

## REINFORCING CAPITAL EXPENDITURES AND REGIONAL REVENUES FOR IMPROVING REGIONAL FINANCIAL PERFORMANCE IN KAMPAR REGENCY

Syahrial Abdi <sup>a\*)</sup>, Bahrullah Akbart <sup>a)</sup>, Dedeh Maryani <sup>a)</sup>, Marja Sinurat <sup>a)</sup>, Panji Patra Anggaredho <sup>b)</sup>

<sup>a)</sup> Institut Pemerintah Dalam Negeri, Sumedang, Indonesia

<sup>b)</sup> Institut Teknologi dan Bisnis Ahmad Dahlan, South Tangerang, Indonesia

<sup>\*)</sup>Corresponding Author: Syahrial@gmail.com

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**Abstract.** This study aims to find out how reinforcing capital expenditures and regional revenues can improve regional financial performance in Kampar Regency. Sources of data for this study encompass primary data which includes in-depth interviews with informants and secondary data which includes all documentation relevant to this study such as laws and regulations, articles, reports, etc. The observation period in this study was from 2017-2020 which encompasses three main variables. *First*, the regional financial performance variable, which is including 4 dimensions: (1) the level of regional financial independence, (2) the level of financial dependence, (3) the degree of decentralization, and (4) the effectiveness of Local Own-source Revenue. Second, the capital expenditures variable is including 1-dimension, fixed asset spending. Third, the regional revenues variable is including to 1 dimension, the regional revenues component. The results of this study are that: (1) the regional financial performance variable in Kampar Regency has a very low level of regional independence, a very high financial dependency, a very low degree of decentralization and a high level of Local Own-source Revenue effectiveness. (2) In the capital expenditures variable, the allocation of capital expenditure to the realization of regional expenditure is still not optimal, with the largest allocation of the construction of roads, irrigation, and networks that are useful for stimulating the economy. Meanwhile, in the aspect of maintaining its assets, the costs set aside are inadequate. (3) Then on the regional revenues variable, the average regional revenues component of Kampar Regency contains (a) Local Own source Revenue (11.03%) which is dominated by contributions from local taxes. (b) Transfer revenue (85.37%) which is dominated by contributions from central government transfers – balancing funds. (c) Other revenue (3.61%). For improving regional financial performance, we propose to carry out a reengineering by reinforcing capital expenditures and regional revenues.

**Keywords:** regional financial performance, capital expenditures, regional revenues, reengineering.

### I. INTRODUCTION

Many countries that adopt a centralized system have experienced many failures so decentralization has begun to be considered as an alternative and has been implemented in the majority of countries throughout the world from Asia, Africa to America. [1]. The trend of global change from centralization to decentralization was motivated by the emergence of disillusionment with centralized policies that demanded how welfare could be spread and distributed in every region through the distribution of resources and powers. [2][3]. Decentralization has a definition as the transfer of power, responsibility, and resources from a high level to a lower level of government. [4]. The transfer from the central government to regional governments includes (1) administrative decentralization, which means the transfer of authority in government administrative matters such as education services, health, licensing, and others. (2) fiscal decentralization, which means the delegation of authority in financial matters which can be in the form of transfers of funds from the central government and/or the delegation of authority in collecting income in the form of both tax and non-tax and also authority in regional expenditure. (3) Political decentralization, is the

authority of the regions to elect their executive leaders and members of the legislature and make their regional regulations. [4][5]. There are several reasons why proponents of decentralization put forward this idea, (1) decentralization is considered an effort to implement GCG (Good Corporate Governance) and accountability in the government system, (2) decentralization is considered to reduce abuse of power and corruption due to excessive power (3) decentralization can reduce separatism due to dissatisfaction with the central government so that political stability can be maintained. (4) Decentralization can also create a new stage for local politicians who cannot compete on the national political stage. (5) The government through local governments can implement appropriate policies according to regional needs. [6][7]. In the Indonesian context, the implementation of decentralization found its momentum during the 1998 reform movement. [8]. which was marked by the issuance of Law No.22 of 1999 concerning Regional Government then this law also experienced a change with the last change was Law No.9 of 2015. Unfortunately, the long journey of decentralization over the last two decades in Indonesia has not yet reached its optimality, whereby according to the Audit Board of the Republic of Indonesia/BPK (2021) that regional governments

