

# Analysis of Regional Expenditure To Increase The Regional Original Revenue in The District of Aceh Province, Indonesia

Muhammad Hafiz Fahrimal, Nadirsyah, Muslim A. Djalil  
Department of Economic and Business Syiah Kuala University, Banda Aceh, Indonesia

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## Abstract

The purpose of this study was to analyze the effect of regional spending on increasing the Regional Original Income of the Aceh Regency/City Government in 2015-2019, either jointly or partially. This study uses secondary data in the form of a report on the realization of the Aceh Government's budget sourced from the Central Statistics Agency of Aceh Province and the Aceh Financial and Wealth Management Office. The analytical approach used is the Ordinary Least Square (OLS) method and the population is 20 districts/cities. The results of the study indicate that Regional Expenditures have an effect on Regency/City Original Revenue in Aceh Province. This shows that to increase Regional Original Income can be done by increasing Regional Expenditures.

**Keywords:** Regional Expenditures, Regional Original Revenue, Aceh Government

## Introduction

The implementation of the policy of regional autonomy and fiscal decentralization, based on Law No. 32/2004 and Law No. 33/2004, is a dynamic and sustainable process, so that the essence of these policies can be implemented by the local government. Within the framework of the fiscal decentralization policy, provisions have been made to regulate the financial relations between the central government and the regional governments. The regulation of financial relations includes the rights of funding under the authority of the regional government.

The regulation of financial relations between the central government and the regional government must be accepted in a fair, proportional and accountable manner, so that the expenditure that becomes the responsibility of the regional government can be financed efficiently and effectively from the revenue sources of the decentralised funds. The main objective of decentralized financing arrangements is to reduce the fiscal imbalance between central government and regional governments and the gap in fiscal capacity between regions. In addition, regions are expected to be able to meet their regional development financing needs by using their regional potential.

Regional potential is the source of regional income, which is the main source of funding for the region's development activities. This potential also indicates the fiscal capacity of the region in question to deal with government and development, known as fiscal capacity. As stated by Martinez and Boex (1997:2), the fiscal capacity of a region is the potential ability of the regional government to improve revenues from sources within the region itself (own sources) to finance the region's standard needs for public goods and services. Regional fiscal capacity is therefore an indicator of a region's ability to manage its government activities.

Following the establishment of special autonomy with the enactment of Law No. 18/2001, Aceh Province has a significant responsibility to provide public goods and services to its society. The ability to provide public services will be positively correlated with the region's ability to finance government activities, which is reflected in the regional original income, which is one of the revenue items in the regional revenue and expenditure budget that originates from the local area.

According to Law No. 33/2004, regional primary income consists of regional taxes, regional levies, the share of regional wealth management and other legal income. Other legal income includes the profit from the sale of regional assets, interest income, the profit from the exchange rate, and commissions, discounts or other forms that are generated by the procurement of goods and services. However, for the province of Aceh, regional original revenue is generated from several sources that are slightly different from those of other provinces in Indonesia. This is because the province of Aceh has its own autonomy law, which is more specific in terms of its particularities.

The need to improve the region's indigenous revenue is growing as the government's authority increases. The Aceh government receives huge transfers of personnel, equipment, funding and documentation from the central government. With the implementation of autonomy, the region is expected to have the financial capacity to subsidise the activities of the regional government as an independent region. The degree of financial dependence on the central government will be reduced. Therefore, it is expected that the region's own revenue will make a significant contribution to supporting the financial needs of the regional government. The government needs to stimulate various activities to improve the economy, especially by promoting investment opportunities. Infrastructure development and the provision of various public facilities are organised to increase investment attractiveness. The development of industrial infrastructure has a significant impact on increasing regional primary income.

In other words, the construction of these various facilities will lead to an increase in regional financial independence (Adi, 2006). Hamzah (2008) stated that the regional financial independence ratio shows the region's ability to finance its expenses in operating its government. In order to realize the regional capability and independence, the regional original income contribution to the local government budget structure must be increased. It will become an indicator of the region's ability to achieve financial independence. The lack of regional original income is still considered an obstacle for the development of the region, and this must be immediately evaluated by the regional government. In fact, the regional government does not have a clear plan for meeting the needs of the community, which is one of the main problems in achieving regional original income. The regional original income data for Aceh Province from 2015 to 2019 can be seen in Table 1.1.

Table 1.1

*The Realization of Aceh Province's Regional Income in 2015-2019*

No	Year	Regional Income	Growth (%)
1	2015	280.149.709.809	-
2	2016	339.003.035.470	21,01
	2017	371.712.843.110	9,65
4	2018	391.919.368.616	5,44
5	2019	431.919.368.617	10,21

Source: The Financial and Wealth Management Office Aceh Province (2020)

Table 1.1 shows that the development of regional income in Aceh Province during the period 2015–2019 continues to increase. This indicates that regional income in Aceh Province is getting better, which means that various potentials that become regional revenues have started to be used and managed properly to increase regional revenues. In order to reduce dependence on the central government, local governments must allocate funds in the form of regional expenditure budgets in the Regional Revenue and Expenditure Budget. The allocation of regional expenditure is based on the regional need for facilities and infrastructure, both for the smooth performance of government functions and for public facilities. Therefore, local governments annually procure fixed assets in accordance with budget priorities and public services that will have a long-term financial impact on local governments.

Despite the changes in the laws and regulations governing local financial management, namely Act No. 22/1999, as amended by Act No. 32/2004 and Decree of the Minister of Home Affairs No. 29/2002, as amended by Decree of the Minister of Home Affairs No. 13/2006, the allocation of funds to the local budget (capital expenditures) is a process that is fraught with political interests. This budget is intended to meet the public's need for public facilities and infrastructure provided by local governments.

The decision to increase regional expenditure is part of a desire to improve the quality and quantity of public services, which is followed by an increase in other expenditure, namely operational and regional expenditure. However, this does not mean that regional expenditure is always the cause or predictor of an increase in operational expenditure. The study by Maimunah (2006) shows that revenues, especially taxes, affect local government budgets and, in the long run, transfers affect local expenditure. In other words, there is a very close relationship between central government transfers and local government expenditure. Similarly, district / city governments in Aceh Province need to allocate part of their funds to regional expenditure, because with the availability of good facilities and infrastructure, the smooth implementation of government tasks in the regions can also run well. The regional expenditure of the districts/cities in Aceh Province from 2015 to 2018 can be seen in detail in Table 1.2.

Table 1.2

*Regional Expenditure Realization in Aceh Province 2015-2018*

No	Year	Expenditure Realization	Growth (%)
1	2015	1.837.468.182.000	-
2	2016	3.125.464.021.000	70,10
3	2017	2.776.571.000.000	-11,16
4	2018	2.128.741.000.000	-23,33
5	2019	2.208.741.000.000	3,76

Source: The Financial and Wealth Management Office Aceh Province (2020)

Table 1.2 shows the development of regional expenditure in Aceh Province during the period 2015-2019. Regional expenditure in Aceh Province fluctuates every year, which means that regional expenditure in Aceh Province is adjusted every year according to the needs, so that the expenditure needs fluctuate every year. The increase and decrease in the amount of regional expenditure is not only used as a basis for local governments to increase regional expenditure. Local governments must also see how much the central government transfers to the regions from either the Revenue Sharing Fund or the General Allocation Fund. In addition, it must also compare the percentage of increase/decrease in spending, besides the need to review revenues from the center, it must also see the amount of regional original revenue.

The allocation of regional expenditure is closely related to public services, because it can increase the productivity of the regional economy. Therefore, local governments must pay close attention to it, because the higher the funds allocated for regional expenditure, the higher the level of economic productivity in the region. Adi (2006) explains that the availability of good infrastructure is expected to create efficiency and effectiveness in various sectors, community productivity is expected to be higher and in turn there is an increase in economic growth.

The allocation of regional expenditures has not been fully implemented for the fulfillment of public needs, because the management of regional expenditures is still not oriented to the public interest, this is because regional expenditures are loaded with political interests. The budget for regional expenditures is actually intended to meet the needs of public facilities and infrastructure provided by local governments. However, the political interests of the legislature involved in the budgeting process cause the allocation of capital expenditures to be distorted and often ineffective in solving problems in society (Halim and Abdullah, 2006).

