

PROVINCIAL CAPITAL EXPENDITURE AND THE FACTORS INFLUENCE THE BUDGET: BEFORE AND AFTER THE GOVERNOR ELECTION

Rizal Yaya and Diah Savitri

Accounting Study Program, Faculty of Economics and Business

Universitas Muhammadiyah Yogyakarta

Corresponding Author: r.yaya@umy.ac.id

Abstract

This study aims to find out factors that have influence on capital expenditure in provincial government before and after the Governor election. It involved 32 provincial governments in Indonesia as the sample. The sampling technique was purposive sampling. The secondary data was obtained from the report of budget realization of provincial government in Indonesia. The methodology of analysis was multiple linear regression analysis. The result of this study shows that both local revenue and area size have positive effect on capital expenditure. Meanwhile, Special Allocation Fund has negative effect on capital expenditure. In overall, the independent variable explains 65.9% of the dependent variable, while the rests are influenced by other variables not analyzed in this study.

Keywords: Local Revenue, Special Allocation Fund, Area Size, Capital Expenditure

Introduction

Regional autonomy started in 1999 has changed the governmental system in Indonesia, from centralized into decentralized one. It has been emphasized that decentralization is a result of the significant gaps and inequalities between regions. In addition, the massive exploitation of natural resources of a region is not always accompanied by the optimal development of that region. Consequently, the communities and local governments demand the authority to regulate and manage their own affairs. With this authority, regional governments are able to develop the potential, manage natural resources appropriately, and improve the financial performance of their respective region (Nuarisa, 2013).

The delegation of authority to local government is followed by the money follow function stipulated in Law No. 25/1999 which was later amended by Law No. 33/2004 on Fiscal Balance between the Central Government and the Local Governments. Under this law, the

fiscal balance between the central and regional governments must be created with a fair, proportional, democratic, transparent and efficient distribution system in the framework of funding the implementation of fiscal decentralization.

Furthermore, regional autonomy also brings other implications, including those related to the regional elections (*pilkada*) held every five years. Such elections will surely be a significant regional financial burden. Moreover, there are other problems that potentially arise prior the election, including money politics. Subsequently, after being elected, regional heads will have the authority to submit a budget that will be formulated with the DPRD. Such authority, in fact, can be violated by irresponsible parties for their personal interests, particularly when they plan to take part in subsequent election period. One of the strategies is by setting certain expenses as a way to attract public attention to re-elect them.

The candidates for regional heads will also compete to expose their achievements while the

incumbent will highlight their best performances. Nevertheless, election is obviously a financial burden and conflict-prone issue. The use of the Local Revenue and Expenditure Budget (APBD) for personal interests is a common issue prior to the general elections (Winoto & Falikhatun, 2015). It is indicated by alleged budget irregularities and corruption carried out by regional heads approaching the election (Mietzner, 2011 as cited in Winoto & Falikhatun, 2015).

The authority of the local government in organizing and managing their domestic affairs also affects the control of the Local Revenue and Expenditure Budget (APBD) realization (Nurhidayati & Yaya, 2013). Briefly, this budget contains the total revenue and the total expenditure to be incurred by the local government. If a region is classified as a developed region, the balance funds from the central government will be lower since it is estimated that the expenditure will be covered by local revenue. In this context, that region has a regional autonomy. Briefly, local revenue can be an indicator for predicting the level of regional autonomy since it reflects the capacity of a region to fund its own needs (Hartati, 2013). It is also a main source obtained by exploring and optimizing the existing potential through various types of local revenue.

Despite the implementation of regional autonomy, fiscal inequality is still inevitable since each region have distinctive capabilities in financing their needs (Adyatma & Oktaviani, 2015). To solve this problem, the central government allots balance funds in the form of special allocation funds designed to assist specific needs of the local governments. As a parameter, the extent of a region becomes a consideration. Basically, a region with a larger area requires higher costs than that with narrower area.

One of the most concerned expenses is capital expenditure. Regulation of the Ministry of Finance No. 91/PMK.06/2007 on the Standard Chart of Account, capital expenditure is expenditure budget carried out to obtain or add fixed assets and other assets. The benefits of these assets are less than one accounting period and there is a minimum threshold of the capitalization of fixed assets or other assets determined by the government in which these assets must support the daily activities of a work unit and not for sale.

The significance of capital expenditure urges the local governments to pay attention to the

allocation of this expenditure due to its long-term usefulness for public services. It is particularly carried out to meet the needs of facilities and infrastructure in order to support the duties of government and operate the public services. It is also done to deal with fiscal decentralization (Nuarisa, 2013).