nationally still have high fiscal dependence on the central government. This condition is an anomaly considering that the main objective of implementing decentralization is essentially to create a sustainable region. [1]. Meanwhile, specifically describes that regional performance, or more precisely regional financial performance is not only measured by the ratio of regional financial independence, but also includes the level of financial dependence, degree of decentralization, and effectiveness of Local Own-source Revenue. [9]. In another study stated that regional financial independence is reflected by the level of regional dependence on external funding, while financial dependence is a ratio that measures the amount of transfer revenue to total regional income. Then the degree of decentralization shows the degree of contribution of Local Own-source Revenue to total regional revenues. The high contribution of Local Own-source Revenue indicates the ability of the region to organize its government while the effectiveness of Local Own-source Revenue is measured by comparing the realization of Local Own-source Revenue to the target of Local Own-source Revenue. [10].

This performance measurement is important to: (1) improve government performance, (2) as a means for making decisions in allocating regional resources, and (3) as a means of public accountability. [11]. For improving regional financial performance, can be improved through the allocation of capital expenditures and regional revenues. [12]. Capital Expenditures according to the definition of Government Regulation No.12 of 2019 are budget expenditures to acquire fixed assets and others that provide benefits for more than one accounting period, while Regional Revenues according to Law No.23 of 2014 are all regional rights that are noted as an addition to net worth. in the period of the relevant fiscal year originating from (1) Local Own-source Revenue, (2) transfer revenue, and (3) other revenue. Furthermore, in a smaller scope, Kampar Regency, based on the Local Government Financial Report (2021) was the 2nd highest revenues in Riau province in the 2017-2020 period, actually occupies an economic growth of 1.97% or below the average economic growth in Riau (2.3%). In addition, Kampar Regency also has high fiscal dependence on transfer revenues. Based on the components of regional income for the 2017-2020 period, the average Local Own-Source Revenue only has 11.03% of total regional revenues or is very lame compared to transfer revenue which reaches 85.37% of total revenue. [13]-[15].

**II. RESEARCH METHODS**

This study uses a qualitative descriptive approach. The source of data includes primary data and secondary data. The primary data in this study were informants who were selected based on their position for capital expenditure and regional revenues analysis for improving regional financial performance in Kampar Regency. The informants in this study included the Regent of Kampar Regency, the Regency Secretary of Kampar Regency, and Head of the Regional Revenue Agency of Kampar Regency. The secondary data is all documentation relevant such as laws and regulations, research articles, reports, and others. Then in analyzing capital expenditures and regional

revenues on regional financial performance, we formulate the operationalization of the concept. [9][10][12][16] as shown in Table I.

Table 1. Operational Dimensions

Variables	Indicators
Regional Financial Performance	1. Local Own-source Revenue / (Transferfrom Central Government+ Provincial Government +Loans) x 100% 2. Transfer Revenue / Regional Revenues x 100% 3. Local Own-source Revenue / Regional Revenues x 100% 4. Realization of Local Own-source Revenue / Target of Local Own-source Revenue x 100%
Capital Expenditures	1. Capital Expenditures Allocation = Capital Expenditures / Total of Regional Spending x 100% 2. Usefulness 3. Local Government Financial Capability in Asset Management in the Long Term
Regional Revenues	1. Local Own-source Revenue 2. Transfer Revenue 3. Other Revenue

**III. RESULT AND DISCUSSION**

*Kampar Regency Financial Performance*

Based on regional financial data for the 2017-2020 period, the level of regional independence for Kampar Regency is within the range of 11.14% - 16.76% (Fig 1). This ratio indicates that the Local Own-source Revenue realization in that period was very low compared to transfer revenue (<20%) and proves that Kampar Regency has a very low level of independence. [16]. Then the degree of financial dependence also has consistent results with the degree of regional independence, where the transfer revenue component dominates the total regional revenues of Kampar Regency and is constantly above 84% (Fig 2). This condition shows that Kampar Regency has a very high level of financial dependence. [9].

