International Journal of
Economics Development Research, Volume 4(1), 2023
pp. 622-633

Local Original Revenue, General Allocation Fund and Number of Population to District/City Capital Expenditure in North Sumatra Province

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Abstract:

In the District/City Budget in North Sumatra Province, the allocation of Capital Expenditure is still relatively small when compared to other regional expenditures. The contribution of Regional Original Revenue to Regional Revenue is still not optimal. This explains that Regional Original Revenue has not been able to finance its Capital Expenditure. Capital Expenditure is budgeted for public services in the form of facilities and infrastructure where the Number of Population in Districts / Municipalities in North Sumatra Province continues to increase while Capital Expenditure fluctuates. This study aims to determine the effect of Regional Original Revenue, General Allocation Fund and Number of Population on Capital Expenditure of Districts / Municipalities in North Sumatra Province partially and simultaneously. The method used in this study is quantitative method. The sampling technique used is saturated sampling. The results showed that partially and simultaneously Regional Original Revenue, General Allocation Fund, and Number of Population affect Capital Expenditure. The results of research in North Sumatra Province regarding the variables of PAD, DAU and Number of Population have a relationship with Capital Expenditure. These three variables contribute to the capital expenditure variable. Which means that Regional Original Revenue, General Allocation Fund is a very important component for the government in running the wheels of government. These three variables can be used as considerations in allocating Capital Expenditure. From the results of this study, it is expected to provide input and information on the importance of optimizing regional potential in improving the quality of public services and regional progress to the government.

Keywords: *Capital Expenditure, General Allocation Fund, Number of Population, Local Original Revenue*

1. Introduction

Regional regulations regarding the regional budget are contained in Law No. 25 of 1999 which was later refined by Law No. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, which basically aims to minimize financial inequality between the central government and local governments (vertical imbalance), correct inter-regional inequality in financial capacity (horizontal imbalance), and increase public participation in taking decisions in the public sector.

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Regional autonomy and fiscal decentralization hope that regional governments will have greater independence in regional finance (Saragih, 2018). In increasing the independence of a region, local governments must strive to optimize their regional revenue potential. The sources of funds used to finance Capital Expenditure are Regional Original Revenue and Balancing Fund (DAU, DAK and DBH). The Balancing Fund is a fund transferred by the center for financial equality between regions. The provision of funds from the government is used to improve the development of an area both for education, health, building, irrigation, forestry, village facilities and infrastructure and so on so that public services can be maximized.Capital expenditure, which includes regional expenditure, should be taken into account because it is related to the sustainability of infrastructure development and public facilities. that local governments can provide services to the community optimally (Asmuruf et al., 2015). The following is data on Regional OriginalRevenue, General Allocation Funds, and Regional Revenue of North Sumatra Province for 2019-2021.

Table 1. Data on Regional Original Revenue, General Allocation Fund, District / City Revenue in North Sumatra Province in 2019 – 2021 (in thousands of rupiah)

Year	Local Revenue	General Allocation Fund	Regional Revenue	Local Revenue%	General Allocation Fund%
2020	5.077.073.554	20.465.232.757	40.971.080.000	12,39%	49,95%
2021	5.659.143.625	20.223.764.103	43.398.220.000	13,04%	46,60%

Source: North Sumatra Provincial APBD Budget Realization Report (http://www.djpk.kemenkeu.go.id), 2023

Based on table 1, it can be seen that each year the contribution of Regional Original Revenue to regional income only ranges from 12% - 13%. According to the DGT Regional Office of North Sumatra (2021), the contribution of Regional Original Revenue is said to be optimal if Regional Original Revenue is able to cover its own regional expenditures. Supposedly, with regional autonomy, it will provide an increase in Regional Original Revenue so that the region can finance its own regional needs including development and so on as the purpose of the decentralization system.

