REGIONAL ORIGINAL INCOME AND ALLOCATION FUNDS GENERAL ON CAPITAL EXPENDITURE

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ABSTRACT

The purpose of this study is to determine whether or not there is an effect of Regional Original Income (PAD) and General Allocation Fund (DAU) on Capital Expenditures in Regencies / Cities in North Sumatra in 2014-2018 either partially or simultaneously. The sample in this study were the districts / cities in North Sumatra, amounting to 33 districts / cities in 2014-2018. The analytical tool to test the hypothesis is panel data regression using the help of Eviews 9. The results show that partially the variables of Regional Original Income (PAD) and General Allocation Fund (DAU) have a significant effect on capital expenditure. And simultaneously that partially the variables of Regional Original Income (PAD) and the General Allocation Fund (DAU) have a significant effect on capital expenditure.

Key: Local Own Revenue, General Allocation Fund, Capital Expenditure

I.   PRELIMINARY

The change in national leadership from the New Order to the Reform Order resulted in changes in the relationship between the Regional Government and the Central Government, where before the reformation the government system adopted a centralized nature, then since 1999 the government system has changed to a decentralized system or often known as the autonomy era. area. The thing that encourages the implementation of regional autonomy is due to the absence of equitable development, which causes inequality between the central and regional governments. The decentralization policy is a policy to achieve regional independence.

Based on Law No. 32 of 2004 concerning Financial Balance between the Central Government and Regional Governments, that autonomous regional governments have the authority to regulate and manage their own regional interests based on the aspirations of the community. The implementation of regional autonomy policies is also supported by a financial balance between the central government and regional governments as stated in Law no. 33 of 2004 concerning Financial Balance between the Central Government and Local Government. Regional governments are given the authority to manage and regulate their own government affairs according to the principle of autonomy by using financial sources, exploiting natural resources, and other resources that are owned according to the needs and aspirations of the developing community in the region.

The implementation of government affairs which fall under regional authority is funded at the expense of the Regional Budget (APBD) which is compiled annually and stipulated by regional regulations. A region is given the autonomy authority to carry out development in all fields
and is expected to be implemented independently by the regions, both in terms of planning, development and financing in accordance with the Law No. 33 years2004 concerning Financial Balance between the Central Government and Local Government. The purpose of this authority is to bring the services provided by the government closer to the

community, to make it easier for the public to monitor and control the use of funds originating from the Regional Revenue and Expenditure Budget (APBD).

In regional spending, it will not be separated from the source of revenue, either in the form of the regional budget itself or the revenue from the central government which is used as the basis for implementing development and public services. In Indonesia, regional budgets are called the Regional Revenue and Expenditure Budget (APBD), both for provinces and districts. In the budget preparation process in Law no. 22 of 1999 which has been revised by Law No.32 of 2004 concerning Regional Government, involves two parties, namely the executive and the legislature. As the executive, as the executor of regional operationalization, is responsible for drafting the Regional Budget (APBD) and can only be implemented if it has been approved by the Regional People's Representative Council (DPRD) in the process of ratifying the budget.. Novianto & Hafiah (2015) state that regional spending is an allocation of funds that must be carried out effectively and efficiently, where regional spending can be a measure of the success of implementing regional authority.

Given the existence of regional autonomy, the government is required to manage regional finances properly and effectively so that they can be used for the benefit of the community. The classification of expenditures is according to Government Regulation Number 71 of 2010 concerning Government Accounting Standards for financial reporting purposes, namely operating expenditures, capital expenditures, other expenditures and transfer expenditures. Regulation of the Minister of Finance (PMK) No.91 / PMK.06 / 2007 concerning the Standard Chart of Accounts (BAS) that capital expenditure is a budget expenditure used in order to acquire or add fixed assets and other assets that provide benefits for more than one accounting period and exceed There is a minimum limit for capitalization of fixed assets or other assets determined by the government. The fixed assets are used for the daily operational activities of a work unit, not for sale. The capital expenditure budget is based on regional needs for facilities and infrastructure both for the smooth implementation of government tasks and for facilities for the community.This capital expenditure is closely related to long-term financial use plans, such as for the maintenance of these fixed assets. To implement the financing of government administration and provide services to the community. Local governments are directed to be able to manage their own regional revenues, which is shown for regional economic development. The increase in decentralization is related to how the regions are able to extract revenue or income from within the region itself.Regions allocate funds in the form of a capital expenditure budget in the Regional Revenue and Expenditure Budget (APBD) to increase fixed assets.