Based on the background, the present study investigates the differences in the allocation of capital expenditure before and after the governor election, as well as the effect of local revenue, special allocation fund and area size on the allocation of capital expenditure before and after the election.

1. Stewardship Theory

Stewardship theory defines situations in which managers are not motivated by individual goals, but rather with the goals of the organization. Basically, this theory is based on the psychological and sociological analyses in which stewards will attempt to accomplish the organizational goals. Donaldson, 1990, Donaldson & Davis, 1991, Donaldson & Davis, 1994, Nicholson & Kiel, 2007 in Ramadan (2014) claimed that this theory assumes that managers are trusted people and these managers are good investor resources.

In the public sector, Stewardship theory is used as a basis for a government which serves as a steward with the task of managing resources and people who have those resources. It explains that there are two parties, the servant and the served party. The aim of public sector organizations is to carry out public services and then report for its implementation. This theory also assumes that the achievement of organizational goals is to give satisfaction to the people. Stewards are responsible to manage resources optimally for achieving public satisfaction. Moreover, managers will ensure the objectives are aligned with the owner's goals. Yet, the stewards do not necessarily neglect their life necessities.

2. Signaling Theory

According to Signaling theory, the internal party as the owner of information will convey the information to external parties who will give a signal to investors in making investment decisions. It primarily explains the actions or decisions of the internal parties in deliberately conveying information that cannot be obtained by outside parties (Butar, 2014).

Connely et al., (2011) as cited in Butar (2014) suggested the information will be useful for other parties if it has two main characteristics, signal observability and signal costs. Marlinah (2014) affirmed that managers give signal to external parties or investors through financial statements in order to augment their organizations or companies in the future. Moreover, this disclosure will enable internal parties to know the actual conditions and more complete information.

3. Capital Expenditure

Regulation of the Minister of Home Affairs No. 13/2006 on Guidelines on Regional Financial Management Article 53 clarifies that capital expenditure is included as direct expenditure. It is defined as the expenditures used to purchase/procure or construct tangible fixed assets and there are benefits of more than twelve months to fulfill all government activities. Such expenditure can be in the form of land, equipment, machinery, buildings, roads, irrigation, and so forth.

Capital expenditure is an allocation of funds to increase fixed assets in which it has a useful life of more than one accounting period and contains special costs for maintenance and improvement to maintain the function and quality of assets owned by the government. Capital expenditure is a manifestation of local government in serving the public needs in the form of facilities and infrastructure. It also has another role, namely an investment that is expected to provide economical, social and other benefits for all parties as well as to improve the performance of local governments regarding public services.

Government Regulation No. 71/2010 on Government Accounting Standards in Appendix I. 01 states that the substantial amount of investment made by the government in the form of assets will indirectly become a source of income for the government itself. Such investments include bridges, roads, office buildings, reservation areas, and parks which are part of the government's capital expenditure.

4. Local Revenue (PAD)

Law No. 33 Article 1 of 2004 on Fiscal Balance between the Central Government and the Local Governments Article 1 states that local revenue is locally-raised revenue of a region collected based on a regional regulation (*Perda*) in implementation of Decentralization. Based on

the definition, it can be declared that all forms of income received by a region used to carry out government activities but in the collection must be in accordance with the stipulated provisions hence they are not allowed to collect carelessly.

Local revenue (PAD) is an account that reflects the level of a region's self-reliance in fulfilling its needs. The consequence of regional autonomy is that the local governments are insisted to carry out development—which is funded by the local revenue (PAD). Nevertheless, although the local governments have local revenue (PAD) as a source of income, the central government still provides the balance fund with an amount adjusted to the conditions of each region hence the amount is not necessarily equal among regions.

5. Special Allocation Fund (DAK)

Special allocation fund (DAK) is a fund allocated to a certain region to finance special activities of regional affairs. It is stipulated in Law No. 33/2004 particularly on the section of Special Allocation Fund (DAK). The activities have been determined in the State Revenue and Expenditure Budget (APBN). However, not all regions receive this fund since there are three criteria set by the government. The first is general criteria that shall be established with due regard to the regional financial capacity in the Local Revenue and Expenditure Budget (APBD). The second is special criteria that shall be established with due regard to the prevailing laws and regulations and the characteristics of the region. The third is technical criteria that shall be established by the State Ministry/Technical Department.

Special allocation fund (DAK) is a fund sourced from the State Revenue and Expenditure Budget (APBN) allocated to certain regions to reduce the burden of financing special activities such as regional affairs and national priorities (Nuarisa, 2013). Haryanto (2013) asserted that Special allocation fund (DAK) is a fund allocated in the State Revenue and Expenditure Budget (APBN) to finance special needs and it considers the amount of funds available in the APBN which indicates the amount cannot be ascertained annually.