From the table above, it can be seen that the contribution of the General Allocation Fund to regional revenues is quite large, ranging from 45% - 50%. With the transfer from the central government, it aims to equalize regional finances so that fiscal inequality does not occur. Although the General Allocation Fund from the central government is quite large, the allocation for Capital Expenditure is relatively small compared to other regional expenditures. In fact, when viewed from the benefits, budget allocation to the Capital Expenditure sector is very useful and productive in providing public services and is a prioritized expenditure according to Permendagri No. 27 of 2013.

Table 2. Data on Regional Original Income, Capital Expenditure and Number of Population Districts/Municipalities in North Sumatra Province in 2019-2021 (In Thousands of Rupiah)

Year	Local Revenue	Capital Expenditure	Number of Population
2020	5.077.073.554	5.569.453.601	14.799.361
2021	5.659.143.625	6.124.471.778	14.936.148

Source: North Sumatra Provincial APBD Realization Report (http://www.djpk.kemenkeu.go.id) and BPS North Sumatra, 2023

From table 2 above, it can be seen that Capital Expenditure is greater than Regional Original Revenue which shows that Regional Original Revenue has not been able to finance its own regional Capital Expenditure, so it must be supported by transfer funds from the central government, namely the balancing fund consisting of DAU, DAK and DBH. The population always increases every year but Capital Expenditure does not always increase, which shows that there is still little use of Capital Expenditure for the construction of public facilities and services. The size of the population will be faced with how quickly the ability to increase the number of tools to satisfy needsand facilities and infrastructure for these needs (Handayani, 2019). According to the Director General of Balance in the Description and Analysis of the 2013 Regional Budget, the per capita Capital Expenditure ratio shows how much expenditure the government allocates for regional infrastructure development per inhabitant. Budget allocation is currently the main problem being faced in terms of the public sector, while budget allocation is the amount of fund allocation for each regional program (Sudika &; Budiartha, 2017).

In Vanesha's research (2019), it was found that Regional Original Income (PAD) has no effect on Capital Expenditure, while the results of research from Muttaqin et al (2021) stated that Regional Original Income is highly related to Capital Expenditure. Research by Dini et al (2021) states that the General Allocation Fund is closely related to Capital Expenditure, while the results of Kanaiya and Mustanda's (2020) research that the general allocation fund has no effect on capital expenditure. From Marseno and Mulyani's (2020) research, it was found that Population has no effect on Capital Expenditure, while the results of Emilia et al's (2021) research stated that Population has an effect on Capital Expenditure. This study aims at 1. To determine the effect of Local Original Revenue on Capital Expenditure. 2. To determine the effect of the General Allocation Fund on Capital Expenditure. 3. To determine the effect of Population on Capital Expenditure. 4. To determine the effect of Local Original Revenue, General Allocation Fund and Population together on Capital Expenditure.

2. Theoretical Background

This research was conducted to prove or test with literature methods. The theory underlying this research is Stewardship Theory. This theory describes a strong relationship between organizational satisfaction and success. The achievement of success in an organization can be achieved by maximizing situations where management is not motivated by individual goals but rather aimed at their main result targets for the benefit of the organization (Raharjo, 2007). Based on the Statement of Government Accounting Standards Number 2 of 2011, Capital Expenditure is a budget expenditure made by local governments in capital formation that has the function of adding fixed assets and other assets that benefit more than one accounting period. According to the Director General of Financial Balance in the Description and Analysis of the Regional Budget (2013), the per capita capital expenditure ratio shows how much expenditure the government allocates for regional infrastructure development per inhabitant. The ratio of capital expenditure per capita has a close relationship with economic growth because capital expenditure is one type of government expenditure that is a driver of economic growth. This ratio is useful to show the government's attention in improving the economy of its population from infrastructure development.