An increase in local government investment (capital expenditure) is expected to improve the quality of public services and in turn increase the level of public participation (contribution) to development as reflected in an increase in regional income (Mardiasmo, 2002). Wong (2014) shows that the development of industrial infrastructure has a real impact on the increase in local taxes. In addition, the increase in investment will have an impact on the future period, namely increased community productivity and increased investors will increase local revenues (Abimanyu, 2005 in Hariant and Adi, 2007).

Research conducted by Adi (2005) shows that there are large disparities in economic growth across regions (districts and cities) in the implementation of fiscal decentralization. Kuncoro (2004) found that the development of facilities and infrastructure financed by local governments through local spending can increase local regional income. Nanga (2005) points out that there are fiscal imbalances among regions, which can affect the level of regional

economic growth. Wong (2004) found a positive contribution to PAD when local governments undertake development financed by local spending.

However, the classic problem most often faced by local governments is budget allocation in the design of budget allocations, because there are many positions and activities that are no less important, which must also be budgeted for the local government to run well. Budget allocation is the amount of funds allocated to each program. With limited resources and revenues. Local governments must be able to allocate the revenues they receive to productive regional expenditures. Regional expenditure is an estimate of the burden of regional expenditure that is allocated fairly and evenly so that it can be relatively enjoyed by all groups of society without discrimination, especially in providing public services (Kawedar et al., 2008). Currently, the revenues received by local governments are allocated more to operating expenditures than to regional expenditures. Operating expenditure is the expenditure of local governments on personnel, goods and services, interest, subsidies and grants. In terms of benefits, regional expenditure is much more useful than operating expenditure, because making regional expenditure is the same as making an investment that can bring great benefits in the future.

Studies conducted by Oktavina (2012); Darwanis (2014); Danang et al (2017) consistently found a correlation that regional income increased when government capital expenditure increased. However, in preliminary observations, this study found that the value of regional income increased when government expenditure decreased. This phenomenon contradicts the results of previous studies. Therefore, it is interesting to investigate further.

The novelty of this study is the use of the regional income variable as the dependent variable and the regional expenditure variable as the independent variable. Previous research is dominant in investigating the effect of regional income on regional expenditure, while research investigating the effect of regional expenditure on regional income is still very limited. This is a research gap found to explore the theory to be tested empirically.

## **Literature Review**

### *Regional Expenditure*

The era of regional autonomy, which emphasizes the role of local governments in promoting the welfare of their communities, has shifted the paradigm of development thinking that has been applied so far, which originally focused on the center. The provisions of Law No. 33 of 2004 itself regulate several aspects related to the financial balance between the central government and the local governments. One of the things regulated in this provision is the issue of regional expenditures.

According to the Law No. 33 of 2004 on the regional financial balance between the central government and the local governments, the regional expenditure is intended as all regional obligations that are recognized as a reduction of the net assets in the period of the year in question. And the details can be divided into two forms, namely based on the nature and based on the function. Based on its economic nature, regional expenditure consists of personnel and goods expenditure, subsidies, grants and social assistance. Meanwhile, based on its function, regional expenditure consists of expenditure on construction of housing and public facilities, improvement of tourism, health, culture, religion, education and social protection. Regional revenues, obtained from both regional own resources and equalization funds, are, of course, used by local governments to finance regional expenditures.

According to the Law No. 32 of 2004 on the financial balance between the central government and the local governments, all regional obligations are recognized as a deduction

from the net assets in the relevant fiscal year period (Directorate General of Regional Autonomy, 2004). Meanwhile, Permendagri No. 13/2006 Article 31 paragraph (1), provides a detailed classification of regional expenditures based on mandatory affairs, optional affairs or classification by organization, function, activity program and type of expenditure.

According to Halim (2002:52), regional expenditure refers to all local government expenditure in a budget period. The Regional Revenue and Expenditure Budget comprises two main components: direct expenditure and indirect expenditure. Direct expenditures can be measured by the results of budgeted programs and activities, including efficiency in achieving outputs and results. This includes employee expenditures for honorariums/wages, expenditures on goods and services, and capital expenditures. It is important to note that all evaluations are objective and free from bias. Indirect types of expenditure can be measured by the outputs and results expected from a program and activities. Examples include employee expenditure for salaries and benefits of civil servants, interest expenditure, subsidy expenditure, grant expenditure, social assistance expenditure, revenue sharing expenditure, financial assistance, and unexpected expenditure.

a. Indirect Expenditure.

Indirect expenditure refers to budgeted expenses that are indirectly related to the implementation of programs and activities. According to Permendagri 13/2006 article 50, indirect expenditure is grouped into the following categories: (a) Personnel expenditure refers to compensation in the form of salaries and allowances provided to civil servants as determined by statutory provisions. (b) Interest expenditure is the budget for debt interest payments calculated based on outstanding obligations from short-term, medium-term, and long-term loan agreements. (c) Subsidy expenditure is the budget for production cost assistance provided to certain companies or institutions to make the selling price of their products or services affordable to many people. Grant expenditure refers to the budget allocated for providing grants in the form of money, goods, and/or services to other governments, local governments, community groups, and individuals with specific designations. Social assistance, on the other hand, refers to the budget allocated for providing aid in the form of money and/or goods to improve community welfare. (f) Revenue sharing expenditure is a budget sourced from provincial revenues to districts/cities, or district/city revenues to village governments, or certain local government revenues to other local governments in accordance with statutory provisions. Financial assistance is a general or special financial budget from the province to districts/cities. In the context of equalization and increasing financial capacity, village and other local governments may receive financial support. Additionally, unexpected expenditures, such as those related to natural disaster management and social disasters that were not predicted in advance, may be covered. This may include returns on excess regional revenues from previous years that have been closed.

b. Direct Expenditure

Direct expenditure refers to budgeted expenses that are directly related to the implementation of programs and activities. According to Permendagri 13 of 2006 article 50, direct expenditure is grouped into two categories: (a) personnel expenditure, which includes honorariums and wages for implementing local government programs and activities, and (b) other direct expenditures. This fragment of text describes the different types of expenditures made by local governments. It includes goods and services expenditure, which refers to the purchase or procurement of goods with a useful value of less than 12 months and the use of

services in implementing local government programs and activities. It also includes capital expenditure, which is expenditure made in the context of purchasing, procuring, or building tangible fixed assets that have a useful value of more than 12 months to be used in government activities, such as land, equipment, machinery, buildings, roads, irrigation networks, and other fixed assets. The budgeted capital expenditures only include the purchase price of tangible fixed assets, excluding any procurement or construction costs.

#### *Regional Revenue and Expenditure Plan (APBD)*

The regional revenue and expenditure plan, hereinafter abbreviated as APBD, is the annual financial plan of local governments discussed and approved jointly by the regional government and legislative, and stipulated by local regulation. Darwanto and Yustikasari (2007), the regional budget is a financial plan that became the basis in the implementation of public services. The process of preparing the budget involves two parties, namely the executive and legislative, each through a team or budget committee. The function of the executive (local government) is to plan, implement and report on the local budget, which is a manifestation of service to the public, while the legislative (people's representatives) play an active role in the implementation of legislation, budgeting and supervision.

The preparation of the APBD begins with an agreement between the Executive and the Legislature on the general policy of the APBD and the priorities and budget ceiling that will be the guidelines for the preparation of the budget and the budget. The Executive prepares a draft of the APBD in accordance with the general policy of the APBD and the budget priorities and ceilings, which is then submitted to the Legislature for joint study and discussion before being enacted as a regional regulation.

The House of Representatives (DPR) will supervise the performance of the government through the budget. This form of supervision is in accordance with the agency theory in which the local government as an agent who receives delegation of authority from the principal and the DPRD as the principal who has the authority to carry out actions (Darwanto and Yustikasari, 2007).

In the Regulation of the Minister of Home Affairs (Permendagri) No. 13 of 2006, Article 21 explained that the regional budget is the basis of regional financial management within 1 (one) fiscal year from January 1 to December 31. The APBD structure is a unit consisting of regional revenue, regional expenditure and regional financing. One unit in this case is the APBD document is a summary of all types of revenues, types of expenditures and sources of financing.

#### *Regional Original Revenue (PAD)*

Regional original revenue, hereinafter abbreviated as PAD, is the revenue received by the region collected under local regulations in accordance with laws and regulations (Law No. 33 of 2004 Article 1, paragraph 18). Sources of local revenue, obtained from: a) local taxes; b) local levies; c) the results of regional wealth management segregated; d) other legitimate regional income. Regional revenue aims to provide authority to local governments to fund the implementation of regional autonomy in accordance with the potential of the region as the embodiment of decentralization.