Special allocation fund (DAK) is allocated to certain regions to meet their physical needs, facilities and infrastructure, which are the basic requirement for carrying out local government's affairs. These affairs include programs and

activities concerning health, education and so forth that refer to technical instructions set by the minister in accordance with the provisions of laws and regulations. It has been stated in Regulation of the Minister of Home Affairs No. 30 of 2007 on the Guidelines on Preparation of Local Revenue and Expenditure Budget (APBD).

6. Area Size

In the implementation of local government's affairs, area size is one of the factors that potentially affect the performance of local governments regarding public services. In fact, non-proportional number of staffs who carry out public services will hamper the objectives of the local government to meet the needs of its people. It eventually will have an impact on the quality of services. Afkarina and Hermanto (2017) confirmed that the wider the region, the higher the quantity of staff to provide public services.

In addition to the quantity of staffs, area size will also increase the number of the required facilities and infrastructure, i.e., buildings, roads and lighting. They are fundamental to provide educational and public health needs. Moreover, area size is relatively proportional to the population that necessitates higher number of roads for transportation. High population that is not balanced with broader and higher number of roads will cause traffic congestion.

Basically, area size influences the cost incurred for the development of a region. Local governments have to allocate a special budget to carry out development and meet all community needs at once. They must be fully considerate in allocating both revenues and expenditures to meet the needs of all parties, without harming any party.

Previous Studies and Hypothesis Development

1. Local Revenue (PAD) and Capital Expenditure

A region equipped with well-built facilities and infrastructure has a propensity to support the productivity of the community and to attract investors so that it can enhance its local revenue (PAD). Development carried out by the local government will surely affect its revenue. Therefore, decentralization in a variety of public sector facilities is primarily designed to support the local revenue (PAD). There is a correlation between the local revenue (PAD) and the allocation of local

capital expenditure that has been set annually.

In addition, public satisfaction towards the government's services will likely to influence the image of the head of the region. Especially when the election period is approaching, the good image of the regional head will obviously be an added value.

Previous studies carried out by Kusnandar and Siswanto (2012), Fatmawati and Riduwan (2013) and Nurzen and Riharjo (2016), have revealed that local revenue (PAD) has a positive effect on capital expenditure. It is confirmed by Haryanto (2013) in which the increase in local revenue is estimated to be directly proportional to the increase in capital expenditure, signifying the better quality of public services of a region. On the contrary, Adyatma and Oktaviani (2015) reported an opposite finding of insignificant correlation between local revenue and capital expenditure. This finding is similar to the research conducted by Hartati (2013). Based on the explanation, the following hypotheses are developed:

H_{1a}: Local revenue (PAD) has a positive effect on capital expenditure before the election

H_{1b}: Local revenue (PAD) has a positive effect on capital expenditure after the election

2. Special Allocation Fund (DAK) and Capital Expenditure

Special allocation fund (DAK) is the balance funds budgeted by the central government in the State Revenue and Expenditure Budget (APBN). It is used by the local government to finance special activities of regional affairs and national priorities. It is also arranged to reduce the special costs that must be incurred by the local government. Among the activities funded by the local revenue (DAK) are construction, procurement and improvement of facilities and infrastructure intended for public services that have a long-term economic life.

The findings of studies carried out by Sari (2015), Wandira (2013), and Nurhidayati and Yaya (2013) have shown that the special allocation fund (DAK) had a positive effect on capital expenditure for public services. In addition, Nuarisa (2013) reaffirmed similar finding. It reinforces the existence of a relationship between special allocation fund (DAK) and capital expenditure budget. Nevertheless, this result is different from Wahyudi and Handayani (2015) and Heliyanto and Handayani (2016) in which special allocation fund (DAK) has a negative effect on capital

expenditure. Based on the explanation above, the following hypotheses are developed:

H_{2a}: Special allocation fund (DAK) has a positive effect on capital expenditure before the election

H_{2b}: Special allocation fund (DAK) has a positive effect on capital expenditure after the election

3. Area Size and Capital Expenditure

The size of a region will affect the quantity of human needs. Therefore, the local government is required to provide sufficient facilities and infrastructure as well as public services in order to meet the needs of the wider community. Otherwise, the daily activities will be hindered by the lack of public facilities that should be provided by the government. Considering its importance, the local government must be decisive in determining the amount of the capital expenditure budget to meet all the public needs in accordance with area size.

Afkarina and Hermanto (2017) suggested the broader the size of a region, the greater the required facilities and infrastructure in order to maintain good public services. Therefore, the heads of the local governments of larger regions will need a higher budget than those with smaller regions.

