The Effect of Capital Expenditures, Personnel Expenditures and Balancing Funds toward Regional Financial Independence in Regency Governments at West Java

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Abstract. This study aims to analyze the effect of capital expenditures, personnel expenditures and balancing funds on regional financial independence in the Regency Government of West Java Province in the 2015-2019 period. The research method used in this research is descriptive and verification method with a quantitative approach. The population used in this study were all districts in the West Java Province, with the sampling technique using the saturated sample technique or the census method, as many as 18 districts in the West Java Province. The type of data used in this study is secondary data obtained through the website of theMinistry of Finance of the Republic of Indonesia, Directorate General of Fiscal Balance (www.djpk.depkeu.go.id). The data analyzed in this study were obtained from the Realization Report of the Regional Revenue and Expenditure Budget (APBD). The data analysis technique used is panel data regression analysis. Technical analysis of data using panel data regression. The results show that capital expenditures and personnel expenditures have a positive and significant effect on regional financial independence, while balancing funds have a negative and significant effect on regional financial independence.

Keyword: Capital Expenditure; Personnel Expenditure; Balance Fund and Regional Financial Independence

1 Background

Regional development is an integral part of national development, the regional development cannot be separated from the principle of regional autonomy. The era of reformation provided a paradigm shift that was more just equitable and equal. The changes of paradigm can be carried out by policies of regional autonomy and centralized financial balance and that is regulated in the constitutions no. 32 of 2004 and Constitutions no. 33 of 2004 is the main basis of regional autonomy on its implementation, which essentially provides greater opportunities for regions to optimize regional potential, both in terms of human resources, capital, and other resources as regional assets performance Through regional autonomy the regional governments are expected to be more solid and less dependent on the central government, both in terms of financing development and managing regional finances (Mamduh and Abdul, 2014).

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This makes the topic of solidity regional financial in the era of autonomy increasingly interested to be discussed, with regional autonomy it is hoped that each region can be independent in fulfilling their needs. The ability of a region in implementing regional autonomy can be measured by regional financial performance and can be seen from regional independence.

According to Halim and Kusufi (2012), regional financial independence is the ability of local governments to be able to finance their own government activities, accountability and development, as well as services provided to people who have paid levies and taxes which are a source of income that is very much needed by the community area. Regional financial independence can be seen from the amount of Original Local Government Revenue (PAD) obtained.

Looking at the results of the calculation of the Regional Financial Independence Ratio in West Java Regencies during 2015-2019, it shows that regional financial independence in West Java districts is included in the very low financial independence criteria. This shows that the district government in West Java is still very dependent on assistance from the center or the regions and has not been able to explore sources of PAD optimally.

The regional governments need to optimize their revenue potential, one of which is by ensuring a larger portion of regional spending for productive sectors. And the implementation of a balanced balance fund that is in harmony as a means of intergovernmental financial balancing in stabilizing regional finances as well as capital expenditures allocated for the acquisition of fixed assets and management of personnel expenditures effectively and efficiently by needs and running according to a good governance system. However, despite the relatively high growth of local revenue, up to now, district government spending in West Java is still supported by balancing funds and in the revenue and expenditure budget, the portion of the apparatus budget is still larger than the budget for the people.

The capital expenditure enhancement is expected to improve the quality of public services, which in turn can increase the level of community participation (contribution) to development, which is reflected in the increase in regional income public services so that it affects regional financial independence. This statement is supported by research conducted by Ernawati & Riharjoa (2017) and research conducted by Defitri (2020) which discusses the effect of capital expenditure and regional financial independence.

According to Erlina (2015; 155), personnel expenditure is compensation expenditure, in the form of salaries and bonuses as well as other income is given to civil servants determined by the provisions of the legislation. Through the allocation of adequate personnel expenditures, the quality of regional apparatus performance can be improved, in order to fulfill services to the community and regional financial independence can be achieved. This statement is supported by research conducted by Darwis (2015) by showing that the district/city government in West Sumatra Province has a significant effect on employee expenditure factors on the level of regional financial independence.