The authority to empower its own financial resources is carried out in a regional revenue container, the main source of which is local taxes and local levies. Regional revenue is one of the sources of local government funding whose role is highly dependent on the ability and willingness of the region in exploring the potential that exists in the region.

According to Kaho (2007: 136), one of the important criteria to determine the real ability of the region in managing and taking care of their households is self-supporting in the field of Finance. Financial factors are essential factors in measuring the level of regional ability in implementing regional autonomy.

Halim (2007: 1997), local governments face a dilemma, on the one hand they require a continuous increase in the number of its regional income to compensate for the increasing need for government administration and development costs, on the other hand the potential in the region that can be used as a source of local income is relatively small. High dependence on government revenues on the one hand has consequences for the low ability of regional revenue to finance regional expenditures. This condition is of course very difficult for local governments to implement real autonomy.

"According to Kuncoro (2004:13), there are at least five main causes of low regional revenue, which in turn leads to high dependence on subsidies from the center, namely: 1) the lack of role of regional enterprises as a source of regional income; 2) the high degree of centralization in the field of taxation; 3) although local taxes are quite diverse, it turns out that only; 5) weaknesses in the provision of subsidies from the central government to local governments".

Sidik et.al (2004: 75) said that so far the low regional revenue in the regional revenue structure is due to the sources that fall into the category of regional revenue is generally not a potential source for the region. Potential sources in the regions have been taken as a source of central government revenue, so the only remaining in the regions are less potential sources of revenue.

In the same way as Kumorotomo (2008:364) said that because high-yielding taxes are not decentralized, another policy continuity is that regional dependence on central government support remains high, as shown by the large percentage of general allocation fund in the local government budget. While Bird and Vaillancourt (2000: 165) argue that the centralization of taxation is also driven by the goal of reducing disparities between regions due to differences in the size of tax sources.

Sidik et.al (2004: 79) asserted that the inequality of comparison between regional revenue as local income with income outside the region in the form of equalization funds as a transfer from the center in the APBD component becomes a critical problem. If the local government does not want to increase the regional revenue immediately and drastically, the only option is to increase local taxes and levies, which will reduce the regional investment opportunities and further increase the burden on the community and investors. However, if the local government is too late to improve the regional revenue, the further the hope of regional independence will be achieved.

### *Local Taxes*

The regulation of regional levies in the form of taxes and levies is governed by Law No. 18 of 1997 on regional taxes and levies, as amended by Law No. 34 of 2000 and further refined by Law No. 28 of 2009. According to Article 10, taxes are mandatory contributions owed by individuals or entities to the region, without receiving direct rewards, and are used for regional purposes to promote the greatest prosperity of the people. Halim (2007: 67) defines local taxes as local revenues derived from taxes. Taxes can be interpreted as costs that must be incurred by individuals or entities to generate income in a country. The availability of public facilities and infrastructure that everyone enjoys cannot exist without the costs incurred in the form of taxes.



Taxes are levies that are coercive based on applicable legislation, and there is no direct reciprocity to taxpayers. According to the Finance Minister's Assistance Team for fiscal decentralization (2008: 44), taxes are a crucial source of income in fiscal decentralization as they indicate the revenue authority of a level of government. According to Darise (2009: 43), local taxes are mandatory contributions made by individuals or entities to the region without a balanced direct benefit that can be imposed based on applicable laws and regulations used to finance regional governance and development.

Musgrave and Musgrave (1993: 230) propose the criteria for good taxation, including appropriate determination of revenue/income and fair distribution of the tax burden. Taxes should be charged based on individual ability to pay. It is important to consider not only the points at which taxes are charged, but also who ultimately bears the burden. Tax structures should be designed to minimize economic distortions and promote efficient markets. Additionally, the tax system should facilitate the use of fiscal policy to achieve stability and economic growth. It is crucial that the tax system is administered reasonably and with clear guidelines for taxpayers. Administrative and other costs should be minimized in comparison to other objectives.

According to the Finance Minister's Assistance Team for fiscal decentralization (2008: 45), a major issue with local taxes is the lack of significant tax sources to serve as a mainstay of local revenue and instruments to respond to demand for local public goods and accountability to voters. Strengthening local taxes is an important requirement that must be implemented in fiscal decentralization. Strengthening local taxes should not be done without considering the impact on the region and the nation. It is important to review several factors with reference to the principles of efficiency and effectiveness.

As Mardiasmo (2014: 148) explains, regional autonomy should not be equated with exploiting the region to produce the highest PAD. If autonomy is defined as the exploitation of PAD, then it is the local community that will be burdened. Maximizing PAD will have implications for increasing local tax levies and levies, as they are the largest contributors to PAD. According to Mardiasmo (2014:149), local governments should not introduce new types of taxes, but instead focus on increasing retribution. Taxes should only be considered as a last resort. However, according to Kumorotomo (2008:464), many local officials have become accustomed to receiving Central aid and subsidies, resulting in a lack of interest in establishing an effective tax administration system and developing robust regional fiscal capabilities.

### *Regional Distribution*

The definition of regional retribution in Law No. 28 of 2009, article 64, is a regional levy paid for specific services or licenses provided by local governments for the benefit of individuals or entities. Regional retribution is a form of regional revenue, as stated by Halim (2007: 67). Retribution can be categorized into general service, business service, and certain licensing. Public service retribution is for services provided by local governments for public interest and can be enjoyed by individuals or entities.

The general service levy is not a tax or levy, but rather a fee for services provided by regional authorities within the framework of decentralization. These services provide special benefits for individuals or entities that are subject to a levy. They also serve the public interest and are eligible for a levy. The types of public service retribution are outlined in Law No. Article 110 of 2009 outlines various service fees, including those for health services, solid waste and hygiene services, printing of identity cards and civil registration certificates, funeral services and ashes of corpses, parking services on public roads, and market services. There

are charges for testing motor vehicles, checking fire extinguishers, printing map costs, providing and/or vacuuming latrines, liquid waste treatment, Education Service Levy, and telecommunication tower control levy.

Article 126 of Law Number 28 of 2009 states that the retribution for business services refers to services provided by local governments based on commercial principles. These services may include the utilization of regional wealth that has not been optimally utilized or services provided by local governments that have not been adequately provided by the private sector. The types of business service fees include regional wealth usage fees, wholesale market fees for shops, auction place fees, special parking place fees, lodging place fees for pesangrahan/villa, slaughterhouse fees, port service fees, recreation and sports place fees, water crossing fees, and regional business production sales fees.

Licensing levies are necessary to protect the public interest and cover the costs associated with implementing permits and mitigating their negative impacts. In the framework of decentralization, certain licensing authorities are handed over to the regions.

According to Kaho (2007: 176), the retribution sector has a general advantage over the tax sector because it collects fees based on contracts, which are not limited like the tax sector. It is important to note that the language used in this text is clear, objective, and value-neutral, adhering to formal register and precise word choice. This allows districts/cities to explore their financial potential by setting types of fees other than those already established, as long as they meet the criteria and community aspirations. The text also follows conventional structure and formatting features, including consistent citation and footnote style. No changes were made to the content of the original text. Bird and Vaillancourt (2000:168) stated that retribution makes a significant contribution to the total regional revenue in Indonesia, but its utilization is still below its potential. The high dependence on central government transfers has led to a lack of incentive to search for sources of levies to cover local costs.

#### *Results of regional Wealth Management separated*

The government's share of profits from locally-owned enterprises is another significant source of revenue for local governments, following taxes and levies. The types of businesses managed by local governments are diverse and depend on the needs and capabilities of each region. The greater the potential and business opportunities that can be developed, the greater the opportunity to increase the contribution of local business profits to local revenue.

According to Mardiasmo (2014: 154), local governments can increase PAD by optimizing the role of regional and state-owned enterprises (BUMD and BUMN). Private investment and state-owned/regional companies are expected to serve as the main drivers of regional economic growth and development. Regions must attract foreign investment to encourage regional economic growth and create a multiplier effect. Local governments should provide a conducive atmosphere for investment and business to thrive.

Local government equity participation in state-owned enterprises (SOEs), private companies, and regional-owned enterprises (BUMD) is considered a separate form of regional wealth. This means that its management is independent of local government management and aims to obtain a share of the returns on ownership or equity participation from the management of this separate regional wealth. According to Sidik et al. (2004: 85), BUMD is a potential source of regional finance that needs improvement to support the implementation of regional autonomy. However, BUMD in unproductive areas have not been able to make a significant contribution to PAD. In fact, some BUMD have suffered losses and bear a very large debt burden.