The preparation of the Regional Revenue and Expenditure Budget (APBD) aims to harmonize macroeconomic policies and available resources, allocate appropriately and prepare conditions for the implementation of regional budget management, namely guiding the independence of a region so that efforts must be made by local governments to optimize the increase in Regional Original Income. (PAD) and sources of funds for regions in order to finance regional government operational activities through Regional Original Revenue (PAD) derived from regional taxes and levies, and regional sources of funds through balancing funds, namely the General Allocation Fund (DAU) and the Special Allocation Fund (DAK).), and Transfer Income (Budianto & Alexander, 2016). Original Regional Income is a part of the region which is extracted from the available resources in the region which do not include balance funds and other revenues. Mohamad et.al (2007: 39) states that Regional Original Income (PAD) is regional income that comes from local taxes, levies, and separated regional wealth management, etc. legitimate, which aims to provide flexibility to regions in seeking funding in the implementation of regional autonomy as the embodiment of the principle of decentralization. The increase in decentralization is related to how the regions are able to extract revenue or income from within the region itself. If the better the Regional Original Income (PAD) of a region, the greater the allocation of

capital expenditures. With an increase in Regional Original Income (PAD), it is hoped that there will be an increase in services, especially in the public sector. This increase is also expected to be able to increase the attractiveness of investors to open businesses in districts / cities in the region. In Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, it is stated that Regional Original Revenue (PAD) is revenue obtained by regions which is collected based on regional regulations in accordance with statutory regulations. Regional Original Revenue (PAD) aims to provide authority to regional governments to fund the implementation of regional autonomy in accordance with regional potential as a manifestation of decentralization. It is hoped that there will be an increase in services, especially in the public sector. This increase is also expected to be able to increase the attractiveness of investors to open businesses in districts / cities in the region. In Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, it is stated that Regional Original Revenue (PAD) is revenue obtained by regions which is collected based on regional regulations in accordance with statutory regulations. Regional Original Revenue (PAD) aims to provide authority to regional governments to fund the implementation of regional autonomy in accordance with regional potential as a manifestation of decentralization. It is hoped that there will be an increase in services, especially in the public sector. This increase is also expected to be able to increase the attractiveness of investors to open businesses in districts / cities in the region. In Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, it is stated that Regional Original Revenue (PAD) is revenue obtained by regions which is collected based on regional regulations in accordance with statutory regulations. Regional Original Revenue (PAD) aims to provide authority to regional governments to fund the implementation of regional autonomy in accordance with regional potential as a manifestation of decentralization. In Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, it is stated that Regional Original Revenue (PAD) is revenue obtained by regions which is collected based on regional regulations in accordance with statutory regulations. Regional Original Revenue (PAD) aims to provide authority to regional governments to fund the implementation of regional autonomy in accordance with regional potential as a manifestation of decentralization. In Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, it is stated that Regional Original Revenue (PAD) is revenue obtained by regions which is collected based on regional regulations in accordance with statutory regulations. Regional Original Revenue (PAD) aims to provide authority to regional governments to fund the implementation of regional autonomy in accordance with regional potential as a manifestation of decentralization.

In addition to Regional Original Revenue (PAD), there is one source of regional revenue that has a major contribution to the Regional Revenue and Expenditure Budget (APBD) structure, namely the Balancing Fund.. This balancing fund comes from the State Revenue and Expenditure Budget (APBN)allocated to the Regions to finance the needs of the Regions in the context of implementing decentralization. In Law No. 32 of 2004 concerning Regional Government explains that one of the balancing funds from the government is the General Allocation Fund (DAU), the allocation of which emphasizes aspects of equity and justice that are in line with the administration of government affairs.PGovernment Regulation Number 55 of 2005 concerning Balancing Funds explains that the General Allocation Fund (DAU) is a fund allocated with the aim of equalizing regional financial capacity to finance regional needs in the context of implementing decentralization, the General Allocation Fund (DAU) for a region is allocated based on a formula consisting of over the fiscal gap and basic allocation. Fiscal gap is the difference between fiscal needs and fiscal capacity. Fiscal needs are measured using the variables of

population size, area, construction cost index, per capita gross regional domestic product, and human development index. Fiscal capacity is measured based on Regional Original Income (PAD) and Revenue Sharing Fund (DBH). The basic allocation is calculated based on the total salary of the Regional Civil Servant. Allocation of General Allocation Fund (DAU) for provinces, regencies and cities, the amount of which is determined at least 26% of the net domestic revenue stipulated in the State Revenue and Expenditure Budget (APBN). The proportion of the General Allocation Fund (DAU) for provinces and districts / cities is determined in accordance with the balance of authority between provinces and districts / cities.

The economy in North Sumatra Province can be seen if there is economic growth. Directorate General of Fiscal Balance (2019) Capital Expenditure in North Sumatra Province in the last 5 years has always increased, namely in 2015 amounting to 760 billion, in 2016 amounting to Rp. 932 billion, in 2016 amounting to Rp. 1.01 trillion, in 2017 amounting to Rp. 1.9 trillion and in 2018 Rp. 11.5 trillion. This is due to the increased Regional Original Income (PAD), which in 2015 amounted to Rp. 4.09 trillion, in 2016 amounting to Rp. 4.8 trillion, in 2017 amounting to Rp. 4.9 trillion, in 2018 amounting to Rp. 5.6 trillion. Meanwhile the General Allocation Fund (DAU) in 2014 amounted to Rp. 1.2 trillion, in 2015 decreased by Rp. 1.1 trillion and in 2016 an increase of Rp. 1, 6 trillion and in 2017 amounting to Rp. 2.4 trillion and in 2018 amounting to Rp. 2.6 trillion.