According to Djaenuri (2012: 100), balancing funds are a source of regional income obtained in the APBN to support the implementation of government authority to achieve the goal of granting autonomy to regions, namely improving services and better welfare. from regional income obtained in the APBN to support the implementation of government authority to achieve the goal of granting autonomy to regions, namely improving services and better welfare. In the research that has been done by Budianto and Alexander (2016) an the research conducted by Mahfud et.al (2020), it is explained that the balancing fund has a significant negative effect on regional financial independence. This shows that there are still many local governments that depend on funds from the central government.

1.1. *Stewardship Theory*

Stewardship theory illustrates that there is no situation where management is motivated for individual goals but rather focuses on the most important goal, namely the interests of the organization (Donaldson & Davis, 1991). Stewardship theory implies that the existence of local governments as institutions that are trusted to carry out their duties and functions properly like what is expected by the public so that public services or the welfare of the community can be achieved optimally. (Ernawati & Riharjo, 2017).

2 Research Method

The population and sample in this study were all-district governments in the province of West Java. The sampling method used for this research is the saturated sample method. According to Sugiyono (2018), which states that saturated sampling is the determination of the sample when all populations are used as samples. The sampling in this study, namely all District Governments in West Java Province which publishes APBD Realization Reports consecutively between 2015-2019 on the www.djpk.kemenkeu.go.id website. So the research sample that will be used as a sample is 18 districts in West Java. From the 18 districts, the last 5 years, namely 2015- 2019, so that the observation data is 90. This study uses secondary data, namely data obtained from the results of processing by a second party or data obtained from the results of publications from other parties (Sugiyono, 2018: 193). The secondary data used for this research is panel data, which is a combination of cross-sectional data and time-series data from 2015-2019.

The data used in this study is the Budget Realization Report for each district in West Java in 2015-2019. The data analysis method used in this study uses panel data regression analysis. Panel data (pooled data) is data that combines time-series data and cross-section data. Time series data is observation data in one research subject observed for a period of time. Cross- sectional data, namely observation data on several research subjects at one time, for example in one year. The equation of the model using cross-section data can be written as follows: (Gujarati, 2013).

$$\mathbf{Yit = \beta0 + \beta1\ BMit + \beta2\ BPit + \beta3\ DPit + \varepsilon it}$$

3 Result And Disscusion

3.1. Research Results for Selection of

3.1.1. Estimation Models

Examiner of estimation model selection to determine the best model used in panel data regression analysis. The model estimation test is done by using the Chow test and the Hausman test. The Chow test is used to choose which CEM or FEM is better used in the study.

Table 4.1. Result Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	59.762573	(17,69)	0.0000

Cross-section Chi-square	247.967581	17	**0.0000**

Source: Data processed with Eviews V9, 2021

Based on table 4.1 above, it shows that the F-test is significant (p-value) 0.0000 <0.05, so Ha is accepted. And based on the value of Fount > Ftable (59.762573 > 2.71) so Ha is accepted. So the *fixed effect* model is better than the *common effect*. Because the fixed effect model is accepted, then there must be a Hausman test. Furthermore, the Hausman test is used to choose REM or FEM which is better used for panel data regression.

Table 4.2. Result of Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	63.085499	3	**0.0000**

Source : Data processed with Eviews V9, 2021

Based on table 4.2 shows that the prob value <0.05/(0.0000 <0.05) means that H1 is accepted and H0 is rejected. So the right model to use is the *fixed effect*. Because the ixed effect model is accepted, the selection of the right model used in this study is the fixed effect model.