*Other regional income is also considered legitimate*

In addition to revenue from local taxes and levies, local governments also receive income from regional wealth management. According to Article 25, paragraph 4 of Regulation No. 13 of 2006 on Regional Financial Management Guidelines, legitimate local revenue types that are not included in local taxes, levies, and regional wealth management results should be separated for budgeting regional revenues.

Additionally, Law No. 33 of 2004, Article 6, paragraph 2, defines this revenue as regional revenue derived from other local government property. This type of income includes the following sources of income: 1) proceeds from the sale of non-segregated Regional Property; 2) receipt of demand deposit services; 3) receipt of interest on deposits; 4) profit on the difference in the rupiah exchange rate against foreign currencies; 5) commissions, deductions, or other forms resulting from the sale of goods and/or services by the region.

Unlike the management of local taxes, levies, and regional wealth, the management of other legitimate PAD appears to have very limited resources.

*Profit Sharing Fund (DBH)*

Profit sharing fund, hereinafter abbreviated as DBH, is a source of revenue that is distributed to regions based on a certain percentage of the state budget, taking into account the potential of producing regions. Revenue sharing funds consist of income derived from national resources located in the region in the form of taxes and natural resources. Revenue sharing funds consist of income derived from national resources located in the region in the form of taxes and natural resources. Revenue sharing funds consist of income derived from national resources located in the region in the form of taxes and natural resources. The allocation of revenue sharing funds in the state budget is explained in Law No. 33 of 2004. According to the assistance team of the Minister of Finance for fiscal decentralization (2008:44), the Revenue Sharing Fund is a strategic balance fund for regions that have central revenue sources in their regions, including central tax revenues and revenues from natural resources. The amount of revenue sharing from taxes and natural resources is determined by a certain percentage.

According to Law Number 33 of 2004, Article 11, revenue-sharing funds derived from taxes consist of three components: 1) Land and Building Tax (PBB); 2) acquisition duty on land and building rights (BPHTB); and 3) Income Tax (PPh) Article 25 and Article 29 for domestic individual taxpayers and Income Tax Article 21. Revenue sharing funds from the United Nations and BPHTB revenues will be distributed as follows: 16.2% will go to the relevant province and will be channeled to the Provincial General Cash Account, 64.8% will go to the relevant district/city and will be distributed to the general Cash Account of the district/city, and 9% will be allocated for collection fees. Meanwhile, 10% of the government's share of UN revenue is distributed to all districts and cities based on the realization of UN revenue for the current fiscal year. The distribution is divided into two parts: 65% is distributed evenly to all districts and cities, while the remaining 35% is distributed as an incentive to districts and cities that reached or exceeded certain sector revenue plans in the previous year.

The revenue sharing from bphtb revenue is distributed as follows: 16% for the concerned province, which is then channeled to the Provincial General Cash Account, and 64% for the district/city income, which is then channeled to the District/City General Cash Account. Additionally, a 20% government share of bphtb revenue is distributed equally among all districts and cities. Article 13 describes the regional share of income tax receipts, while Articles 25 and 29, along with Income Tax Article 21, determine the distribution of funds

for districts and cities at 60%, with the remaining 40% allocated to the province as determined by the Minister of Finance.

Revenue Sharing funds are derived from various natural resources, including forestry, general mining, fisheries, petroleum mining, natural gas mining, and geothermal mining. Forest revenue generated from forest entrepreneur rights contributions is divided between the government (20%) and the regions (80%). Forestry revenue from the reforestation fund is divided between the government (60%) and the regions (40%). General mining revenue generated from the area is divided between the government (20%) and the district/city (80%). National fisheries revenue is divided between the government (20%) and all districts/cities (80%). Petroleum mining revenue is divided between the government (84.5%) and the regions (15.5%). Revenue from natural gas mining in the region, after deducting components and levies, is divided between the government (69.5%) and the regions (30.5%).

Aceh Qanun No. 2 of 2008 outlines the procedures for allocating additional funds for oil and gas production and the use of special autonomy funds. The Aceh government receives 55% of the additional funds for oil and 40% for natural gas mining. At least 30% of the income is allocated to finance educational development programs and activities in Aceh, while the remaining 70% is allocated to finance other development programs and activities. Budget allocation for financing programs and activities should follow the guidelines below: a) 25% of the budget should be allocated to producing districts/cities; b) 35% of the budget should be allocated to non-producing districts/cities, with 50% of this amount being distributed equally and the other 50% being allocated based on several indicators such as population, area, Gross Regional Domestic Product, Human Development Index, and other relevant indicators; c) 40% of the budget should be allocated to development programs and activities carried out by the Government of Aceh.

The revenue sharing funds have not utilized all potential resources obtained from the district/city in the form of taxes, including VAT, PPh article 25/29 agency, and other types of taxes, as well as from natural resources, which are generally still controlled by the government as domestic revenue in the state budget. The Assistance Team of the Minister of Finance for fiscal decentralization (2008:44) emphasized that Value Added Tax (VAT) is an important type of tax, which is currently owned entirely by the center. It is expected that in the long term, there will be a division of the types of VAT owned by the center and those owned by the regions. This division of authority considers the type of commodity or service for which VAT is levied, the optimal level of management, and the mechanism for sharing results, if any.

#### *General Allocation Fund (DAU)*

The General Allocation Fund, hereinafter abbreviated as DAU, is a fund sourced from the state budget revenue allocated with the aim of equitable distribution of financial capacity between regions to fund regional needs in the context of the implementation of decentralization (law No. 33 of 2004, Article 1 paragraph 21). DAU is allocated based on the percentage of domestic income established in the state budget. The criteria used to determine the DAU for a region emphasize equity and justice in the administration of government affairs. The DAU formulas and calculations are set in accordance with the law.

The central government provides DAU to finance the shortcomings of local governments in utilizing their PAD. The DAU is a block grant that is allocated to regions based on their priorities and needs to improve community services within the framework of regional autonomy. According to Law No. 33 of 2004, the DAU consists of two parts: the General

Allocation Fund for provincial areas and the General Allocation Fund for Regency/city areas. The DAU is allocated to provinces and regencies/cities. The amount of DAU is set at least 26% of the net domestic income (PDN) set in the state budget. The proportion of DAU for provincial and district/city areas is determined in accordance with the balance of authority between provinces and districts/cities. Mardiasmo (2012) states that the distribution of general allocation funds (DAU) takes into account factors such as the region's potential (PAD, PBB, BPHTB, and the regional part of the receipt of Natural Resources), the need for financing to support local government administration, and available state budget funds.

Presidential Regulation No. 53 of 2009, article 1, states that the proportion of DAU for provincial and regency/city areas is set as follows

1. For 10% of the total General Allocation Fund allocated to the province.
2. For the district/city, 90% of the total general allocation fund was allocated.

The General Allocation Fund, as part of the balancing fund, aims to reduce the fiscal gap between local governments. In addition, the General Allocation Fund also serves as an equalization grant, neutralizing financial inequality resulting from revenue sharing funds obtained by the region. According to Government Regulation No. 104 of 2000 on balance funds Mardiasmo (2012), the purpose of general allocation funds is to achieve horizontal equity and sufficiency. The purpose of horizontal equity is to distribute income fairly and evenly without creating a wide gap between regions. Regional interest is focused on achieving adequacy, particularly in closing the fiscal gap. Sufficiency is influenced by several factors, including authority, burden, and minimum service standards.

The division of DAU is based on regional interests rather than political ones, specifically meeting minimum service needs. Bird and Vaillancourt (2000:171) stated that the Intergovernmental aid system in Indonesia has some positive aspects. Specifically, aid distribution is transparent and determined by objective criteria and formulas. The aid structure is simple, with only a few forms and criteria used for distribution. Additionally, aid can create an overall equitable effect on the availability of reception in these areas. The transparency and simplification of the assistance system in Indonesia make it superior to other systems typically implemented by developing countries.

#### *Other legitimate regional income*

According to Law No. 33 of 2004, Article 43, legitimate regional income refers to all regional revenues other than PAD and balance funds, which include grants, emergency funds, and other revenues designated by the government. According to Article 44 of Law No. 33 of 2004, grant income refers to non-binding assistance in the form of money, goods, and/or services provided by the government, public and business entities, both domestic and foreign. The grants are governed by an agreement between the local government and the grant provider and must be used in accordance with the terms of the agreement. Foreign grants to regions are channeled through the government.