Previous research conducted by Guritno and Suzan (2015), Fitriana and Sudarti (2018) and Suryana (2018) revealed that Regional Original Income (PAD) and General Allocation Fund (DAU) has a positive effect on capital spending. Meanwhile, research conducted by Adyatma and Oktaviani (2015) and Wandira (2013) revealed different results that local revenue (PAD) had no effect on capital spending. There are differences in the findings, so that it becomes a gap for this research to be carried out, in this study using three variables, namely Regional Original Income (PAD),General Allocation Fund (DAU) and Capital Expenditures. In contrast to previous studies, this researcher chose the research site in North Sumatra Province with a total of 25 districts and 8 cities from 2014-2018 as research objects. The reason researchers are interested in this area is because the districts and cities in North Sumatra Province have the same economic and geographical characteristics. With limited natural resources, the regencies and cities in North Sumatra Province rely more on the potential for other revenues, particularly those from local taxes and user charges.

Based on the background described, the study took the title "The Effect of Income (PAD) and General Allocation Fund (DAU) on Capital Expenditures in the Regency / City of North Sumatra".

I.2. Formulation of the problem
Based on the above background, the problem formulations in this research are:
1. Does Local Own Revenue (PAD) affect Capital Expenditures in the Regency / City of North Sumatra Province?
2. Does the General Allocation Fund (DAU) affect capital expenditure in the Regency / City of North Sumtera Province?
3. Do Local Own Revenue (PAD) and General Allocation Fund (DAU) affect capital expenditure in regencies / cities in North Sumatra Province?

I.3. Research purposes
The objectives of this study are as follows:
1. This is to find out whether Regional Original Income (PAD) has an effect on Capital Expenditures in the Regency / City of North Sumatra Province.
2. This is to find out whether the General Allocation Fund (DAU) has an effect on capital expenditures in regencies / cities of North Sumatra Province.

3.   This is to find out whether the Regional Original Income (PAD) and the General Allocation Fund (DAU) have an effect on the Capital Expenditure in the Regency // City of North Sumatra Province

II.   LITERATURE REVIEW
2.1. Literature Review

This research was conducted inseparable from the results of previous studies. The benefit of reviewing previous research is to find out what has been produced and what differences were there before. The research results are used as comparisons related to the research topic, namely the Regional Original Income (PAD), General Allocation Fund (DAU) and Capital Expenditure. Here are some of the research results that have been conducted.

Kusnandar and Siswantoro (2012) examined the effect of the General Allocation Fund (DAU), Local Own Revenue (PAD), Excess Budget Financing (SiLPA) and Regional Area on Capital Expenditure. The results of this study indicate that simultaneously the General Allocation Fund (DAU), Local Own Revenue (PAD), excess budget financing (SiLPA) and area area affect the allocation of capital expenditure at the level of $\alpha = 1\%$. Whereas partially the General Allocation Fund (DAU) has no effect on capital expenditure, while Regional Original Income (PAD) has an effect, SiLPA and area area have a positive and significant effect on the allocation of capital expenditure at the level of $\alpha = 1\%$. This study used a sample consisting of 292 Regional Government Financial Reports taken from the 2011 BPK RI Audit Results Report.

Chiawa et.al (2012) also conducted research on Government Spending and Economic Growth In Nigeria. The results of the Boundary Test show that there is no long-term relationship between government spending and economic growth in Nigeria. In addition, the causality results reveal that government capital expenditure causes economic growth. Meanwhile, no causal relationship is observed

between recurring government spending and economic growth. Hence, the policy implication of this finding is that any reduction in capital spending will have a negative impact on economic growth in Nigeria. This is different from the research of Kusnandar and Siswantoro (2012) in which the analysis used is the analysis of cointegration and testing. This study investigates the relationship between government spending (disaggregated into capital and recurring) and economic growth in Nigeria during this period (1961-2010). The approach taken is also different, namely using the Boundary Test approach for cointegration based on the unrestricted Error Correction Model and the wise Granger pair Causality test.

Nuarisa (2013) examines the effect of Regional Original Income (PAD), General Allocation Funds (DAU) and Special Allocation Funds (DAK) on the Allocation of the Capital Expenditure Budget. The results of this study conclude that simultaneously the Regional Original Income (PAD), the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) have a significant effect on the Allocation of the Capital Expenditure Budget at a level less than 0.05. Meanwhile, partially the original regional income (PAD) has an effect on capital spending. This is different from the research conducted by Kusnandar and Siswantoro (2012) which shows that the General Allocation Fund (DAU) has no effect on capital spending. The population in this study is the document of the District / City Government Budget Realization Report (APBD) in Central Java in 2011.

Lucky (2013) examines the analysis of the influence of Regional Financial Performance on Economic Growth and Poverty through Capital Expenditure. The results of this study indicate that financial performance as measured by financing capability shows a direct and insignificant effect on capital expenditure and economic growth, while the

effect on poverty shows a significant positive effect. Furthermore, from the effect of indirect financial performance through capital expenditures, there are expenditure variables for income ratio, fiscal effort, and the level of fiscal decentralization variables which have a positive and significant indirect effect on economic growth and have a negative effect on poverty while the effects of financial performance through capital expenditure and economic growth on poverty have a significant indirect and negative effect, especially as measured using the ratio expenditure on revenue, fiscal effort, and the degree of fiscal decentralization. This is different from Kusnandar and Siswantoro (2012), Nuarisa (2013) and Chiawa et.al (2012), this research was conducted using the path analysis method. With research samples in 38 districts / cities in East Java Province during (2005-2011).