According to Law No. 23 of 2014 concerning Regional Government, Regional Original Revenue is revenue obtained by regions collected based on regional regulations in accordance with laws and regulations. Local Original Revenue has a significant role in determining the ability of regions to carry out government activities and development programs (Harahap et al., 2018). Local Original Revenue is the revenue obtained by the region collected by the local government for the implementation of government activities and services to the community, as well as the utilization of resources owned by the local government. According to Law of the Republic of Indonesia Number 33 of 2004, Regional Original Revenue Sources consist of regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate Regional Original Revenue. The General Allocation Fund is a block grant fund transfer, so that local governments have flexibility in using the General Allocation Fund in accordance with the needs and aspirations of each region (Halim, 2016: 127). The distribution of General Allocation Funds is based on regional income that tends to experience inequality between regions by considering regional needs and potentials. Based on Law of the Republic of Indonesia Number 33 of 2004, the total value of DAU as a whole is at least 26% of net domestic revenue in the State Budget. Area and population are things that must also be considered in the allocation of the General Allocation Fund. Simanjuntak et al (2019) stated that residents are those who live or are domiciled in a state territory. The population growth that occurs requires the government to make greater investment (Sukirno, 2016). Istayani (2013) also explains that knowledge about the population is important for government institutions. Regional planning will be more precise if everything is based on population data.

3. Methodology

In this study using quantitative methods. Quantitative research is a type of research based on the philosophy of positivism, used to examine certain populations orsamples, data collection using research instruments, quantitative or statistical data analysis, with the aim of testing hypotheses that have been applied (Sugiyono, 2018:52). The purpose of this study is to test four hypotheses developed based on previous theories and based on the problem under study, so that the approach used is quantitative methods. The population in this study is all data on local original income, general allocation funds and the number of districts/cities in North Sumatra Province in 2020-2021. Sampling is carried out using saturated sampling. Saturated sampling is a sampling technique when all members of the population are used as samples (Sugiyono, 2019). Research data collection uses documentation methods, namely collecting data obtained indirectly by collecting secondary data both personally and institutionally (Anwar, 2016). The secondary data is obtained from the officialwebsite of the Directorate General of Balance and the Central Statistics Agency. Thisstudy used descriptive statistical analysis, classical assumption test, multiple linear regression test and hypothesis test using spss 25 application. In the classical assumption test, there are several tests, namely the normality test, the multicholinerity test and the autocorrelation test.

4. Empirical Findings/Result

Table 3. Descriptive Statistical Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
SQRT_PAD	66	4074.40	30432.55	9820.4813	4466.39355
SQRT_DAU	66	17848.53	39064.95	24329.0891	4997.37745
SQRT_JP	66	228.80	1568.71	589.5487	291.19623
SQRT_BM	66	5188.45	23970.82	12780.8582	3747.41598
Valid N (listwise)	66				

Source : Results of Research Data Processing, 2023

The average of Local Original Income (PAD) is 9820.48 with a standard deviation of 4466,39 and a total of 66 data. The highest Regional Original Revenue (X1) value is 30432,55 (Deli Serdang Regency in 2021) while the lowest Regional Original Revenue (X1) value is 4074,40 (South Nias Regency in 2020). The average General Allocation Fund (DAU) is 24329.08 with a standard deviation of 4997,37 and a total of 66 data. The highest General Allocation Fund (X2) value is 39064,95 (Medan City in 2021) while the lowest General Allocation Fund (X2) value is 17848,53 (Pakpak Bharat District in 2021). The average population (JP) is 589,54 with a standard deviation of 291,19 and 66 data. The highest Population Value (X3) is 1568,71 (Medan City in 2021) while the lowest Population (X3) is 228,80 (Pakpak Bharat District in 2020). Average Capital Expenditure (BM) is 12780,85 with a standard deviation of 3747,41 and 66 data. The highest Capital Expenditure (Y) value was 23970,82 (Medan City in 2021) while the lowest Capital Expenditure (Y) value was 5188,45 (Humbang Hasundutan Regency in 2021).

Table 4. Non parametric Kolmogorov-Smirnov Test Results (K-S)

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		66
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	2512.38496040
Most Extreme Differences	Absolute	.068
	Positive	.068
	Negative	-.061
Test Statistic		.068
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Results of Research Data Processing, 2023

Based on the test results above, the value of Asymp. Sig (2.tailed) is 0.200 greater than 0.05, so it shows that the results of the normality test with non-parametric statistics the data are normally distributed.