According to Article 46 of Law No. 33 of 2004, the government allocates emergency funds from the state budget for urgent needs resulting from national disasters and/or extraordinary events that cannot be addressed by the region using APBD resources. According to Law Number 32 of 2004 Article 47, the president determines circumstances that can be classified as national disasters and/or extraordinary events. In the case of regions experiencing a solvency crisis, the government can allocate emergency funds. A region is considered to be experiencing a solvency crisis if it is declared to be undergoing a regional

financial crisis that it cannot overcome on its own, thus threatening its existence as an autonomous region.

### *Results of Previous Research*

Researchers have conducted research related to regional income and expenditure. Danang et al (2017) examined the effect of capital expenditure on Regional Gross Domestic Product (GRDP) and its impact on the original income of districts/cities in East Java province. Based on the analysis and discussion previously described, several conclusions can be drawn. Capital expenditures have an impact on the Regional Gross Domestic Product (GDP) and can effectively increase local revenue. According to Darwanis' (2014) research on the effect of capital expenditure on local revenue, greater spending on capital expenditures can increase local revenue. Saputra (2007) analyzed the regional financial capacity and its influence on regional spending in Southeast Aceh Regency. The study found a positive and significant correlation between local taxes and levies and total regional spending.

Walidi (2009) investigated the impact of general allocation funds on per capita income, with capital expenditure as an intervening variable, in a case study of North Sumatra province. The study found that the General Allocation Fund has a significant impact on per capita income. Additionally, capital expenditure was found to have a significant effect on per capita income. The study also revealed that the General Allocation Fund has a significant effect on capital expenditure. Furthermore, both the General Allocation Fund and capital expenditure were found to have a significant effect on per capita income. It was also discovered that capital expenditure acts as an intervening variable in the relationship between general allocation funds and per capita income. Meanwhile, Panggabean (2009) investigated the impact of local revenue on local spending in Toba Simosir Regency. The study found that local taxes have a positive effect on regional spending, while regional levies do not affect it. Additionally, other legitimate regional revenues have a positive impact on regional spending. When combined, local taxes, local levies, and other legitimate local revenues have a positive effect on local spending. Table 2.1 This study presents a matrix of previous research that served as a reference.

Table 2.1

*Previous Research Matrix*

No	Research	Research Title	Variable	Research Results
1.	Darwanis & Saputra (2014)	Pengaruh Belanja Modal terhadap Pendapatan Asli Daerah dan Dampaknya Pada Kinerja Keuangan Pemerintah Daerah (Studi Empiris Pada Pemerintah Daerah Kabupaten/Kota di Provinsi Aceh)	- Capital expenditure - PAD - Financial Performance	The Impact of Capital Expenditure on Local Revenue
2.	Dewi (2012)	Analisis Pendapatan Asli Daerah Dan Faktorfaktor Yang Mempengaruhinya Dalam Rangka Otonomi Daerah: Pendekatan Error Correction Model.	- Capital expenditure - PAD	The Impact of Capital Expenditure on Local Revenue
3.	Triyanto et al. (2017)	The Effect of Capital Expenditure on Local Own-Source Revenue: Study In East Java Indonesia.	- Capital Expenditure - Regional Revenue	The Impact of Capital Expenditure on Local Revenue
4.	Saputra & Andra (2007)	Analisis Kemampuan Keuangan Daerah dan Pengaruhnya terhadap Belanja Daerah di Kabupaten Aceh Tenggara.	- Regional Financial Capability - Regional Expenditure	The study found a positive and significant correlation between PAD, Regional Taxes, and Regional Levies with Regional Expenditure.
5.	Walidi (2009)	Pengaruh Dana Alokasi Umum terhadap Pendapatan Per Kapita, Belanja Modal sebagai Intervening Variabel (Studio Kasus di Propinsi Sumatera Utara).	- General Allocation Fund - Capital Expenditure (Intervening) - Per capita income	Additionally, the General Allocation Fund was found to have a significant impact on per capita income. Regional expenditure has a significant effect on per capita income.
6.	Panggabean (2009)	Pengaruh Pendapatan Asli Daerah Terhadap Belanja Daerah di Kabupaten Toba Samosir.	- Local Tax - Local Retribution - Results of Management of Separated Regional Assets	Regional Original Revenue has a positive effect on Regional Expenditure.

			- Other legitimate PAD	
			- Regional Expenditure	

Source: Processed Data (2020)

**Hypothesis Development**

*The Effect of Regional Expenditure on Regional Original Revenue*

Optimizing PAD revenue must be supported by efforts to improve the quality of public services. Various expenditures allocated by the government should be of direct benefit to the community. Through its capital expenditures, the government can of course increase regional revenue both in the form of Regional Taxes and Regional Levies, Separated Regional Wealth Management Results, and other legitimate PAD receipts. All of these are indicators of PAD revenue (Mardiasmo, 2014).

Local governments must run their own households independently. In order to increase their independence, the government is required to improve public services. The regional budget will not be logical if the allocation is large enough for routine expenses. Capital expenses made by local governments include the development and improvement of the education, health, and transportation sectors, so that people can enjoy the benefits of regional development. The availability of good infrastructure can encourage the creation of efficiency and effectiveness in various sectors.

The government needs to facilitate various economic activities, one of which is by opening up investment opportunities. Infrastructure development and the provision of various facilities are carried out to increase investment attractiveness. With the availability of public service facilities, the community will be more active and passionate in working, and the increased productivity of the community and investors in the region will have an impact on increasing PAD. Adi (2006) states that infrastructure development has a real impact on the increase in local taxes. Taxes and levies are a component of PAD, which is the added value obtained from an optimally developed industrial sector. The infrastructure sector is derived from capital expenditure. Oktavina (2012), Darwanis (2014), and Danang et al. (2017) state that capital expenditure has a significant and positive effect on local revenue.

PAD is an important source of income for a region in fulfilling its expenditures. The more PAD obtained, the more it allows the region to meet its own spending needs without having to depend on the central government. Based on the above statement, it can be concluded that capital expenditure for infrastructure has a significant effect on increasing PAD. Based on the theoretical studies previously described, a framework can be formed as shown in Figure 2.1.



Figure 2.1: Theoretical Framework



*Hipotesis*

Based on the conceptual framework stated earlier, the research hypothesis is formulated as follows

Ha: There is an influence of regional expenditure on regional original revenue in each Regency/City in Aceh Province.

**Research Methods***Research Population*

This research is a census study that uses the population as the research subject. The population that will be used in this study is all districts/cities in Aceh Province. The total population is 23 districts/cities consisting of 18 districts and 5 municipalities. This study uses regional financial data within a span of 5 years, namely 2015 to 2019, obtained from local government financial reports (Regional Revenue and Expenditure Budget Realization Reports). The list of researched populations is presented in Table 3.1.

Table 3.1

*Research Population*

No	District/City	Population	No area	Expansion	Complete data	Sample
1	Banda Aceh	√	√		√	√
2	Aceh Besar	√	√		√	√
3	Pidie	√	√		√	√
4	Pidie Jaya	√	√		√	√
5	Bireuen	√	√		√	√
6	Aceh Utara	√	√		√	√
7	Aceh Timur	√	√		√	√
8	Aceh Jaya	√	√		√	√
9	Aceh Barat	√	√		√	√
10	Nagan Raya	√	√		√	√
11	Simeulue	√	√		√	√
12	Aceh Barat Daya	√	√		√	√
13	Aceh Selatan	√	√		√	√
14	Aceh Tenggara	√	√		√	√
15	Gayo Lues	√	√		√	√
16	Aceh Singkil	√	√		√	√
17	Aceh Tengah	√	√		√	√
18	Aceh Tamiang	√	√		√	√
19	Sabang	√	√		√	√
20	Lhokseumawe	√	√		√	√
21	Langsa	√	√		√	√
22	Bener Meriah	√	√		√	√
23	Subulussalam	√	√		√	√

Source: Central Bureau of Statistics (2020)

**Description**

√ = fulfills the criteria

X = does not fulfill the criteria  
 Number of observations over 5 years (2015-2019)

*Data Collection Method*

The type of data used in this study is secondary data obtained from the Regional Revenue and Expenditure Budget Realization Report of each Municipality from 2015 to 2019. Additionally, data was also obtained from the Regional Statistics Report from the Central Statistics Agency in accordance with the observation year.