Pelealu (2013) also conducted research on the effect of the Special Allocation Fund (DAK) and the Regional Original Income Fund (PAD) on capital expenditure. The results of this study indicate that simultaneously the Special Allocation Fund (DAK) and Regional Original Income (PAD) have a significant effect on capital expenditure. While partially the Special Allocation Funds together have a significant effect on the confidence level of 99% ($\alpha = 1\%$) and Regional Original Income (PAD) 95% ($\alpha = 5\%$) on capital spending. This shows the same results as those carried out by Nuarisa (2013) and Kusnandar and Siswantoro (2012) that the Special Allocation Fund (DAK) and Regional Original Income (PAD) have a positive and significant effect on capital spending. The population in this study is to use the document of the Manado City Government Budget Realization Report (APBD) 2003-2012. The model used in this study is also the same as the model used by Kusnandar and Siswantoro (2012), namely using the econometric analysis method with multiple linear regression functions and with the Ordinary Least Square (OLS) method, the difference in the program used is using Eviews 7.0.

Sholikhah and Wahyudin (2014) examined the analysis of capital expenditures in district / city governments in Java. The results of this study indicate that local revenue (PAD), profit sharing funds, and regional area have a significant effect on capital expenditure at a level smaller than $\alpha = 0.05$. Meanwhile, the General Allocation Fund (DAU) has a negative direction and does not significantly influence capital expenditure at a level greater than $\alpha = 0.05$. This is in line with the research of Nuarisa (2013) and Kusnandar and Siswantoro (2012) which reveal that local revenue (PAD) shows a significant positive effect and the General Allocation Fund (DAU) has no effect on capital spending. The sample, in this study was conducted at the Regency / City Government in Java, which amounted to 93 districts / cities in 2010.

Jaya and Dwirandra (2014) conducted a study on the effect of Regional Original Income (PAD) on Capital Expenditures with Economic Growth as a Moderating Variable. The results of this study indicate that local revenue (PAD) has a positive and significant effect on capital expenditure at a level smaller than $\alpha = 0.05$, economic growth has no significant effect on capital expenditure at a significant level of $0.114 > \alpha = 0.05$, and Economic growth has a significant effect and is able to moderate the effect of Regional Original Income (PAD) on capital expenditure with a significance of $0.000 < \alpha = 0.05$ but with the opposite intensity and direction. This is in line with the results of research conducted by Chiawa et.al (2012) where a reduction in capital expenditure has a significant negative effect on economic growth in Nigeria. This study is different from Nurisa (2013) and Palealu (2013). This research was conducted at the district / city government in Bali Province and used the APBD Realization Report and the 2006-2011 period as samples. The sampling method used was saturated sampling. The data was collected through the participant observation method. The analysis technique used is Moderated Regression Analysis (MRA).

Juwari, et al (2016) conducted research on the effect of taxes and levies as well as the general allocation fund (DAU) and the special allocation fund (DAK) on regional expenditure and economic growth. The results of this study conclude that the General Allocation Fund (DAU) directly has a positive and dominant significant effect, while local

taxes and the Special Allocation Fund (DAK) have a negative effect, and the efficiency of retribution shows insignificant influence in influencing economic growth. This study uses a different location from the research conducted by Chiawa et.al (2012) and Jaya and Dwirandra (2014), namely in the regencies / cities in the Kalimantan region and is also carried out using the path analysis test (path analysis model).

Novianto and Hanafiah (2015) examined the effect of Regional Original Income (PAD), Balanced Funds and Financial Performance on Capital Expenditure Allocation. The results of this study indicate that the Regional Original Income (PAD), the General Allocation Fund (DAU), the Special Allocation Fund (DAK), the Revenue Sharing Fund (DBH), and the Level of Regional Financial Effectiveness partially have a positive and significant effect on capital expenditures while the level of independence Regional Finance has no effect on Capital Expenditures. This is in line with what was done by Sholikhah and Wahyudin (2014) Jaya and Dwirandra (2014) Pelealu (2013) but different from research conducted by Kusnandar and Siswantoro (2012) Sholikhah and Wahyudin (2014) which shows that the General Allocation Fund (DAU)) has no effect on capital expenditure. This study used a sample of 70 samples derived from secondary data sourced from the 2009-2013 Budget Realization Report (LRA) and populations of 14 district / city governments in West Kalimantan Province. The research technique used a census by taking the population with the help of statistical analysis using SPSS 17 software.