Table 5. Multicholinerity Test Results

Coefficients[a]			
Model		Collinearity Statistics	
		Tolerance	VIF
1	SQRT_PAD	.473	2.116
	SQRT_DAU	.131	7.649
	SQRT_JP	.141	7.070

Source : Results of Research Data Processing, 2023

Based on table 5 above, the results of the multicholinerity test on each independent variable have a tolerance value of Regional Original Income of 0.473, General Allocation Fund of 0.131 and Total Population of 0.141. The three independent variables in this study have a tolerance value above 0.10 which means that there are no symptoms of multicholinerity. The results seen from the VIF of the three independent variables show a number below 10 with Local Original Income of 2,116, General Allocation Fund of 7,649 and Population of 7,070. So, it can be concluded that the regression model is free from multicholinerity between variables.

Table 6. Durbin Watson Autocorrelation Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.879[a]	.773	.762	1543.47027	2.024

Source: Results of Research Data Processing, 2023

Based on table 6 above, it can be seen that the value of the autocorrelation test using Durbin Watson is 2.024. The value will be compared with a table value with a significant level of 0.05 or 5% and a sample count of 66 and the number of independent variables 3 (k=3). Since the DW value of 2.024 is greater than the upper limit (DU) of 1.66864 and less than (4 – DU) 2.3313 or 1.66864 < 2.024 < 2.3313, it can be concluded that there is no autocorrelation.

Table 7. Multiple Linear Regression Analysis Test Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3708.156	2658.470		2.325	.168
	SQRT_PAD	.193	.062	.272	3.091	.003
	SQRT_DAU	.201	.106	.318	1.899	.062
	SQRT_JP	3.878	1.748	.357	2.218	.030

Source: Results of Research Data Processing, 2023

Based on the results of multiple linear regression analysis above, the multiple regression equation in this study can be obtained as follows: Y = 3708.15 + 0.19X1 + 0.20X2 + 3.87X3. From the results of the multiple linear regression equation above, the conclusions that can be drawn are as follows: 1. The value of constant (a) of 3708.15 is positive. This means that if the variables of Regional Original Income, General Allocation Fund and Number of Population do not change or = 0, it will increase Capital Expenditure by 3708.15. 2. The regression coefficient of Regional Original Revenue of 0.193 states that every time there is an increase in Regional Original Revenue of 1%, it will increase Capital Expenditure by 19.3%. 3. The regression coefficient of the General Allocation Fund of 0.201 states that every time there is an increase in the General Allocation Fund by 1%, it will increase Capital Expenditure by 20.1%. 4. The Population regression coefficient of 3.87 states that every time there is an increase in the Number of Population by one person, it will increase Capital Expenditure by 3.87%.

Table 8. Coefficient of Determination Test Results

Model Summary[b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.879[a]	.773	.762	1543.47027

Source : Results of Research Data Processing, 2023

From table 8 above, it can be seen that the coefficient of determination (R Square) is 0.773. This shows that the contribution of Local Original Revenue, General Allocation Fund, and Number of Population to Capital Expenditure is 77.3% while 22.7% is influenced by other factors.

Table 9. Simultaneous Test Results (f)

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	502518139.814	3	167506046.605	25.313	.000[b]
	Residual	410285082.301	62	6617501.327		
	Total	912803222.115	65			

Source: Results of Research Data Processing, 2023

The results of the simultaneous test (f) in the table above, to test the effect of Regional Original Income, General Allocation Fund, and Number of Population which has an f-count of 25,313 with a significance value of 0,000. This means that the significance level < 5% or 0.05 and the f-count is 25.313 > 2.75 which means that H4 is accepted, it can be concluded that Regional Original Revenue, General Allocation Fund, and Number of Population simultaneously affect and significant Capital Expenditure.