Essentially, previous studies conducted by Afkarina and Hermanto (2017), Sholikhah and Wahyudin (2014), and Kusnandar and Siswantoro (2012), stated that area size has a positive effect on capital expenditure. It is distinctive from Fatmawati and Riduwan (2013) who stated otherwise. Based on the explanation above, the following hypothesis is developed.

H₃: Area size has a positive effect on capital expenditure before the election

4. Capital Expenditures Before and After the Election of Regional Heads

Issues regarding events that occur prior to the election will become the public spotlight, including those related to money politics and campaigns. Alleged budget irregularities are sensitive issue when approaching the election or the end of the period of regional heads and re-nominating for the second period. The incumbent will have a considerable opportunity to utilize the budget on the expenses for personal interests ahead of the election (Ritonga & Alam, 2010). Kompas.com has unveiled a large-scale distribution of grants and social assistance that occur before the election. Therefore, the government needs to pay

attention in preparing budgets for social programs. Based on the explanation, the research hypothesis is developed, namely:

H₄: The amount of capital expenditure before the election is higher that after the election.

Research Method

1. Object

The present study is conducted at the provincial government in Indonesia. The period is determined, namely before and after the governor' election. The samples are all provincial governments in Indonesia that have complete data based on the variables to be examined.

2. Type and Source of Data

The type of data to be analyzed is secondary data. The data are obtained from the existing sources of data, i.e., internal records/documentation, archives, financial reports, or other literature. In the present study, the financial reports that had been published by the provincial governments became the source of data. Furthermore, the data of area size was obtained from the Ministry of Home Affairs.

3. Sampling Technique

The sampling technique used in the present study is a purposive sampling technique. Purposive sampling is random sampling carried out based on unique or predetermined criteria (Cooper & Schindler, 2017). It is one type of non-probability sampling. The criteria specified in selecting the sample are:

- a. Provincial governments that have financial reports before and after the period of governor election. It has been issued by the Directorate General of Fiscal Balance.
- b. Provincial governments that have comprehensive financial report data according to the variables determined in the present study.
- c. Provincial governments that have the data of total area by 2013 and the following years.

4. Data Collection

In the present study, the data were collected through documentation derived from both internal and external sources. Internal sources, in the form of financial documents and databases of the

relevant provincial government, were obtained from the Directorate General of Fiscal Balance. Meanwhile, external source of the data of area size was obtained from the official website of the Ministry of Home Affairs.

Operational Definitions of the Variables

1. Capital Expenditure
Capital expenditure is the fund used to acquire tangible fixed assets. These assets have an economic life of more than one year and are useful for supporting the government activities. Fixed assets sourced from capital expenditure are capital formation with benefits values of more than one accounting period. Nevertheless, specific improvement and maintenance cost is required to maintain the functions of these assets. The amount of capital expenditure is disclosed in the budget realization report on the expenditure, specifically the capital expenditure account.
2. Local Revenue (PAD)
Local revenue (PAD) is all income received by the local governments from the economic resources of the region. In this context, the amount of the local revenue (PAD) reflects

- the autonomy of a region. It can be calculated by summing all types of revenue received by a region.
3. Special Allocation Fund (DAK)
Special allocation fund (DAK) is a fund transferred by the central government to a certain region in which it has been allocated in the State Revenue and Expenditure Budget (APBN). This fund is designed to finance all activities specifically for regional affairs in accordance with the priorities that have been set previously. The amount of special allocation funds (DAK) will differ from one another between regions. Nevertheless, the amount of fund is exposed in the budget realization report on the balance fund account, specifically the special allocation fund (DAK).
 4. Area Size
Area size is related to the geographical area of a region. The larger the area, the higher the required resources. Therefore, the local government of a large area shall underline the infrastructure that will be utilized by people to support their economic activities. The data of total area of all provinces in Indonesia is

published by the Ministry of Home Affairs.

Results and Discussion

a. Test of Normality

Table 1. The Result of Normality Test

Variable	Kolmogorov-Smirnov			Description
	Statistic	Df	Sig.	
Unstandardized Residual (Pre-election)	.124	50	.53	Normal
Unstandardized Residual (Pro-election)	.106	49	.200	Normal

Source: Secondary data, processed (2018)

Table 1 shows the unstandardized residual of the pre-election is indicated by *p* value of 0.53 or *p* > 0.05, which means the residual value of the

regression equation is normally distributed. The unstandardized residual of the post-election has *p* value of 0.200 or *p* > 0.05, which means the residual value of the regression equation is also

normally distributed.