**Definition and Measurement of the Variables**

*Variable Operationalization*

This study uses one dependent variable, Regional Original Revenue (PAD), and one independent variable, Regional Expenditure.

a. Regional Original Revenue

Regional Original Revenue (PAD) is the revenue of the Regional Government of the Regency/City which arises from local taxes, local levies, the results of the management of separated regional assets, and other lawful revenues. Local Original Revenue is measured in units of rupiah.

b. Regional Expenditures

Regional expenditures are all regional obligations that are recognized as a reduction in net worth in the fiscal year period concerned (Law 33 of 2004). Regional Expenditures are measured in units of rupiah.

Table 3.2

*Variable Operationalization*

Research Variables	Definition	Indicator	Scale
Regional Original Revenue (PAD)	Regency/city government revenue is sourced from local taxes, local levies, segregated wealth management results, and other legitimate revenues.	Realization of Regional Original Revenue (PAD)	Ratio
Regional Expenditure	All regional liabilities that are recognized as a deduction from the net worth during the relevant fiscal year (Law 33 of 2004).	Realization of Regional Expenditure	Ratio

Source: Processed Data (2020)

**Analysis Method**

This research uses an analytical approach carried out by the Ordinary Least Squares (OLS) method. The OLS method aims to estimate a regression line by minimizing the sum of the squares of the errors of each observation on the line. Given the conceptual framework and operational variables as previously stated, a simple Linear Regression model is used with the following equation

$$\ln \text{PAD} = \alpha + \beta \ln \text{BD} + \epsilon$$

#### Description

PAD	=	Regional Original Revenue
$\alpha$	=	Constants
$\beta$	=	Regression Coefficient
BD	=	Regional Expenditure
$\epsilon$	=	Error (confounding variable)

#### Result and Discussion

##### *Development of District/City Expenditure Allocation in Aceh Province.*

Regional expenditure is prepared to fund the implementation of local government affairs, which are the authority of district/city governments in Aceh Province. Government affairs consist of mandatory and optional affairs. The preparation of expenditures for the implementation of mandatory affairs is based on the Minimum Service Standards that have been determined. Local governments set performance targets for each expenditure, both in the context of regions, regional work units, as well as programs and activities that aim to improve the accountability of budget planning and clarify the effectiveness and efficiency of budget use.

Regional expenses are categorized into two types, namely indirect expenses and direct expenses. Indirect expenditure includes interest expenditure, subsidy expenditure, grant expenditure, social assistance expenditure, revenue sharing expenditure to provinces/counties and village governments, and financial assistance expenditure to provinces/counties and village governments. Meanwhile, direct expenditure includes personnel expenditure, goods and services, and capital expenditure.

To increase regional spending, the amount of Gross Regional Domestic Product (GRDP) must be large. Because the greater the GRDP, the greater the income received by the district/city, and with the greater income obtained by the region, the greater the allocation of spending by the central government to increase various local potentials in the area for the benefit of public services.

Regional expenditure is seen from the development of the population in a region. If the development of the population is getting bigger, it will require a bigger budget. Because the increasing population demands the logical consequence of an increase in public facilities and infrastructure, both in terms of quantity and quality. The development of a larger population will require a larger budget. So, to ensure the quality of economic growth, population growth must always be controlled. The development of district/city regional expenses in Aceh province can be seen in Table 4.1.

Table 4.1

*Development of Regional Expenditure of Districts and Cities in Aceh Province 2015-2019 (in Rupiah)*

No	District/City	2015	2016	2017	2018	2019
1	Banda Aceh	1.154.827.388.812	1.234.759.979.059	1.089.345.543.759	1.046.500.852.725	1.088.763.331.630
2	Aceh Besar	1.427.331.860.823	1.807.218.555.088	1.212.483.638.215	1.238.259.882.632	1.722.230.686.231
3	Pidie	1.441.478.674.928	1.637.204.613.794	1.437.966.499.021	1.394.964.932.363	2.153.273.014.352
4	Pidie Jaya	783.806.765.728	823.641.522.416	759.814.732.155	999.950.749.631	1.022.726.512.471
5	Bireuen	1.386.834.966.247	1.472.270.133.827	1.531.256.795.028	1.259.323.420.016	1.926.156.612.168
6	Aceh Utara	1.716.336.104.584	1.814.818.306.098	1.704.640.110.306	1.547.333.846.783	1.883.897.843.009
7	Aceh Timur	1.287.131.191.914	1.375.682.651.145	1.509.261.355.233	1.165.690.643.629	1.498.767.676.275
8	Aceh Jaya	793.150.352.288	875.631.171.573	834.182.225.876	628.762.243.719	921.787.794.959
9	Aceh Barat	1.123.320.640.322	1.329.717.090.210	1.284.657.348.727	1.264.344.934.469	1.366.760.779.514
10	Nagan Raya	986.077.377.827	967.860.765.458	921.740.160.904	774.140.415.499	1.126.913.767.809
11	Simeulue	831.953.762.362	731.062.916.123	826.046.624.228	696.533.809.555	820.037.990.703
12	Aceh Barat Daya	820.457.704.017	975.309.064.835	768.685.610.895	660.676.286.962	1.002.636.620.119
13	Aceh Selatan	1.124.550.151.005	1.255.218.560.934	1.286.895.635.735	1.105.179.286.804	1.206.764.067.381
14	Aceh Tenggara	1.224.565.819.300	1.434.313.995.465	1.094.535.861.289	783.073.547.929	1.350.619.787.345
15	Gayo Lues	908.463.486.005	949.958.202.451	1.827.088.577.025	723.255.348.332	837.163.202.572
16	Aceh Singkil	767.609.577.009	849.838.310.334	741.736.428.742	604.625.656.297	732.491.894.650
17	Aceh Tengah	1.319.893.163.274	1.367.924.804.891	1.216.954.606.385	974.289.192.652	1.097.256.357.799
18	Aceh Tamiang	1.069.759.459.585	1.095.823.297.858	1.090.259.503.352	1.046.184.626.788	1.312.594.266.236
19	Sabang	586.753.418.257	589.486.704.600	586.872.021.349	562.517.551.850	623.919.969.591
20	Lhokseumawe	836.023.957.358	800.532.645.791	1.869.240.049.857	774.506.868.913	873.465.604.518
21	Langsa	759.998.324.523	928.809.983.737	828.498.977.791	1.817.266.689.766	930.309.326.664
22	Bener Meriah	823.524.061.038	816.541.852.485	806.383.956.377	674.544.378.866	1.031.786.193.111
23	Subulussalam	584.479.514.802	759.429.048.181	661.332.052.576	469.940.602.297	605.329.307.193

Source: The Financial and Wealth Management Office Aceh Province (2020)

Table 4.1 displays the regional spending development in districts and cities of the Province of Aceh from 2015 to 2019. In 2015, Aceh Utara District had the highest regional expenditure of Rp. 1,716,336,104,584, while Subulussalam City had the lowest at Rp. 584,479,514,802. In 2016, Aceh Utara District again had the highest regional expenditure at Rp. 1,814,818,306,098, and Sabang City had the lowest at Rp. 589,486,704,600. In 2017, Aceh Utara District had the highest regional expenditure at Rp. 1,704,640,110,306, while Sabang City had the lowest at Rp. 586,872,021,349. The following year, Aceh Utara District still had the highest regional expenditure at Rp. 1,547,333,846,783, while Subulussalam City had the

lowest at Rp. 469,940,602,297. In 2019, Pidie District had the largest regional expenditure at Rp. 2,153,273,014,352, while Subulussalam City had the lowest at Rp. 605,329,307,193.

### *The Development of Regional Original Revenues in Each District/City in the Province of Aceh*

Regional autonomy and fiscal decentralization are challenges faced by every regional government due to the imbalance between regional fiscal needs and capacity, resulting in fiscal gaps. To address this issue, regional governments must optimize existing potentials to increase Regional revenues (PAD) without violating norms. The optimization of PAD (local taxes) in terms of revenue should be followed by effective budget management in terms of expenditures, while adhering to the principle of value for money. This should be carried out comprehensively with various strategies in accordance with the principles of regional and national financial management. Control procedures within the regional government should be enhanced to fulfill the principles of stewardship and accountability.

