Permatasari (2015) which proves that DAU has a significant effect on Capital Expenditure Allocation. Likewise, the results of a study conducted by Firnandi Heliyanto (2015) stated that DAU has an influence on the Allocation of Capital Expenditures.

### **The Influence of Profit Sharing Funds on Capital Expenditure Allocation**

Based on the research results, it was found that the General Allocation Fund variable was not has a partial influence on the Allocation of Capital Expenditures in the Regencies/Cities of East Java Province, this can be seen from the t test of -0.655 with a significant value of 0.514 which is greater than  $\alpha = 0.05$  . This shows that Profit Sharing Funds sourced from taxes and regional assets from the APBN are allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization owned by the Regency/City East Java Province has no influence on Capital Expenditure Allocation . Profit Sharing Funds, which are funds originating from the APBN transfer from the central government to regional governments, are not used by regional governments to spend their capital. So that the Regency/City government of East Java Province does not depend on its capital expenditure using DBH, it can be said that the region is independent in financing its regional needs and does not depend on the central government. The results of this research are not in line with the study conducted by Arbie Gugus Wandira (2012) which proves that DBH has a significant effect on Capital Expenditure Allocation. Likewise, the results of a study conducted by Firnandi Heliyanto (2015) stated that DBH had an effect on Capital Expenditure Allocation.

### **The Effect of Economic Growth as a Moderating Variable in the Relationship between Regional Income and Capital Expenditure Allocation**

Based on the research results, it was found that Economic Growth as The Moderating Variable is unable to moderate the relationship between Regional Income and Capital Expenditure Allocation in the Districts/Cities of East Java Province. This can be seen from the t test of -0.687 with a significant value of 0.494 which is greater than  $\alpha = 0.05$ . This shows that Economic Growth as a Moderating Variable is unable to moderate the relationship between Regional Income and Capital Expenditure Allocation. Capital expenditure carried out by regional governments to increase regional development, so that the construction of various public facilities and infrastructure as well as infrastructure can increase Regional Income, economic growth cannot be a determining factor in the influence of PAD on the allocation of capital expenditure. This is because the regional government of the Regency/City of East Java Province in increasing economic growth is still not optimal even though improving facilities and infrastructure has been achieved. The government program is not well targeted because it is not supported by social, educational, health and economic aspects that are in line with community needs, resulting in the goal of economic growth still not being achieved. Regional government programs that are in line with community needs and right on target will increase economic growth, so that the objectives of the Regency/City regional government of East Java Province will be achieved. The results of this research are not in line with the study conducted by I Putu Ngurah Panji Kartika Jaya and AANB Dwirandra (2012) which proves that Economic Growth has an influence and is able to moderate the influence of PAD on Capital Expenditure Allocation. Likewise, the results of a study conducted by Ni Putu Dwi Eka Rini Sugiardi and Ni Luh Supadmi (2012 ) stated that Economic Growth has an influence and is able to moderate the influence of PAD on Capital Expenditure Allocations .

### **The Effect of Economic Growth as a Moderating Variable in the Relationship between General Allocation Funds and Capital Expenditure Allocations**

Based on the research results, it was found that Economic Growth as a Moderating Variable was unable to moderate the relationship between General Allocation Funds and Capital Expenditure Allocations in Regencies/Cities of East Java Province. This can be seen from the t test of -1.575 with a significant value of 0.118 which is greater than  $\alpha = 0.05$ . This shows that the value of Economic Growth as a Moderating Variable is unable to moderate the relationship between General Allocation Funds and Capital Expenditure Allocations. This is due to the function of the General Allocation Fund as an *e-qualization grant*, namely to neutralize the inequality of financial capabilities obtained in the regions, causing regional independence to not improve, in fact what happens is the opposite, namely the Regency/City regions which depend on their regional finances on this General Allocation Fund. The results of this research are not in line with the study conducted by Ni Putu Dwi Eka Rini Sugiardi and Ni Luh Supadmi (2012) stating that Economic Growth influences and is able to moderate the influence of DAU on Capital Expenditure Allocations.

### **The Effect of Economic Growth as a Moderating Variable in the Relationship between Profit Sharing Funds and Capital Expenditure Allocations**

Based on the research results, it was found that Economic Growth as a Moderating Variable was able to moderate the relationship between Profit Sharing Funds and Capital Expenditure Allocations in Regencies/Cities of East Java Province. This can be seen from the t test of 3.774 with a significant value of 0.000 which is smaller than  $\alpha = 0.05$ . This shows that the value of Economic Growth as a Moderating Variable is able to moderate the relationship between Profit Sharing Funds with Capital Expenditure Allocation. The Revenue Sharing Fund (DBH) process is a potential source of regional income and is one of the basic capital for regional governments in obtaining development funds and meeting capital expenditure. But the Regency/City regional government East Java Province does not allocate capital expenditure from the Profit Sharing Fund, this Profit Sharing Fund is used to finance other regional expenditures apart from capital expenditure. This is because the Profit Sharing Fund which is sourced from natural resource potentials and taxes obtained by the region to finance costs other than capital expenditure has the aim of increasing economic growth because to meet economic growth you do not have to improve public facilities and infrastructure. Through regional spending other than capital spending, economic growth will run effectively and efficiently when based on targeted development planning.

### **The Influence of Regional Income, General Allocation Funds, and Profit Sharing Funds on Capital Expenditure Allocation with Economic Growth as a Moderating Variable**

Based on the research results, it shows that the F test value is 141.009 with a significant value of 0.000 which is smaller than  $\alpha = 0.05$ . This indicates that the increase and decrease in the Capital Expenditure Allocation obtained by the Regency/City is influenced by the increase and decrease in Regional Income, General Allocation Funds and Profit Sharing Funds owned by the Regency/City and is moderated by Economic Growth. Based on these results, it can be concluded that Regional Income, General Allocation Funds, and Profit Sharing Funds simultaneously (together) influence the

allocation of capital expenditure, moderated by economic growth. The results of this research together show that Regional Income, General Allocation Funds, and Profit Sharing Funds are able to provide a sufficient picture that regional governments are capable of being responsible as part of regional government powers in terms of managing financial resources obtained for the purpose of improving facilities. and infrastructure to improve community welfare.

## CONCLUSIONS AND SUGGESTIONS

Based on the results of the previous research and discussion, several conclusions can be drawn to answer the problem formulation. Some of these conclusions consist of: 1) Regional Income, General Allocation Funds have a partial effect on the allocation of capital expenditure in the Regencies/Cities of East Java Province for 2019-2022 . 2) Profit Sharing Funds have no partial effect on the allocation of capital expenditure in the Regencies/Cities of East Java Province for 2019-2022 . 3) Profit Sharing Funds influence and are able to moderate Economic Growth on capital expenditure allocations in Regencies/Cities of East Java Province for 2019-2022 . 4) Regional Income and General Allocation Funds have no effect and cannot be moderated by Economic Growth on capital expenditure allocations in Regencies/Cities of East Java Province for 2019-2022 . 5) Regional Income, General Allocation Funds and Profit Sharing Funds together influence the allocation of capital expenditure moderated by economic growth in the Districts/Cities of East Java Province in 2019-2022 . Suggestions for regional governments, this research is expected to provide information on the importance of optimizing local potential owned by the region, increasing local income, general allocation funds and profit sharing funds for allocating capital expenditure to improve the quality of public services for regional progress in the Regency/City of East Java Province where based on research results it is known that PAD, DAU and DBH have a significant influence together on the allocation of capital expenditure.

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