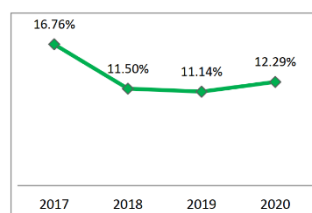


Fig 1. Regional Financial Independence of Kampar Regency

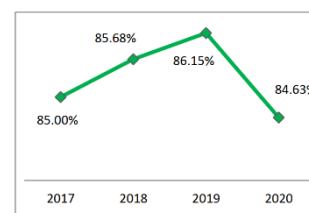


Fig 2. Financial Dependence of Kampar Regency

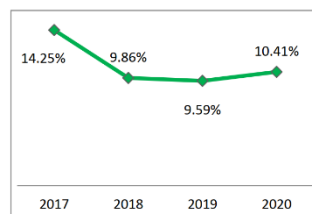


Fig 3. Degree of Decentralization of Kampar Regency

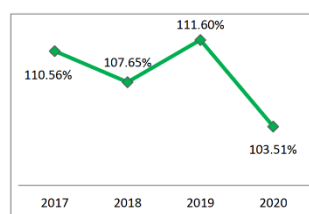


Fig 4. Effectiveness of Local Own-source Revenue of Kampar Regency

Furthermore, the aspect of the degree of fiscal decentralization also fluctuated within the range of 9.59% -

14.25% (Fig 3). This condition shows that the comparison of the realization of the Local Own-source Revenue to the total regional income shows a very low number and it can be interpreted that Kampar Regency has a very low ability to organize its government. related to the effectiveness of Local Own-source Revenue, it shows a very high level of effectiveness. The realization of Local Own-source Revenue is constantly > 100% compared to the target of Local Own-source Revenue during the 2017-2020 period (Fig 4).

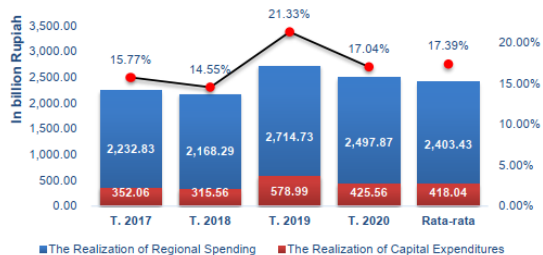


Fig 5. Comparison of Capital Expenditure Realization to Regional Spending Realization of Kampar Regency

### Capital Expenditures of Kampar Regency

The average capital expenditure allocation for Kampar Regency is 17.39%. Capital expenditure in 2017 was Rp352 billion or 15.77% of the total realized regional spending which was Rp2.23 trillion. In 2018, the realization of capital expenditure decreased to 14.55% and then increased significantly in 2019 (Rp578 billion or 21.33%). The realization of capital expenditures decreased to 17.04% in 2020, due to the realization of regional spending was focused on dealing with Covid- 19. (Fig 5). The realization of capital expenditure towards the realization of regional spending is still not optimal. In the 2017-2020 period the average realization of capital expenditure was only 17.39% of the total realization of regional spending and this condition shows that the infrastructure development of Kampar Regency is not optimal. For the usefulness aspect, the largest object of capital expenditure during the period 2017 to 2020 was for the construction of roads, irrigation, and networks with an average expenditure of Rp. 210.10 billion, followed by expenditures for the construction of buildings (Rp. 86.65 billion), equipment and machinery (Rp. 82.53 billion), other fixed assets (Rp. 26.13 billion), other assets (Rp. 7.99 billion) and land (Rp. 4.64 billion). (Fig 6).

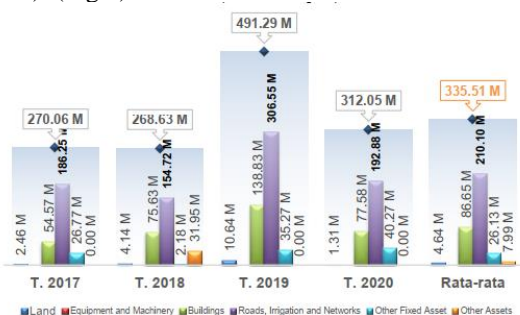


Fig 6. Realization of Capital Expenditures of Kampar Regency (in Billion Rupiah)

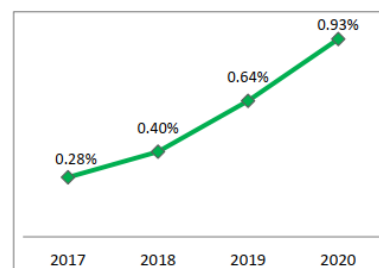


Fig 7. Ratio of Asset Maintenance Cost to Total Assets of Kampar Regency

For the purchase of fixed assets by the Kampar Regency Government, the costs are required for their management to maintain the economic value of these assets. In managing these assets, the ratio of maintenance costs incurred to total asset prices in the 2017 – 2020 period continues to increase every year. In 2017 the ratio of asset maintenance costs reached 0.28% of the total fixed assets owned, then increased to 0.40% in 2018, and continued to increase in 2019 and 2020 where the ratio of asset maintenance costs in the Fiscal Year were respectively 0.64% (2019) and 0.93% (2020) (Fig 7). if viewed by the aspect ratio, basically the Kampar Regency Government has paid attention to aspects of asset maintenance. However, this maintenance cost is considered to be insufficient with the percentage value of maintenance costs to the total fixed assets still below 1% so this could mean that Kampar Regency's capital expenditure is not of high quality.