Fitriana and Sudarti (2018) examined the analysis of the effect of Regional Original Income (PAD), Revenue Sharing (DBH) and population on the capital expenditure budget. The results of this study simultaneously show that local revenue (PAD), revenue sharing funds (DBH) and total population have an effect on the allocation of capital expenditures, while partially it shows that revenue sharing (DBH) and population have a positive and significant effect on capital spending. Meanwhile, the original regional income (PAD) showed positive results but not significant. In line with research conducted by Novianto and Hanafiah (2015) that Regional Original Income (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), Profit Sharing Fund (DBH), and the level of regional financial effectiveness partially has a positive and significant effect on capital expenditures. This study uses secondary data from BPS Riau Province. The population in this study were all districts / cities in Riau. The method in this study uses multiple regression analysis with a panel data model with the help of the Eviews 9 application.

2.2. Capital Expenditures

Based on Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP), capital spending is a budget expenditure that is used to acquire fixed assets and other assets. Meanwhile, according to Nuarisa (2013) explains that capital expenditure is expenditure whose benefits tend to exceed one year and will increase government assets or assets, furthermore it will increase the routine budget for operational costs and government costs.

Capital Expenditures are expenditures that include acquiring land, buildings and buildings, equipment and intangible assets. Budget expenditures to acquire fixed assets and other assets that provide benefits over the accounting period and exceed the capitalization limits of fixed assets or other assets.

2.3. Regional Original Income (PAD)

Regional Original Revenue (PAD) is regional revenue from various regional government efforts in collecting funds for the needs of the region concerned in financing any routine activities or for regional development. According to Law Number 33 of 2004 concerning Financial Balance between Central and Regional Government article 1 point 18

that Regional Original Income (PAD) is revenue obtained by regions which is collected based on regional regulations in accordance with statutory regulations

According to Law No. 23/2014 on Regional Government states that local revenue includes:

1. Local tax
2. Regional Retribution
3. Proceeds from the management of separated Regional Assets
4. Other Legitimate Regional Income

Funds sourced from Regional Original Revenue (PAD) are one of the supporting factors in carrying out regional obligations, namely to finance routine expenditures and regional development costs, and also as a tool to put as much money as possible into the regional treasury which will be used in the implementation of development. regions and also to regulate and improve the socio-economic conditions of the area.

2.4. General Allocation Fund (DAU)

According to Law No. 32 of 2004 concerning Regional Government that the General Allocation Fund (DAU) is one of the balancing funds that is part of regional revenue sources. The General Allocation Fund (DAU) is allocated according to the presentation of the net domestic revenue stipulated in the APBN, which is allocated for the purpose of financial equality between regions to finance the expenditure needs of each region in the context of implementing decentralization.

The General Allocation Fund (DAU) is determined and given based on the fiscal gap and the basic allocation fund. Fiscal gap is a regional need that is reduced by the regional fiscal capacity. Regional needs are calculated based on variables consisting of population, area, Human Development Index (IPM), Construction Expensive Index (IKK), and Gross Regional Domestic Product (PDRB) per capita, while the calculation of fiscal capacity is based on Regional Original Income. (PAD) and Revenue Sharing Funds (DBG) received by the regions. The basic allocation fund is calculated from the total salaries of regional civil servants.

Based on the description above, the formulation of the General Allocation Fund (DAU) is as follows:

$$DAU = CF + AD$$

Information :
DAU   = General Allocation Fund
CF   = Fiscal Gap
AD   = Basic Allocation

2.5. Review of Previous Research and Hypothesis Development
2.5.1. The relationship between Regional Original Income (PAD) and Capital Expenditures

Research conducted by Arwati & Hadiati (2013), Sugiarthi & Supadmi (2014) and Jaya & Dwirandra (2014) found empirical evidence that Regional Original Income (PAD) has a positive effect on capital spending. This finding may indicate that the amount of Regional Original Income (PAD) is a determining factor in determining capital expenditure.

H1: Regional Original Income has an effect on Capital Expenditure

2.5.2.The Relationship Between General Allocation Fund (DAU) and Capital Expenditure

The General Allocation Fund (DAU) is fully managed by local governments in its use according to the needs and requirements of a region. Permatasari and Mildawati's research (2016), Wahyuningsih and Widaryanti (2015) and Pentury (2011) found that the General Allocation Fund (DAU) is positive for capital expenditure. Based on these thoughts, this study can propose hypotheses including:

H2: General Allocation Fund has an effect on Capital Expenditure.

2.5.3 Relationship Between Regional Original Income (PAD) and General Allocation Fund (DAU) to Capital Expenditure

Capital expenditures affect the Regional Original Income (PAD) and the General Allocation Fund (DAU) which contribute according to their respective aspects needed by the regions for the benefit of the community. Based on the description of the theoretical basis above, the researcher formulates the following hypothesis:

H3: PAD and DAU affect capital expenditure

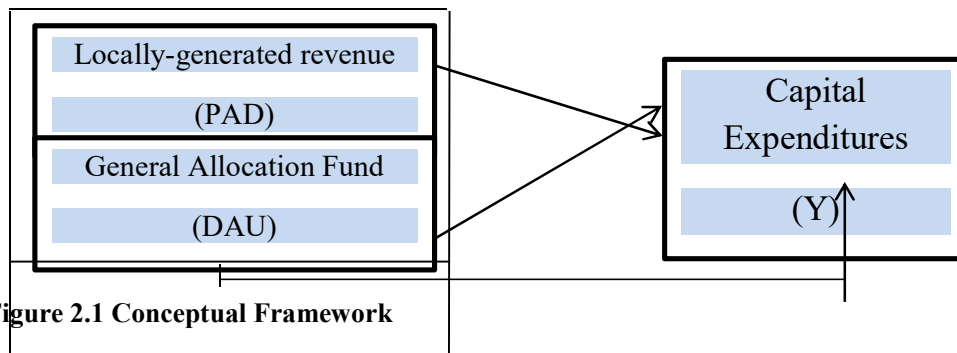Based on the above framework, a research model image can be drawn up as follows:

Figure 2.1 Conceptual Framework

III.   RESEARCH METHODS

The strategy used in this study is an associative research strategy. Associative research is research conducted to find out the relationship between one variable and another. According to Sugiyono (2012: 36) that associative research is research that aims to determine the relationship between two or more variables. By using this research, several theories will be found that provide an explanation, prediction and control of a symptom.

The purpose of the associative strategy is to provide an explanation of the effect of Regional Original Revenue (PAD) and General Allocation Fund (DAU) on capital expenditure. The data used in this study are secondary data in the form of data from the North Sumatra APBD Realization Report for the 2014-2018 fiscal year which is downloaded from the website of the Directorate General of Fiscal Balance, namely www.djpk.kemenkeu.go.id.

In analyzing the data, this research uses Eviews 9 software by using panel data analysis. Panel data itself is generally a combination of cross section data (indicated by data from more than one individual) and time series (indicated by data from more than one time period observation).

In this study, regression analysis with panel data is used to determine whether there is an influence of independent variables, namely Regional Original Income (PAD) and General Allocation Fund (DAU) on Capital Expenditure.

$$Y = \alpha + \beta1PAD + \beta2DAU + e$$

Where :
Y   = Capital Expenditure
PAD   = Regional Original Income
DAU   = General Allocation Fund
α = Constant
β = Slope or Regression Coefficient
e   = error term, which is the estimator's error rate in research

IV. RESEARCH RESULT
4.1. Descriptive statistics

Table 4.1
Descriptive Test Results

	SHOPPING_MODAL	DAU	PAD
Mean	533349.8	905586.7	372260.0
Median	487521.0	866938.0	328466.0
Maximum	818892.0	1266130.	854195.0
Minimum	0.000000	0.000000	0.000000
Std. Dev.	161771.0	226028.1	185050.4
Skewness	-0.539615	-1.621861	1.233616
Kurtosis	4.981997	8,987706	4.317484

Source: *Output* Eviews 9

Based on table 4.5, it can be explained as follows:

1. The capital expenditure variable is budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than one accounting period. Table 4.5 shows the mean, median, maximum value, minimum value, and standard deviation of each variable. Based on table 4.5, the descriptive results of capital expenditure in North Sumatra Province in 2014 - 2018 have an average (mean) or Rp. 533,349,800,000, Minimum Value of Rp. 0, the maximum value is Rp. 818,892,000,000

2. Variable Regional Original Income (PAD) is revenue that is actually obtained and extracted from the potential income in a region based on regional regulations and applicable laws where Regional Original Income is one of the sources used to finance regional government administration and regional development. . The results of the descriptive analysis of the Regional Original Income (PAD) variable in North Sumatra Province in 2014-2018 had an average value (mean) of Rp.372,260,000,000. Minimum valueRp. 0 and a maximum value of Rp.854,195,000,000

3. Variable General Allocation Fund (DAU) is one of the balancing funds that are part of regional revenue sources. The results of the descriptive analysis of the General Allocation Fund (DAU) in 2014-2018 have an average value of Rp.905,586,700,000. The minimum value is Rp. 0 and a maximum value of Rp. 1,266,130,000,000

4.2. Classic assumption test
4.2.1. Multicolinearity Test

Table 4.2
  Multicollinearity Test Results

Variance Inflation Factors
Date: 01/10/20 Time: 09:32
Sample: 1 33
Included observations: 33

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
PAD	0.008159	12.74502	2.463629
DAU	0.005469	43.24619	2.463629
C	2.25E + 09	20,49784	NA

  Source: Eviews 9 data processing

Based on the multicollinearity test shown in table 4.6, the results of the calculation show that all independent variables have a VIF value of $1 \leq x \leq 10$. Thus, the regression model in this study does not occur multicollinearity, and the model is feasible to use.

4.2.2. Heteroscedastity Test

Table 4.3
Heteroscedastity Test Results
  Heteroskedasticity Test: Glejser

F-statistic	0.599723	Prob. F (2.30)	0.5554
Obs * R-squared	1.268666	Prob. Chi-Square (2)	0.5303
Scaled explained SS	1.365403	Prob. Chi-Square (2)	0.5053

  Source: Data processing *Eviews* 9

Heteroscedasticity test results using the Glejser method. The Chi-Square probability value represents a number 0.5554 which indicates that the value is greater than $\alpha = 0.05$ and in accordance with predetermined conditions, this means that in the regression model there is no variance inequality and residuals from one observation to another or it can be called free from heteroscedasticity, so that the variable can be used in research.