b. Multicollinearity Test

Table 2. The Result of Multicollinearity Test after the Election

Variable	Collinearity Statistics		Description
	Tolerance	VIF	
PAD (Pre-election)	.844	1.185	No multicollinearity
DAK (Pre-election)	.569	1.757	No multicollinearity
AS (Pre-election)	.620	1.614	No multicollinearity
PAD (Post-election)	.768	1.302	No multicollinearity
DAK (Post-election)	.768	1.302	No multicollinearity
AS (Post-election)	.999	1.001	No multicollinearity

Source: Secondary data, processed (2018)

Table 2 shows the tolerance value of the variables of local revenue (PAD), special allocation fund (DAK) and area size (AS) before the election is greater than 0.10 while the VIF value obtained is

lower than 10 hence it can be interpreted that there is no multicollinearity symptoms. Subsequently, the tolerance value of those variables after the election is greater than 0.10 while the VIF value is lower than 10, it can be concluded that this

regression model passed the multicollinearity test.

c. Heteroscedasticity Test

Table 3. The Result of Heteroscedasticity Test

Variable	Sig.	Description
PAD (Pre-election)	.060	No heteroscedasticity
DAK (Pre-election)	.079	No heteroscedasticity
AS (Pre-election)	.648	No heteroscedasticity
PAD (Post-election)	.174	No heteroscedasticity
DAK (Post-election)	.164	No heteroscedasticity
AS (Post-election)	.200	No heteroscedasticity

Source: Secondary data, processed (2018).

The results presented in Table 3 shows that *p* value of the examined variables before the election is greater than 0.05, which means there

is no heteroscedasticity. While after the election, *p* value of each variable is also greater than 0.05. So, the interference is, heteroscedasticity does not exist.

d. Autocorrelation Test

Table 4. The Result of Autocorrelation Test

Pre-election				
N	DU	Durbin-Watson	4-DU	Description
50	1.6739	1.979	2.3261	Negative autocorrelation
Post-election				
N	DU	Durbin-Watson	4-DU	Description
49	1.6723	1.728	2.3277	Negative autocorrelation

Source: Secondary data, processed (2018).

Table 4 shows the DU before the election is 1.6739 according to the Durbin-Watson Table with the number of data of 50 and the number

of independent variables of three variables. The result is $DU < DW < (4-DU)$ or $1.6739 < 1.979 < 2.3261$, negative autocorrelation exists. While after the election, $DU < DW < (4-DU)$ or $1.6723 < 1.728 < 2.3277$. So, it can be claimed that the data obtained in this study has no autocorrelation

and the dependent variable.

Table 5. The Result of Multiple Linear Regression Analysis

Pre-election			
Model	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	286,791,272,875.626	64,957,033,570.277	.000
PAD	.094	.016	.000
DAK	-3.036	1.918	.120
AS	4.107	.555	.000
Post-election			
Model	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	216,560,141,288.388	34,067,485,183.886	.000
PAD	.116	.007	.000
DAK	.002	.032	.948

Source: Secondary data, processed (2018).

Based on the result of multiple linear regression analysis, the equation is expressed as follows:

$$BM = 286,791,272,875.626 + 0.094 \text{ PAD} - 3.036 \text{ DAK} + 4.107 \text{ AS} + e$$

T-Test (Partial Model)

a. Hypothesis Testing (H_{1a})

From the results of this calculation, the B coefficient of 0.094 indicates the direction aligned with hypothesis and $p = 0.000$ or $p < 0.05$ indicates the local revenue (PAD) has positive effect on capital expenditure before the election. This result is in line with the first hypothesis thus H_{1a} **is accepted**.

b. Hypothesis Testing (H_{1b})

Table 5 shows the B coefficient of the local revenue (PAD) variable is 0.116 with a positive direction corresponds to the hypothesis, and $p = 0.000$ or $p < 0.05$ hence it indicates the significant effect of the variable. This result is in line with the second hypothesis: the local revenue has a positive effect on capital expenditures after the election, H_{1b} **is accepted**.

problem.

e. Multiple Linear Regression Model

Multiple linear regression is a regression analysis model that involves more than one independent variable. This model reveals the relationship between the independent variables

c. Hypothesis Testing (H_{2a})

Table 5 shows the value of B coefficient is -3.036 in which it does not correspond to the hypothesis. Moreover, $p = 0.120$ or $p > 0.05$, which means the special allocation fund (DAK) has a positive effect on capital expenditures before the election. This result is not in line with the hypothesis testing, H_{2a} **is rejected**.

d. Hypothesis Testing (H_{2b})

The variable of special allocation fund (DAK) after the election has the B coefficient of 0.002 hence the direction is in line with the hypothesis. Nevertheless, $p = 0.948$ or $p > 0.05$ thus the variable has insignificant effect. Therefore, the hypothesis that the special allocation fund (DAK) has a positive effect on capital expenditures after the election is not in line with the hypothesis testing, H_{2b} **is rejected**.

e. Hypothesis Testing (H_3)

Table 5 shows that the value of coefficient B is 4.107, which is in line with the hypothesis. Meanwhile, $p = 0.000$ or $p < 0.05$, which means the area size has a positive effect on capital expenditure before the election. This result is in line with the hypothesis testing, H_3 **is accepted**.