### Regional Revenues of Kampar Regency

Components of regional revenues as Law No. 23 of 2013 concerning Regional Government has explained that the components of regional revenues include (1) Local Own-source Revenue, (2) transfer Revenue, and (3) other revenue. As explained earlier (table 1), the regional revenues of Kampar Regency have a very small Local Own-source Revenue compared to transfer revenue, while other revenue does not make a significant contribution to regional revenue. From the Local Own-source Revenues side of Kampar Regency, it can be seen that its components consist of (1) local taxes, (2) retributions, (3) separated wealth management results, and (4) other revenue. For the highest contribution was local taxes Revenue of Rp. 113.16 billion, then other revenue of Rp. 110.85 billion, then revenue from separated wealth management of Rp. 28.85 billion and the smallest was regional retribution income which only reached Rp. 10.83 billion shown in Table 2

Table 2. Components Of Local Own-Source Revenue Of Kampar Regency

Components of Local Own-source Revenue of Kampar Regency	(IN BILLION RUPIAH)				Averages
	2017	2018	2019	2020	
Local Taxes	98,34	114,53	125,60	114,16	113,16
Retributions	8,79	14,49	9,06	10,99	10,83
Separated Wealth Management Results	30,12	31,69	30,35	23,25	28,85
Other Income	179,18	68,67	97,88	97,67	110,85
Total	316,43	229,38	262,88	246,05	263,69

Furthermore, for transfer income in the 2017-2020 period, the average income received was IDR 2.06 trillion. For the highest achievement, namely central government transfers - Balancing Funds of Rp. 1.69 trillion, then central government transfers - Others of Rp. 212.81 billion, then the smallest was provincial transfers which only reached Rp. 151.15 billion. In Table III, In general, transfer income is the main source of regional income which supports the development costs of Kampar Regency. This is a geological advantage of Kampar Regency which is rich in natural resources, especially from petroleum.

Table 3. Components Of Transfer Revenue Of Kampar Regency

(IN BILLION RUPIAH)

Components of Transfer Revenue	Years				Averages
	2017	2018	2019	2020	
Central Government Transfers - Balancing Funds	1.525,03	1.676,34	1.957,01	1.629,59	1.696,99
Central Government Transfers - Others	192,41	184,38	246,00	228,44	212,81
Provincial Transfers	170,05	133,52	157,78	143,24	151,15
Total	1.887,48	1.994,24	2.360,78	2.001,28	2.060,9

*Optimizing Regional Financial Performance Through Capital Expenditures and Regional Revenues*

The amount of capital expenditures in Kampar Regency is not directly proportional to the cost of maintaining assets. Based on Figure 7, maintenance costs for Kampar Regency for the 2017 - 2020 period does not reach 1%. The low maintenance costs indicate that Kampar Regency does not view maintenance costs as an important component that affects the quality of capital expenditures. Inadequate maintenance of assets in the long term potentially become unusable due to the inability of assets to operate in the future. [17]. For regional revenues, it is known that Kampar Regency's Local Own-source Revenue has a very small contribution. The small Local Own-source Revenue will certainly have an impact on the low ratio of financial independence, high financial dependence, and low degree of decentralization. For this reason, it is important to carry out a reengineering or process innovation to change drastically and develop new business processes to dramatically improve organizational performance. [18]. Reengineering by definition is to produce strategic policies for quality capital expenditure so that it will stimulate economic growth and ultimately regional performance will be accelerated. This reengineering can be seen from the perspective of its usefulness where the capital expenditure aspect of Kampar Regency is the largest for the construction of roads, irrigations, and networks in several studies that can affect economic growth and improve regional financial performance. [19][20]. The Regent of Kampar Regency also explained that capital expenditures through infrastructure development can increase regional economic growth:

"The policy decided is to maximize the Regional Government Budget for infrastructure to increase economic

growth and involve the private sector to support economic improvement infrastructure by utilizing CSR."