Regional Revenues are the rights of regional governments recognized as additions to the net wealth obtained from Local Taxes, Regional Levies, proceeds from the Management of Separated Regional Assets, and Other Legitimate Regional Revenues, as stipulated in Law Number 23 of 2014 concerning Regional Governments, Government Regulation Number 58 of 2005 concerning Regional Financial Management, and Minister of Home Affairs Regulation Number 13 of 2006 concerning Guidelines for Regional Financial Management. The definition of regional revenues is clearly regulated in legislation and should not be subject to debate. In practice, the objects of regional revenues must have a clear legal basis for their collection. Local Taxes and Regional Levies are regulated by Law Number 28 of 2009 concerning Local Taxes and Regional Levies. Their implementation in the region must be regulated by Regional Regulations. Regional Governments are prohibited from imposing levies outside what has been stipulated in the laws and regulations in accordance with Law Number 23 of 2014 concerning Regional Governments in Article 286 paragraph (2). Regional governments are required to base their tax collection on regional regulations, as Regional Work Units (SKPD) are prohibited from collecting fees other than those stipulated in Regional Regulations, according to Article 58, paragraph (1) of Government Regulation Number 58 of 2005. This requirement is also regulated in Minister of Home Affairs Regulation Number 13 of 2006, concerning Guidelines for Regional Financial Management, in Article 128, paragraph (2).

Reforms in legislation have led to significant changes, as evidenced by Law Number 28 of 2009 regarding Local Taxes and Regional Levies. The system has transitioned from an open list to a closed list, which means that Regional Governments can only collect Local Taxes and Regional Levies as specified by the law. Government Regulation Number 97 of 2012 regulates additional levies for Traffic Control and Fees for Extending Permits to Employ Foreign Workers. It is important to maintain a clear and objective language, avoiding biased or emotional language, and using precise word choice. Regional Governments are granted the authority to expand the basis for Local Taxes and Regional Levies in terms of tariff determination, in accordance with the law and the Central Government's policy. The text should also adhere to conventional structure and formatting features, and be free from grammatical errors, spelling mistakes, and punctuation errors. The oversight of regional levies has shifted from being repressive to preventive. According to the current regulations, every Regional Regulation regarding Local Taxes and Regional Levies must obtain approval from the Central Government. The Central Government has the authority to repeal Regional Regulations if they violate higher-level regulations or if they are not regulated in legislation. This is in accordance with Law Number 12 of 2011 regarding the Formation of Legislation,

which recognizes and has legal binding power only if ordered by higher-level regulations or established based on authority (Article 8, paragraph 2). If a Regional Government, particularly in Local Taxes and Regional Levies, creates a legal product that violates higher-level regulations, the Central Government through the Ministry of Finance imposes sanctions.

The development of regional spending in districts/cities in Aceh Province is presented in Table 4.2.

Table 4.2  
*Development of Local Revenues of Districts and Cities in Aceh Province 2015-2019 (in Rupiah)*

No	District/City	2015	2016	2017	2018	2019
1	Banda Aceh	6.500.996.271	3.904.889.113	0.877.031.733	1.470.773.450	9.778.308.636
2	Aceh Besar	0.534.636.180	0.534.636.180	6.380.380.300	2.398.380.300	0.937.963.300
3	Pidie	2.642.467.230	4.042.605.825	4.941.845.159	7.642.748.009	0.531.807.650
4	Pidie Jaya	804.943.619	608.731.729	022.268.723	000.000.000	195.078.659
5	Bireuen	7.255.638.456	9.866.989.814	0.797.958.883	0.170.920.320	6.245.085.621
6	Aceh Utara	2.471.250.449	0.905.125.977	5.272.144.071	8.698.548.452	4.917.348.272
7	Aceh Timur	072.964.671	720.180.360	4.288.180.444	6.549.143.142	5.252.734.432
8	Aceh Jaya	858.358.560	479.474.400	425.121.489	22.676.525	63.026.164
9	Aceh Barat	7.273.515.183	8.676.267.082	5.972.324.490	5.425.983.311	6.876.962.235
10	Nagan Raya	392.717.037	3.948.175.508	6.121.893.442	0.411.018.024	9.486.871.966
11	Simeulue	775.947.904	331.695.661	968.896.638	740.551.497	056.000.000
12	Aceh Barat Daya	356.477.373	878.685.018	2.620.488.662	174.113.700	541.383.069
13	Aceh Selatan	937.964.769	0.282.498.693	0.819.203.027	5.862.127.299	950.830.477
14	Aceh Tenggara	516.854.355	791.399.034	5.755.171.495	908.495.347	0.086.215.247
15	Gayo Lues	400.527.470	950.703.025	338.474.577	431.433.676	062.446.000
16	Aceh Singkil	980.224.553	057.160.522	180.463.317	323.965.901	776.611.716
17	Aceh Tengah	9.550.362.624	2.654.626.748	4.466.831.381	3.064.444.080	7.490.167.303
18	Aceh Tamiang	5.834.506.000	8.016.249.645	7.425.735.124	1.815.373.710	9.671.209.191
19	Sabang	541.734.187	020.144.077	885.657.700	609.405.392	011.302.733
20	Lhokseumawe	314.758.015	0.905.125.977	251.583.646	287.617.843	178.941.193
21	Langsa	4.529.994.341	3.420.175.265	7.325.504.605	5.634.683.815	3.718.784.258
22	Bener Meriah	113.878.433	064.878.901	7.489.110.244	6.273.260.300	647.327.966
23	Subulussalam	930.396.670	303.354.888	328.774.557	419.897.294	380.000.000

Source: The Financial and Wealth Management Office Aceh Province (2020)

Table 4.2 displays the Regional Revenues (Pendapatan Asli Daerah/PAD) development in districts/cities of the Province of Aceh from 2015 to 2019. In 2015, Aceh Utara District had the highest Regional Revenue at Rp. 202,471,250,449, while Gayo Lues District had the lowest at Rp. 37,400,527,470. In 2016, Aceh Utara District had the highest PAD at Rp. 430,905,125,977, and Aceh Timur District had the lowest at Rp. 10,720,180,360. In 2017, Pidie District had the highest PAD at Rp. 354,941,845,159, while Sabang City had the lowest at Rp. 48,885,657,700. The largest PAD in 2018 was held by Aceh Utara District at Rp. 358,698,548,452, and the smallest was held by Aceh Jaya District at Rp. 5,922,676,525. In 2019, Aceh Utara District had the highest PAD at Rp. 304,917,348,272, and Aceh Jaya District had the lowest at Rp. 5,363,026,164.

#### *Descriptive Analysis*

The research results present an explanation of the data processing sourced from the realization reports of the Regional Budget. This is followed by a comprehensive discussion that addresses the previously stated research problem and the data requirements necessary for analysis purposes. The analysis in this research was obtained from the collection of secondary data sourced from the realization of the Regional Budget in districts/cities in Aceh. After collecting all the data, quantitative analysis was performed using various analytical tools

available in this research. The statistical description of the research data can be found in Table 4.3.

Table 4.3  
*Descriptive Statistics*

	N	Minimum	Maximum	Mean	Std. Deviation
PAD	115	5.363.026.164	430.905.125.977	124.359.129.556	81.675.039.195
BD	115	469.940.602.297	2.153.273.014.352	1.059.902.422.508	344.155.375.836
Valid N (listwise) 100					

Source: Output SPSS (2021)

Table 4.3 shows that there were 115 observations. The average Regional Revenues (PAD) received by districts/cities in the Province of Aceh was Rp. 124,359,129,556. The district with the lowest PAD was Aceh Jaya District in 2019, with an amount of Rp. 5,363,026,164. The highest PAD was held by Aceh Utara District in 2016, with an amount of Rp. 430,905,125,977. The standard deviation was Rp. 81,675,039,195. The table above shows that PAD reflects the region's potential to increase its regional income based on its actual potential. On average, district/city regional governments in Aceh Province experienced growth in PAD receipts from 2015 to 2019, due to rapid development in local taxes and levies. On average, district/city regional governments in Aceh Province experienced growth in PAD receipts from 2015 to 2019, due to rapid development in local taxes and levies. It is important to note that this analysis is based on objective data and does not include any subjective evaluations.

Meanwhile, the average realization of Regional Expenditure in all Districts/Cities in Aceh Province is Rp. 1,059,902,422,508. The Regional Expenditure amounts range from Rp. 469,940,602,297 held by Subulussalam City in 2018 to Rp. 2,153,273,014,352 held by Pidie District in 2019, with a standard deviation of Rp. 344,155,375,836. Regional Expenditure represents spending carried out by the regional government, including development and improvement in sectors such as education, health, transportation, roads, bridges, and various public facilities that are subject to levies or taxes. These activities benefit the community due to regional development. The presence of adequate infrastructure is anticipated to enhance efficiency and effectiveness across various sectors, resulting in increased productivity and improved regional welfare.