Coefficient of Determination (R²)

Table 6. The Result of Coefficient of Determination (R²)

Model	R	R Square	Adjusted R Square
1	.824 ^a	.680	.659

Source: Secondary data, processed (2018)

Based on the test, the value of the adjusted R square is 0.0659, indicates the independent variables of local revenue (PAD), special allocation fund (DAK) and area size explain 65.9% of capital

expenditure. Meanwhile, the remaining 34.1% can be attributed to unknown variability or variables not examined in the model.

Paired Sample T-Test

Table 7. The Result of Paired Sample Statistics

	Mean	N
Before	844,183,597,913.75	64
After	1,176,354,487,082.05	64
	Sig. (2-tailed)	
Before-After	.004	

Source: Secondary data, processed (2018)

Based on Table 7, the p-value denoted by “Sig. (2-tailed)” is 0.004, which means there is a difference in the capital expenditure before and after the election. The table also shows the mean of capital expenditure before the election is 844,183,597,913.75 while after the election is 1,176,354,487,082.05. This result shows the capital expenditure after the election is greater than before the election. The hypothesis (H₄) states that capital expenditure before the election is higher than after the election is not in line with the hypothesis, H₄ is rejected.

Discussion

1. The Effect of Local Revenue (PAD) on Capital Expenditure (H_{1a} and H_{1b})

Based on the test results, the local revenue (PAD) has a positive effect on capital expenditure. In fact, the local revenue collected by the provincial government is able to increase income for the region. It becomes the opportunity for the government to explore every potential that exists in a region, instead of depending solely on balance funds from the central government. Increasingly genuine local revenue is able to assist local government’s expenditure, specifically to meet public needs by directly providing public facilities.

The result of the present study is dissimilar from Adyatma and Oktaviani (2015) and Hartati

(2013). These studies claimed that local revenue (PAD) has a negative effect on capital expenditure, particularly due to the increase in local revenue that is frequently used to finance other expenditures (e.g., routine expenditure or operational expenditure). Hartati (2013) also reaffirmed the case by arguing local revenue (PAD) merely contributed 10.31% of the total regional revenue obtained by Balikpapan city for the period 2002-2011. Shortly, local revenue (PAD) has negative effect on capital expenditure.

Meanwhile, the findings reported by Kusnandar and Siswanto (2012), Nurzen and Riharjo (2016), and Haryanto (2013) reinforce the positive effect of local revenue (PAD) on capital expenditure. The increase in local revenue (PAD) has an impact on the increased allocation of capital expenditure that will assist the local government in the infrastructure development, and will eventually facilitate the economic productivity of the region. It means that local revenue (PAD) has a significant role in supporting the regional development.

2. The Effect of Special Allocation Fund on Capital Expenditure (H_{2a} and H_{2b})

Based on the test results, the special allocation fund (DAK) has negative effect on capital expenditure. It is the result of its insignificant contribution on the activities of capital expenditure.

Special allocation fund (DAK) allocated to certain regions with the aim of financing specific activities in which the amount is different between the regions. The amount leads to the negative effect of this fund on capital expenditure budget. In addition, capital expenditure has been supported by the local revenue (PAD) which sufficiently assists the budget for the procurement of fixed assets or other assets.

Special allocation fund (DAK) has a negative effect on capital expenditure because the examined data consists of different fiscal years. Therefore, it is possible that there are distinctive policies between regions, which are definitely influential in every budget allocation. Moreover, developed regions will be more assertive in optimizing the benefit of the budget.

The finding in the present study is in line with those reported by Heliyanto and Handayani (2016) as well as Wahyudi and Handayani (2015) in which special allocation fund (DAK) has a negative effect on capital expenditure. Heliyanto and Handayani (2016) examined the Local Governments in East Java and found out they did not rely on the special allocation fund (DAK) due to the existence of local revenue (PAD), general allocation fund (DAU), and revenue sharing fund (DBH) as the source of capital expenditure. In addition, the insignificant amount of special allocation fund (DAK) leads to its small contribution in supporting regional capital expenditure. Moreover, the allocation of this fund has been determined by the central government thus it cannot be used imprecisely by the local government.