4.3. Model Feasibility Test
4.3.1. Larange Multiplier (LM) Test
Table 4.4
Lagrange Multiplier Test Results
Lagrange Multiplier Tests for Random Effects

Breusch-Pagan	111.5133	212.5349	324,0483
	(0.0000)	(0.0000)	(0.0000)

Source: By Eviews 9

The LM test is used to select the most suitable model between *Fixed Effect Model* (FEM) with *Random Effect Model* (BRAKE), The table shows that the Breusch-Pagan probability value in the cross-section is 0.0000 <0.05, so the model chosen is *Random Effect Model* (BRAKE).

4.3.2 Chow Test
Table 4.5
Chow Test Results

Equation: Untitled
Fixed effects cross-section test

Effects Test	Statistics	df	Prob.
Cross-section F	3.758650	(32,130)	0.0000
Chi-square cross-section	108.080458	32	0.0000

Source: Data processing *Eviews* 9

Table 4.9 shows the results of the chow test. Chow test is used to select the most suitable model between Fixed Effects and Common Effects. The table shows that the probability value of cross section F is 0.0000 and cross section chi square is 0.0000. The chi-square probability value which is smaller than 0.05 (<5%) is significant so that H0 is rejected, so the correct model to use is the Fixed Effect Model (FEM).

4.3.2. Hausman Test

Table 4.6
Hausman Test Results
Correlated Random Effects - Hausman Test
Equation: Untitled
Cross-section random effects test

Test Summary	Chi-Sq. Statistics	Chi-Sq. df	Prob.
Random cross-section	4.236240	2	0.1203

Source: Data processing *Eviews* 9

The Hausman test is used to select the most suitable model between *Fixed Effect Model* (FEM) and *Random Effect Model* (BRAKE). Table 4.6 shows that the probability value of a random cross section is 0.1203. The probability value (P-value) for the random cross section is 0.1203 is bigger from 0.05 (significant value) then H0 is accepted, so the most appropriate model to use is the Random Effect Model (REM).

4.4.4. Panel Data Regression with the Randam Effect Model

Table 4.7
Panel Data Regression Test Results

Dependent Variable: BELANJA_MODAL
Method: Panel EGLS (Cross-section random effects)

Date: 01/10/20 Time: 10:52
Sample: 2014 2018
Periods included: 5
Cross-sections included: 33
Total panel (balanced) observations: 165
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PAD	0.316401	0.065501	4.830436	0.0000
DAU	0.350220	0.070354	4.977979	0.0000
C	116597.8	43616.10	2.673274	0.0083

Y = 116597.8+ 0.316401β1PAD + 0.350220β2DAU + e

From the regression model above, it can be explained as follows:
1. The constant value is Rp. 1,165,978,000 stated that if there is no Regional Original Income (PAD) and General Allocation Fund (DAU), there will be a decrease in Capital Expenditure by Rp. 1,165,978,000
2. Regional Original Income (PAD) has a positive value of Rp. 316,401,000 indicates that every 1% increase in Regional Original Income will be followed by an increase in Capital Expenditure of Rp. 316,401,000 assuming the other variables are fixed.
3. The General Allocation Fund (DAU) has a positive value of Rp. 350,220,000 indicates that every 1% increase in the Special Allocation Fund will be followed by an increase in Capital Expenditure of Rp. 350,220,000, assuming the other variables are fixed.

4.5. Hypothesis testing
4.5.1. Partial Test (t test)

Table 4.8

T test results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
PAD	0.316401	0.065501	4.830436	0.0000
DAU	0.350220	0.070354	4.977979	0.0000
C	116597.8	43616.10	2.673274	0.0083

Source: Eviews 9 data processing

By looking at the t table where, df = 29 and α = 0.05, the t table value can be obtained, namely 2,0452.

1. First Hypothesis (H1)
    From the research results, the regression coefficient for the Regional Original Income (PAD) variable has a positive value and the t value is obtained 4.830436. The value of t count is greater than t table (4.830436> 2.0452)). So it can be concluded that local revenue partially has a significant effect on capital expenditures so that local revenue (PAD) can be accepted.
2. Second Hypothesis (H2)
    From the results of the research the regression coefficient for the General Allocation Fund variable has a positive value and it is obtained t count of 4.977979. The value of t count is greater than t table (4.977979 > 2.0452). So it can be concluded that the

General Allocation Fund partially has a significant effect on Capital Expenditures so that the General Allocation Fund (DAU) can be accepted.

4.5.2. Simultaneous Test (TEST F)
Table 4.9
F Test Results

Weighted Statistics

R-squared	0.513190	Mean dependent var	246204.8
Adjusted R-squared	0.507180	SD dependent var	93696.24
SE of regression	65775.85	Sum squared resid	7.01E + 11
F-statistic	85.38923	Durbin-Watson stat	2.023858
Prob (F-statistic)	0.000000		

Source: Eviews 9 data processing

Prob Value. (F-Statistic) of 0.000000 and a significance of (0.000000) <0.05 indicates that the regression model can be used to test the effect of the independent variable on the dependent variable. It also states that the regression model is good. So it can be concluded that Local Own Revenue (PAD) and General Allocation Fund (DAU) have an effect on capital expenditure.