4 Hypothesis Testing

a. Simultaneous Test (F Test)

Table 4.3. Result of F Test

F-statistic	**53.79389**	Durbin-Watson stat	1.935255
Prob(F-statistic)	**0.000000**		

Source : Data processed with Eviews V9, 2021

Based on the results of the F test in table 4.3 above, it can be seen that the Fount value is 53.79389. The value of FFableat the level of significance of 0.05 with Ftable of 2.71 Because Fcount > Ftable (53.79389 > 2.71), then H0 is rejected and Ha is accepted, meaning that Capital Expenditures, Personnel Expenditures ,and Balancing Funds have a significant joint effect on Regional Financial Independence.

b. Partial Test (T test)

Table 4.4. Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.199908	0.183962	11.95846	0.0000
BM?	0.158784	0.060600	**2.620215**	**0.0108**
BP?	0.024421	0.011146	**2.191087**	**0.0318**
DP?	-0.110047	0.039491	**-2.786621**	**0.0069**

Sumber : Data diolah dengan Eviews V9, 2021

1. The Capital Expenditure Test results in a t value (t_{count}) of 2.620215. For the value of t_{table} sought at 0.05 significance and degrees of freedom. The result of t_{table} is 1.66256. Because the value of t_{count} > t_{table} (2.620215 > 1.66256), then H_a is rejected and H_0 is accepted, with a significance level of 0.0108 < 0.05, meaning that Capital Expenditure has a positive and significant effect on Regional Financial Independence.
2. Employee Expenditure Testing produces a t value (t_{count}) of 2.191087. The result of ttable is 1.66256. Because the value of t_{count} > t_{table} (2.191087 > 1.66256),

c. Coefficient of Determination (R^2)

then Ha is rejected and H0 is accepted, with a significance level of 0.0318 0.05, meaning that Employee Expenditure has a positive and significant effect on Regional Financial Independence

3. The balancing fund test results in a t value (tcount) of -2.786621. The result of ttable is 1.66256. Because the value of - tcount > -ttable (-2.786621 >-1.66256), then Ha is rejected and H0 is accepted, with a significance level of 0.0069 <0.05, meaning that the Balancing Fund has a negative and significant effect on Regional Financial Independence.

Table 4.5. Result of Coefficient of Determination (R^2)

Cross-section fixed (dummy variables)			
R-squared	0.939732	Mean dependent var	2.725666
Adjusted R-squared	**0.922262**	S.D. dependent var	0.486432
S.E. of regression	0.135624	Akaike info criterion	-0.956891
Sum squared resid	1.269184	Schwarz criterion	-0.373603
Log-likel	64.06012	Hannan-Quinn criter.	0.7ihood21675
F-statistic	53.79389	Durbin-Watson stat	1.935255
Prob(F-statistic)	0.000000		

Source : Data processed with Eviews V9, 2021

Based on table 4.5 above for this research model, it shows the Adjusted R- squared value of 0.922262, which means that 92.2262% changes in the Regional Financial Independence variable can be explained by the variables of Capital Expenditures, Personnel Expenditures and Balancing Funds, while the remaining 7.7738% is influenced by other variables not examined in this study that can affect Regional Financial Independence.

The Effect of Capital Expenditure, Personnel Expenditure and Balancing Fund together on Regional Financial Independence

Based on the results of statistical analysis, it is known that Capital Expenditures, Personnel Expenditures, and Balancing Funds together have a significant and significant effect on Regional Financial Independence, meaning that the hypothesis is accepted, that 92.2262% changes in the Regional Financial Independence variable can be explained by the Capital Expenditure variable, Personnel Expenditure and Balancing Fund, while the remaining 7.7738% is influenced by other variables not examined. Thus, this study can be generalized to all districts in West Java Province for the 2015-2019 period.

In accordance with the theory of stewardship, local government as an institution that is trusted to carry out its duties and functions appropriately in accordance with the public interest so that public services and public welfare can be achieved optimally and can be accountable to the community (public). With the existence of the capital expenditure budget, it has a strategic role which is manifested in regional development and regional improvement in various sectors and the existence of the personnel expenditure budget acts as a compensation tool given to regional officials as a reward for the work that has been carried out and also as a driver to increase work productivity. regional officials in carrying out development in the region. And the existence of a balancing fund is a form of accountability that must be carried out by the government (steward) and the people (principal) as well as to the central government.