Negative effect of special allocation fund (DAK) on capital expenditure as reported in the present study contradicts the finding of Nuarisa (2013), Wandira (2013), and Sari (2015). They argued that special allocation fund (DAK) is transferred by the central government to certain regions with financial issues for carrying out public services or specific activities, so this fund will increase capital expenditure. According to Wandira (2013), balance fund is distributed to build and prosper the people through the management of regional wealth as well as the development of regional infrastructure by allocating the budget to the capital expenditure sectors.

3. The Effect of Area Size on Capital Expenditures (H_3)

The test results have revealed the positive

effect of area size on capital expenditure. This factor has an impact on the amount of budget for people well-beings. It is assumed that the larger the area, the higher the amounts of funding required for development activities or public services. Appropriate infrastructure will facilitate both the government and community activities. It potentially attracts investors to make investment so that the economic activities of the region will flourish.

The finding of this study is in line with the research conducted by Afkarina and Hermanto (2017), Kusnandar and Siswanto (2012), and Sholikhah and Wahyudin (2014) in which the size of the region has a positive effect on capital expenditure. Regions with a larger area will need more facilities and infrastructure. Therefore, the estimated capital expenditure will also be greater. Proper allocation of capital expenditures will advance and improve the welfare of the local people in terms of economic activities with the support of public facilities.

So far, none of previous studies has specifically reported the negative effect of area size on capital expenditure. Fatmawati and Riduwan (2013) argued the negative effect of area size on direct expenditure which consists of capital expenditure, employee expenses and others. This study was conducted at districts/cities in East Java where regions with large areas are still constrained in optimizing local revenues, hindering regional development activities.

4. Capital Expenditure: Before and After the Election (H_4)

One of the findings of the present study has shown the mean capital expenditure before the governor election is lower than after the election. The strict supervision towards the allocation of the capital expenditure budget becomes a possible reason. Consequently, there is no leeway for regional heads to exploit the budget for personal gain. In addition, the amount of capital expenditure is increasing every year in order to improve the quality of public services and to provide public facilities. Therefore, the subsequent budget will be higher than the previous year due to the increase in the expenditure.

In the Activity Budget Plan (RAK), the allocation of each budget has been clearly defined to prevent any irregularities. It is linked to the direct benefits of capital expenditure to public in

general. Unlike the budget for social funds which distribution are only given to certain groups or organizations, capital expenditure cannot be used by regional heads to perform their personal agenda toward the recipient of such funds. The allocation of social funds is also related to the condition of each region, especially the number of people who need assistance.

Ritonga and Alam (2010) have unveiled the case where the incumbent uses the Local Revenue and Expenditure Budget (APBD) for personal campaign. Social assistance budget and grants became the camouflage. It was indicated by the higher amount of expenditure in the forms of social grants and assistances during the election period. Likewise, *kompas.com* published the statement of Ade Irawan, the Deputy Coordinator of Indonesia Corruption Watch (ICW), in which approaching the election, there will be massive deviation of grants and social assistance funds.

Conclusion, Recommendation and Research Limitation

This study aims to obtain empirical evidence regarding the effect of several factors on the provincial capital expenditure in Indonesia, particularly before and after the governor election. Based on the findings, it can be concluded that the capital expenditure before the election is not greater than after the election. The local revenue (PAD) has a positive effect on capital expenditure before and after the election, the special allocation fund (DAK) has a negative effect on capital expenditure before and after the

election, and the area size has an effect on capital expenditure.

Furthermore, there are several research limitations that can be improved for further studies, namely:

1. Variables used to predict capital expenditure are only limited to three variables, namely local revenue, special allocation fund and area size.
2. Capital expenditure is used as the variable to estimate the campaign strategy for the incumbent at local government level, yet this study is not limited to provinces whose incumbents are planning to compete in subsequent election.
3. Samples are limited to the scope of the provincial government instead of the entire lines of the local government.

Based on the research limitations, several recommendations are formulated, namely:

1. Broader sample, at least 100 districts/cities to represent each region in Indonesia.
2. The inclusion of other independent variables which allegedly influence capital expenditure, i.e., general allocation fund (DAU), SiLPA, GRDP, and economic growth, to enhance the predictive value.
3. The inclusion of grants or social assistances as dependent variable due to its close relationship with the campaign before the election, namely through social assistance rather than capital expenditure.
4. Area size as a control variable since it has a fixed value.