Table 10. Partial Test Results (t)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3708.156	2658.470		2.325	.168
	SQRT_PAD	.193	.062	.272	3.091	.003
	SQRT_DAU	.201	.106	.318	1.899	.062
	SQRT_JP	3.878	1.748	.357	2.218	.030

Source: Results of Research Data Processing, 2023

From table 4. Above it can be explained that: 1. Partial test results for H1 obtained t-count results of 3.091 with a significance of 0.003. The significant value for the influential Regional Original Income variable shows a value below the significance level of 5% or 0.05 and the t-calculated value is greater than the t-table value of 3.091>1.66864 which shows H1 received so that Regional Original Revenue has an effect and is significant on Capital Expenditure. 2. Partial test results for H2 obtained t-count results of 1.899 with a significance of 0.062. The significance value for the General Allocation Fund variable shows a value above the significant level of 5% or 0.05 and the t-calculated value is greater than the t-table value of 1.899>1.66864 which shows H2 received so that the General Allocation Fund has an effect and is not significant on Capital Expenditure. 3. Partial test results for H3 obtained t-count results of 2.218 with a significance of 0.030. The significant value for the variable Number of Population below the significance level is 5% or 0.05 and the t-count value is greater than the t-table value of 2.218>1.66864 which shows H3 is accepted so that the Number of Population has an effect and is significant on Capital Expenditure

5. Discussion

The Effect of Local Original Revenue on Capital Expenditure

Based on the results of the study, it can be concluded that Regional Original Revenue has a positive and significant effect on Capital Expenditure, this is seen in the t test, which is a significant value of 0.003 where the value is smaller than 0.05 and the t-count value of 3.091 > t-table 1.66864, so that the first hypothesis stating that Regional Original Revenue affects Capital Expenditure is accepted. According to Article 1 of Law Number 33 of 2004 concerning Financial Balance between the Center and the Regions, Regional Original Revenue is one of the sources of income for a region, where the revenue comes from the potentials owned by the region itself which is collected by the regional government based on regional regulations in accordance with laws and regulations. Based on the opinions of Saiful Huda and Ati Sumiati (2019), Local Original Income is an indicator of local government in terms of carrying out government duties, development and providing public services to the community. The high acquisition of Regional Original Revenue will prove the ability of the region to achieve regional expectations to become a financially independent region. Local governments are expected to make more efforts in optimizing their expected Local Original Revenue in order to finance regional expenditures and not hamper regional activities. If the Local Original Revenue of a region increases, then the funds owned by the local government will be higher so that the regional government must be able to explore the potentials that exist in the area. This can be interpreted that increasing Regional Original Revenue can affect a region's Capital Expenditure. This can explain that the higher the Local Original Revenue received by a region, the higher the government expenditure on Capital Expenditure as the responsibility of the local government to the community to provide good public services to the community through the Capital Expenditure budget. This research is in line with research conducted by Muttaqin et al (2021) entitled "Regional Original Revenue and Balancing Fund for Capital Expenditure" stating that Regional Original Revenue partially has a significant effect on Capital Expenditure. In addition, this research is also in line with Roy et al. (2020) research which states that Regional Original Revenue partially affects Capital Expenditure.

Effect of General Allocation Fund on Capital Expenditure
Based on the results of the research obtained, the General Allocation Fund has an effect but not significant on Capital Expenditure. This can be seen from the t-test where the significant number of 0.062 is greater than 0.05 and the t-count value of 1.899 > t-table 1.66864, so that the second hypothesis stating that the Effect of General Allocation Fund affects Capital Expenditure is accepted. Referring to Law of the Republic of Indonesia Number 33 of 2004 concerning Financial Balance between Regions and the Center, the General Allocation Fund is a fund sourced from State Budget (APBN) revenues allocated with the aim of equitable distribution of regional financial capacity to fund regional needs in the context of implementing decentralization. The autonomous regional government has the authority to regulate and take care of the interests of local communities with the aspirations of the community. This is because the General Allocation Fund is one of the transfer funds provided by the central government to regional governments with the aim of funding regional needs in the context of implementing decentralization. The more General Allocation Funds received means that the region is still highly dependent on the central government in meeting its Capital Expenditure. This can explain that the more General Allocation Funds received, the higher the Capital Expenditure spent to improve public services for the creation of public welfare. The results of this study are in line with research conducted by Dini et al (2021) which states that the General Allocation Fund has a significant effect on Capital Expenditure. However, this is contrary to the results of research from Kanaiya and Mustanda (2020) which states that the General Allocation Fund has no effect on Capital Expenditure.