The Regency Secretary of Kampar Regency also confirmed the same thing, who said that the construction of roads infrastructure, irrigations, and networks was an effort to improve people's welfare which resulted in high Local Own-source Revenue. For this reason, the Regency Secretary of Kampar Regency stated:

"Capital expenditures, equipment and machinery assets, buildings, roads, irrigations and networks have a positive relationship and can be used as the main source of increasing

Local Own-source Revenue, therefore the management of these capital expenditures needs to be prioritized." Efforts to improve regional financial performance through increasing Local Own-source Revenue have also been made by conducting outreach to the entire community to increase understanding of taxes and fees and other businesses as explained by the Head of the Regional Revenue Agency of Kampar Regency:

"Efforts are being made to increase PAD revenues as follows: (1) conducting counseling and guidance to the public and business actors by conducting information dissemination activities on local tax regulations to the public or taxpayers regarding regional taxes and regional levies, to increase understanding of taxes in order to optimize regional revenues, as well as making appeals both directly to Taxpayers, as well as through Banners, Billboards, Electronic Media (Television, Newspapers, Radio etc.) and Social Media, (2) Optimizing the Increase in Local Own-source Revenue through intensification and extensification efforts, for all types of Local Tax and Retributions, (3) conducting studies and calculations of potential local taxes and retributions, as well as new types of revenue as sources of Local Own-source Revenue, while still taking into account the capabilities of the business community and society, and not conflicting with applicable laws and regulations, (4) accelerating the local tax administration process by developing and maintaining an Online Regional Original Revenue Management Information System (SIMPAD), as well as implementing Electronic Signatures (TTE) in the SIMPAD Application, (5) providing stimulus or relief to Taxpayers in the form of exemption from fines for payment of Rural and Urban Land and Building Tax (PBB-P2) for the tax period of 1995 to 2021, (6) providing convenience to taxpayers for payment of local taxes, through Teller Bank Riau-Kepri, ATM Bank Riau-Kepri, while for PBB-P2 payments additional convenience is provided through the Bukalapak Application, Tokopedia, Traveloka, Indomaret, Alfamart, Gopay, Link Aja and I-Saku, as well as payment through the QRIS service (Quick Response Code Indonesian Standard)."

Efforts to increase Local Own-source Resources were also made by creating a special team to increase PAD, as explained by the Regency Secretary of Kampar Regency:

"For the effectiveness of PAD, a team has been made in charge of increasing PAD by making direct visits to PAD objects."



This increase in PAD is also the target as an effort to increase independence and reduce regional dependence. The Regency Secretary of Kampar Regency said:

“For reducing dependence on the provincial government or the central government, the local government explores the potential of PAD that can still be developed.

#### IV. CONCLUSIONS

This study aims to find out how reinforcing capital expenditures and regional revenues can improve regional financial performance in Kampar Regency. This study uses 2 data sources, primary and secondary data with the observation period 2017-2020. Primary data sources include in-depth interviews with informants, namely the Regent of Kampar Regency, the Regency Secretary of Kampar Regency, and the Head of the Regency Revenue Agency of Kampar Regency. While the secondary data is in the form of all documentation relevant to this study such as laws and regulations, research articles, reports, and others. This study has three main variables, namely, first, the regional financial performance variable, which is including 4 dimensions: (1) the level of regional financial independence, (2) the level of financial dependence, (3) the degree of decentralization, (4) the effectiveness of Local Own-source Revenue. Second, the capital expenditure variable, which is including 1-dimension, fixed asset spending. Third, the regional revenues variable, which is including 1 dimension, the regional revenues component. The results of this study are that the regional financial performance variable in Kampar Regency has a very low level of regional independence, a very high financial dependency, a very low degree of decentralization and a high level of Local own-source effectiveness. In the capital expenditure variable with the dimension of fixed asset expenditure, the allocation of capital expenditure to the realization of regional spending is still not optimal (the average expenditure is only 17.39% of the total realization of regional spending) with the largest allocation of the construction of roads, irrigations, and networks. This allocation is useful to stimulate the economy. While in the aspect of maintaining the assets, the costs set aside are inadequate (< 1%). Then on the regional revenue's variable, the average regional revenues component of Kampar Regency contains (1) Local Ownsource Revenue (11.03%) which is dominated by contributions from local taxes. (2) Transfer income (85.37%) which is dominated by contributions from central government transfers – balancing funds. (3) Other income (3.61%). To improve regional financial performance, we propose to carry out a reengineering by reinforcing regional capital expenditures and revenues.

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