REFERENCES

- Adyatma, E., & Oktaviani, R. M. (2015). Pengaruh pendapatan asli daerah dan dana alokasi umum terhadap belanja modal dengan pertumbuhan ekonomi sebagai pemoderasi. *Dinamika Akuntansi, Keuangan dan Perbankan*, 190-205.
- Afkarina, Z., & Hermanto, S. B. (2017). Pengaruh PAD, DAU, SILPA dan luas wilayah terhadap belanja modal. *Jurnal Ilmu dan Riset Akuntansi*, 1-18.
- Butar, S. B. (2014). Implikasi regulasi pasar modal terhadap motif manajemen laba: Pengujian berbasis teori pesinyalan. *Jurnal Akuntansi dan Keuangan Indonesia*, 99-119.
- Cooper, D. R., & Schindler, P. S. (2017). *Metode penelitian bisnis*. Jakarta: Salemba Empat.
- Fatmawati, S., & Riduwan, A. (2013). Pengaruh pendapatan asli daerah, dana alokasi umum, sisa lebih pembiayaan anggaran dan luas wilayah terhadap belanja langsung. *Jurnal Ilmu dan Riset Akuntansi*, 1-19.
- Hartati, H. D. (2013). Pengaruh produk domestik regional bruto, pendapatan asli daerah dan dana alokasi umum terhadap belanja modal di kota Balikpapan. *Ekonomika-Bisnis*, 113-130.

- Haryanto, S. (2013). Analisis pengaruh PAD, DAU, dan DAK terhadap belanja modal dan belanja barang dan jasa kota dan kabupaten di provinsi Jawa Timur tahun 2006-2012. *Modernisasi*, 140-160.
- Heliyanto, F., & Handayani, N. (2016). Pengaruh PAD, DAU, DAK dan DBH terhadap pengalokasian anggaran belanja modal. *Jurnal Ilmu dan Riset Akuntansi*, 1-17.
- Kepala daerah “rela” korupsi demi pilkada, mengapa demikian?. (n.d.). Retrieved 28 February 2018, from <https://www.kompas.com>
- Kusnandar, & Siswantoro, D. (2012). Pengaruh dana alokasi umum, pendapatan asli daerah, sisa lebih pembiayaan anggaran, dan luas wilayah terhadap belanja modal. *Simposium Nasional Akuntansi XV*, 1-20.
- Marlinah, A. (2014). Pengaruh kebijakan modal kerja dan faktor lainnya terhadap profitabilitas perusahaan manufaktur. *Jurnal Bisnis dan Akuntansi*, 103-113.
- Nuarisa, S. A. 2013. Pengaruh PAD, DAU dan DAK terhadap pengalokasian anggaran belanja modal. *Accounting Analysis Journal*, 89-95.
- Nurgiyantoro, B., Gunawan, & Marzuki. (2015). *Statistik terapan untuk penelitian ilmu sosial*. Yogyakarta: Gadjah Mada University Press.
- Nurhidayati, L. L., & Yaya, R. (2013). Alokasi belanja modal untuk pelayanan publik: Praktik di pemerintahan daerah. *Jurnal Akuntansi dan Auditing Indonesia*, 102-114.
- Nurzen, M., & Riharjo, I. B. (2016). Pengaruh pertumbuhan ekonomi, pendapatan asli daerah dan dana alokasi umum terhadap belanja modal. *Jurnal Ilmu dan Riset Akuntansi*, 1-16.
- Ramadan, E.-F. (2014). Board of directors and Tobin's Q: Evidence from U.K. Firms. *Journal of Finance and Accounting*, 82-99.
- Ritonga, I. T., & Alam, M. I. (2010). Apakah incumbent memanfaatkan anggaran pendapatan dan belanja daerah (APBD) untuk mencalonkan kembali dalam pemilihan umum kepala daerah (Pemilukada). *Simposium Nasional Akuntansi XIII Purwokerto*, 1-25.
- Sari, D. N. (2015). Pengaruh dana alokasi umum, dana alokasi khusus dan pendapatan asli daerah terhadap alokasi belanja modal. *Jurnal Akuntansi dan Sistem Teknologi Informasi*, 127-134.
- Sholikhah, I., & Wahyudin, A. (2014). Analisis belanja modal pada pemerintah kabupaten/kota di Jawa. *Accounting Analysis Journal*, 553-562.
- Wahyudi, M. V., & Handayani, N. (2015). Pengaruh pajak, retribusi, DAU, dan DAK terhadap alokasi anggaran belanja modal. *Jurnal Ilmu dan Riset Akuntansi*, 1-17.
- Wandira, A. G. (2013). Pengaruh PAD, DAU, DAK dan DBH terhadap pengalokasian belanja modal. *Accounting Analysis Journal*, 44-51.
- Waspada Penyimpangan Dana Hibah dan Bansos. (n.d.). Retrieved 20 January 2018, from <https://www.kompas.com>
- Winoto, A. H., & Falikhatun. (2015). Indikasi penyalahgunaan discretionary fund dalam anggaran pendapatan dan belanja daerah menjelang pilukada 2015. *Jurnal Akuntansi dan Keuangan Indonesia*, 75-91.