The Effect of Population on Capital Expenditure
Based on the results of the research obtained, it can be concluded that the Number of Population affects Capital Expenditure. This can be seen in the t-test, significant of

0.030 where the value is less than 0.05 from the t-count value of 2.218 > t-table 1.66864, so that the third hypothesis of Population Population affects Capital Expenditure is accepted. According to Handayani (2019), the large population will be faced with how quickly the ability to increase the number of tools to satisfy needs and facilities and infrastructure for these needs. The population growth that occurs requires the government to make greater investment (Sukirno, 2016). This can explain that if the population is getting higher, it will require a larger capital expenditure budget allocation. Because the dense population requires more facilities and infrastructure as a condition for services to the public, resulting in the use of large capital expenditures in providing facilities and infrastructure for the community. The results of this study are in line with research conducted by Kiha et al (2021) stating that the Number of Population has a significant effect on Capital Expenditure. This is contrary to research conducted by Marseno and Mulyani (2020) which states that Population does not have a significant effect on Capital Expenditure.

The Effect of Local Original Revenue, General Allocation Fund, and Number of Population on Capital Expenditure

Based on the results of research obtained in simultaneous test (f), Regional Original Income, General Allocation Fund and Number of Population affect Capital Expenditure. This can be seen from the f test, a significance of 0.000 which is smaller than the significance level of 0.05 and the value in the f-count is 25.313 > the f-table is 2.75. Based on the amount of the coefficient of determination test (R Square), the Regional Original Revenue, General Allocation Fund and Number of Population affect Capital Expenditure where the R Square value is 0.773 or equal to 77.3%. This means that the analysis model used is able to explain the effect of Regional Original Income, General Allocation Fund and Number of Population on District/City Capital Expenditure in North Sumatra Province by 77.3%, while the remaining 22.7% is influenced by other factors that are not studied. Therefore, the fourth hypothesis of Local Original Revenue, General Allocation Fund and Number of Population has an effect on Capital Expenditure is accepted. This result can explain that Regional Original Revenue in the regions has been utilized optimally and regions are very free to utilize Regional Original Revenue in meeting Capital Expenditure. Areas that have high Local Original Income are better able to provide better public service facilities for their local communities, the availability of these facilities will be a factor in economic growth along with increasing community productivity. In addition, the increase in the amount of General Allocation Fund received by a region greatly determines how much the budgeted regional development target, especially Capital Expenditure intended for infrastructure development or facilities and infrastructure. Meanwhile, over time the population is increasing, it will require a larger allocation of capital expenditure as a form of public service by building more facilities and infrastructure needed by the communit

6. Conclusions

Conclusions based on testing and analysis are known that Regional Original Revenue and Number of Population have a significant effect on Capital Expenditure, while the

General Allocation Fund has an insignificant effect on Capital Expenditure. This can explain that Regional Original Revenue, General Allocation Fund, and Number of Population can affect the increase or decrease in Capital Expenditure for the public interest, namely facilities and infrastructure. In this study, researchers have limitations that may make this writing less than perfect, namely time constraints, making this study only intended for 2020-2021 only, although actually this study can be expanded again by changing samples for 3-5 years. Another limitation in this study is that the theoretical basis for the variables of Regional Original Income, General Allocation Funds, Number of Population and Capital Expenditure has not been very specific, there are only rules and laws that underlie these variables. This research can also be used as a reference in selecting and determining variables and it is expected that future research can use or add other variables that are wider in scope**.** The results of this study are also expected to provide input and information on the importance of optimizing regional potential in improving the quality of public services and regional progress to the government. Especially in increasing Regional Original Revenue by exploring regional potentials as an effort to increase fiscal independence.

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