Effect of Capital Expenditure on Regional Financial Independence

Based on the results of hypothesis testing, it shows that Capital Expenditure has a positive and significant effect on Regional Financial Independence. The results of this study are in line with the results of research conducted by Darwis (2015), Ernawati & Riharjo (2017), Normalita & Mahmud (2017), Martini et al. (2019) and Defitri (2020) show that the capital expenditure variable has a positive effect on regional financial independence. In line with the theory of stewardship which implies that the existence of local government as an institution that is trusted to carry out its duties and functions appropriately is appropriate. This means that the higher the local government's capital expenditure, the higher the regional financial independence. The existence of a capital expenditure budget sourced from central assistance and regional revenues, this capital expenditure has a strategic role which is manifested in regional development and regional improvement in various sectors in increasing public service.

The Effect of Personnel Expenditure on Regional Financial Independence

Based on the results of hypothesis testing, it shows that employee expenditure has a positive and significant effect on Regional Financial Independence. This means that the higher the expenditure for local government employees, the higher the regional financial independence. The results of this study are in line with the results of research conducted by Putri (2014), Darwis (2015) and Defitri (2020) showing that personnel expenditures have a positive effect on regional financial independence. In line with the theory of stewardship which implies that the existence of local governments as institutions that are trusted to carry out their duties and functions appropriately in accordance. regional apparatus in carrying out development in the region. Where the existence of personnel expenditure can encourage the productivity of the performance of the regional apparatus so as to increase regional financial independence.

The Effect of Balancing Funds on Regional Financial Independence

Based on the results of hypothesis testing, it shows that the Balancing Fund has a negative and significant effect on Regional Financial Independence. This means that the higher the regional government balancing fund, the lower the regional financial independence. The influence of balancing funds on regional financial independence is one of the external assistance received by a region to meet the needs of government programs if there is a deficit. The results of this study are in line with the results of research conducted by Budianto and Alexsandria (2016), Santoso (2018), Anas (2018) and Mahfud et.al (2020) explaining that balancing funds have a negative influence on regional financial independence. The balancing fund variable has a relationship with the stewardship theory where the use of the balancing fund is a form of responsibility that must be carried out by the government (steward) and the people (principal) based on trust, collectively according to organizational goals. The effect of balancing funds shows that local governments still need the role of the central government to increase their output creation. This indicates that the higher the balancing fund in a region, the lower the level of financial independence of the region.

5 Conclusion

1. Capital Expenditures, Personnel Expenditures, and Balancing Funds together have a significant and significant effect on Regional Financial Independence. This means that the variables of Capital Expenditure, Personnel Expenditure, and Balancing Fund can be used as predictors to determine Regional Financial Independence.
2. Capital Expenditure has a positive and significant effect on Regional Financial Independence. This means that the higher the capital expenditure, the higher the regional financial independence.
3. Employee Expenditure has a positive and significant effect on Regional Financial Independence. This means that the higher and more efficient the personnel expenditure, the higher the regional financial independence.
4. The Balancing Fund has a negative and significant effect on Regional Financial Independence. This means that the higher the balance fund, the lower the regional financial independence.

6 Suggestion

1. Regional governments must seek to increase capital expenditures, especially exploring the potential for allocating funds in order to finance activities with the aim of meeting community needs, regional development in productive sectors such as tourism management, industrial infrastructure and regional improvement in various sectors in improving quality public services. to society.
2. Local governments must make efforts to streamline and manage personnel expenditures properly according to needs which will have an impact on the creation of good human resource management, namely increasing the productivity of performance and professionalism of regional officials so as to support a good government system.
3. The negative effect of balancing funds shows that local governments still need the role of the central government to increase their output creation. Local governments must strive to reduce and optimize balancing funds and prioritize the suitability and compatibility of the implementation of balanced balance funds as a means of intergovernmental financial balancing.
4. For further researchers, it is recommended to use more independent variables in research, especially those related to regional independence. In addition to the regional expenditure variable and the characteristics of the regional government in

terms of the number of regional fixed assets, in further research, other independent variables can be added in the form of other regional government characteristics.

5. The use of a longer period of time so that it shows the generalization of the research results.

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