#### *Analysis of Normality Test Results*

The normality test in this study aims to determine whether the disturbance variable or residual in the regression model conforms to a normal distribution. The t-test and F-test assume that the residual values follow a normal distribution. If this assumption is not met, the use of the regression model for prediction becomes invalid. Table 4.4 shows the results of the normality test of the data using the Kolmogorov-Smirnov Test.

Table 4.4

*Normality Test***One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		115
Normal Parameters <sup>a,b</sup>	Mean	,0000107
	Std. Deviation	60328999527,96654500
	Absolute	,123
Most Extreme Differences	Positive	,123
	Negative	-,093
Kolmogorov-Smirnov Z		1,320
Asymp. Sig. (2-tailed)		,061

a. Test distribution is Normal.

b. Calculated from data.

Source: Output SPSS (2021)

Based on the results of the Kolmogorov-Smirnov test, the significance value is 0.61, which is greater than 0.05, indicating that the data is normally distributed.

*Analysis of Heteroscedasticity Test Results*

The heteroscedasticity test indicates that the variance between residuals is not homogeneous, resulting in less efficient estimated values. Scatterplot graphs were used to test for symptoms of heteroscedasticity in this research. The analysis of scatterplot graphics involves examining specific patterns that emerge on the graph, as shown in Figure 4.1.

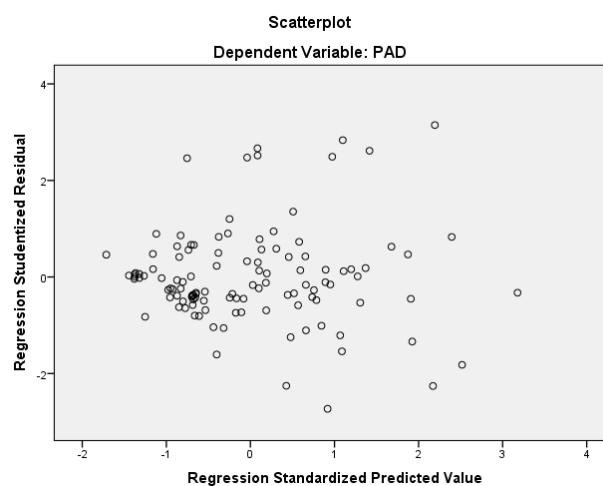


Figure 4.1: Scatterplot Test

Source: Output SPSS (2021)

The analysis using the Scatterplot graph indicates that there is no clear pattern, and the points are spread between the numbers 0 on the X and Y axes, suggesting no heteroscedasticity in this study.

*Analysis of Multicollinearity Test Results*

The Multicollinearity Test is used to determine whether there is intercorrelation or collinearity between variables in a regression model. This test can be performed using the



Pearson correlation matrix. However, if the correlation coefficient value is between -0.9 and 0.9, multicollinearity is not present. If the correlation coefficient value is less than -0.9 or greater than 0.9, multicollinearity is present. However, if the correlation coefficient value is between -0.9 and 0.9, multicollinearity is not present. However, if the correlation coefficient value is between -0.9 and 0.9, multicollinearity is not present. Table 4.5 presents the correlation matrix values.

Table 4.5  
*Multicollinearity Test*

	PAD	REGIONAL EXPENDITURE
PAD	1,00	0,674
REGIONAL EXPENDITURE	0,674	1,00

Source: Output SPSS (2021)

Table 4.5 shows that the correlation values of each variable are not greater than 0.9 or less than -0.9. Based on these results, it can be concluded that the regression model used in this study is free from multicollinearity among variables.

*Analysis of Autocorrelation Test Results*

The autocorrelation test was conducted to determine whether there was a correlation between disturbances in the linear regression model between period t and disturbances in the previous period. To test for autocorrelation within a regression model, Durbin-Watson values are used. The results of the Durbin-Watson test are presented in Table 4.6.

Table 4.6  
*Autocorrelation Test*

**Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,674 <sup>a</sup>	,454	,450	60595354021,8798	1,178

a. Predictors: (Constant), BELANJADAERAH

b. Dependent Variable: PAD

Source: Output SPSS (2021)

Table 4.6 shows a Durbin-Watson value of 1.178, indicating the presence of autocorrelation. The dL value is 1.67828 and the dU value is 1.71333 (Durbin-Watson Table t=115; K=2). To address this issue, a retest was conducted by including the lag value of the dependent variable as one of the independent variables, following Firdaus (2004). The results of the test are presented in Table 4.7.

Table 4.7

*Autocorrelation Testing Phase 2***Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,762 <sup>a</sup>	,580	,573	53444181222,5641	1,840

a. Predictors: (Constant), LAG\_PAD, BELANJADAERAH

b. Dependent Variable: PAD

Source: Output SPSS (2021)

The retested results of the Durbin-Watson test in Table 4.7 indicate an absence of autocorrelation, with a Durbin-Watson value of 1.840.

*Estimation Results*

To determine the influence of Regional Expenditure on Regional Revenues in districts/cities in the Province of Aceh, a Simple Linear Regression calculation was conducted, and the final results are presented in Table 4.8.

Table 4.8

*Regression Results***Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	-45199669225,907	18368949017,307		-2,461	,015
1 BELANJADAERAH	,160	,016	,674	9,701	,000

a. Dependent Variable: PAD

Source: Data Processing Results, (2021)

- The equation derived from the research results is:  $Y = -4.52E+10 + 0.16X$ .
- The constant value of  $-4.52E+10$  indicates that if Regional Expenditure remains constant, the amount of Regional Revenues in districts/cities in the Province of Aceh will decrease by 45,199,669,225.907 Rupiah.
- The regression coefficient for Regional Expenditure is 0.16, indicating that a 1 percent change in the Regional Expenditure variable results in a 16 percent increase in Regional Revenues in districts/cities in the Province of Aceh, assuming that other variables influencing Regional Revenues remain constant.

Table 4.9

*Model Summary***Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,674 <sup>a</sup>	,454	,450	60595354021,8798

a. Predictors: (Constant), BELANJADAERAH

Source: Output SPSS (2021)

District/city Original Revenue in Aceh Province is influenced by Regional Expenditure, with a determinant coefficient (R<sup>2</sup>) of 0.454 or 45.4%. This indicates that the Regional Expenditure can influence the District/city Original Revenue in Aceh Province by 45.4%; the remaining 54.6% may be influenced by other variables outside the research model such as taxes, levies, revenue from Regional Owned Enterprises, GRDP, Economic Growth and other variables.

*Statistical Test Results*

To test the hypothesis in this study, the authors used the F-test and t-test, this test was conducted at the confidence level (95% confidence interval) or error rate (alpha)  $\alpha$  of 0.05. The t-test was conducted to see how the influence of the explanatory variables on the dependent variable partially, while the F-test was conducted to see how the influence of the explanatory variables on the dependent variable simultaneously.

## a. Results of the t-test

The Regional Expenditure variable obtained a t-count value of 2.461 which is greater than the t-table of 1.9917 or with a significant value of 0 (less than 0.05). This means that Regional Expenditure variable has a significant effect on Regency/City Original Revenue in Aceh Province.

*Discussion*

Hypothesis testing is conducted to determine whether the test results align with the formulated hypotheses based on the regression analysis model analyzed in this study. The results indicate that Regional Expenditure has an impact on District/City Original Revenue in Aceh Province. Therefore, to increase local revenue, reducing local expenditure is recommended. These findings support the research of Darwanto and Yustikasari (2007), which suggests that local expenditure has a significant impact on local revenue.

**Conclusion**

Based on the research results, it can be concluded that the allocation of regional expenditures in Aceh Province fluctuates, with an overall tendency to increase from 2015-2017, followed by a relative decrease in 2018-2019. The original revenue of Regency/City in Aceh Province is influenced by regional expenditure, with a determinant coefficient (R<sup>2</sup>) of 0.454 or 45.4%. This means that regional expenditure can influence Regency/City original revenue in Aceh Province by 45.4%, while the remaining 54.6% is influenced by other variables outside the scope of this research model, such as taxes, levies, revenue from regional owned enterprises, GRDP, and economic growth.

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