4.5.3. The Coefficient of Determination (R^2)
Table 4.10
Determination Test Results

WeightedStatistics

R-squared	**0.513190**	**Mean dependent var**	**246204.8**
Adjusted R-squared	**0.507180**	**SD dependent var**	**93696.24**
SE of regression	**65775.85**	**Sum squared resid**	**7.01E + 11**
F-statistic	**85.38923**	**Durbin-Watson stat**	**2.023858**
Prob (F-statistic)	**0.000000**		

Source: Data processing *Eviews* 9

In the table above, it is known that the coefficient of determination seen from the value *Adjusted R Square* amounting to 0.5071 means that 50.71% of the Capital Expenditure variable can be explained by the two independent variables, namely Regional Original Income (PAD) and General Allocation Fund (DAU), while 49.29% is explained by other causes outside the research model.

4.6.   Interpretation of Research Results
4.6.1. The Effect of Local Own Revenue (PAD) on Capital Expenditures
The results of the t test that have been carried out in this study Regional Original Income (PAD) have a tcount of 4.830436 with a t table of2,0452. So that if the valuetcount 4.830436>2.0452 then the hypothesis is accepted. These results are in line with the research conductedKusnandar and Siswantoro (2012), Nuarisa (2013), Pelealu (2013), Wahyudin (2014) and Novianto and Hanafiah (2015) state that Regional Original Income (PAD) has a significant positive effect on capital expenditure. The existence of other factors that form regional revenue shows that local revenue is one of the formers of regional income. The entirety of the components of local revenue greatly affects capital expenditure.

4.6.2. The Effect of General Allocation Fund (DAU) on Capital Expenditure

The results of the t test that have been carried out in this study The General Allocation Fund (DAU) has a tcount of 4.977979 with a table of2,0452. So that if the valuetcount 4.977979>2.0452 then the hypothesis is accepted. These results are in line withJuwari, et al (2016) and Novianto and Hanafiah (2015) which state that the General Allocation Fund has a positive and significant effect on capital expenditure.

4.6.3 The Effect of Local Own Revenue (PAD) and General Allocation Funds (DAU) on Capital Expenditures

Based on the results of the research, it is found that the Regional Original Income (PAD) and the General Allocation Fund (DAU) simultaneously have a positive and significant effect on spending at the level of $\alpha = 0.05$ (5%) with a significance value of 0.000. This means that the Regional Original Income (PAD) and the General Allocation Fund (DAU) together have an effect on capital expenditure.

V.   CONCLUSIONS AND SUGGESTIONS
5.1.   Conclusion

This research was conducted to examine the effect of Regional Original Income (PAD), General Allocation Fund (DAU) on Capital Expenditures in Regencies / Cities of North Sumatra Province in the 2014-2018 period. Based on the results of the research and discussion that has been described, it can be concluded as follows:

1. There is a significant positive influence between Regional Original Income (PAD) on District / City Capital Expenditures in North Sumatra Province for the 2014-2018 period. This means that if there is an increase in Regional Original Income (PAD), capital expenditure will also increase. Conversely, if there is a decrease in Regional Original Income (PAD), the Capital Expenditure will also decrease. This indicates that Regional Original Income (PAD) can determine the amount of Capital Expenditures in Regencies / Cities in North Sumatra Province.

2. There is a significant positive effect between the General Allocation Fund (DAU) on Regency / City Capital Expenditures in North Sumatra Province for the 2014-2018 period. This means that if there is an increase in the General Allocation Fund (DAU), then the Capital Expenditure will also increase. On the other hand, if there is a decrease in the General Allocation Fund (DAU, the Capital Expenditure will also decrease. This indicates that the General Allocation Fund (DAU) can determine the amount of capital expenditure in regencies / cities in North Sumatra Province.

3. There is a significant positive effect between Regional Original Income (PAD) and General Allocation Funds (DAU) on District / City Capital Expenditures in North Sumatra Province for the 2014-2018 period. This means that together the Original Regional Income (PAD) and the General Allocation Fund (DAU) have increased or decreased, it will affect capital expenditure.

5.2.   Suggestion

Based on the conclusions that have been stated above, the authors provide the following suggestions:

1. For the Government
    The regional government as the authority in managing regional finances is expected to further increase the revenue of Regional Original Revenue (PAD) through local taxes, regional levies, the results of separated wealth management, and other legitimate regional original revenues, because an increase in local revenue will increase the value of capital expenditures. In addition, the regional

government also continues to strive to be able to obtain the General Allocation Fund (DAU) to be allocated to the public sector and manage the proper use of the General Allocation Fund (DAU) for capital expenditure financing.

2. For Further Researchers

Further research is expected to use other variables related to capital expenditures such as Special Allocation Funds, Profit Sharing Funds, non-financial variables such as local government policies and so on.

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