The Influence of Regional Original Income and Balanced Funds on Capital Expenditure and Community Welfare

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Keywords:	Abstract
Original Regional Income, Balancing Fund, Capital Expenditure, Community Welfare	This study examines the influence of Regional Original Income (ROI) and Balancing Funds (BF) on Capital Expenditure (CE) and Community Welfare (CW) in Makassar City, South Sulawesi Province. Using secondary data from the BPS covering the period from 2014 to 2023, the research applies quantitative methods, including multiple linear regression and hypothesis testing, to analyze the relationships between these variables. The findings indicate that ROI significantly and positively impacts CW, suggesting that higher ROI contributes to improved community welfare. In contrast, BF and CE do not show significant effects on CW within the observed timeframe. This result highlights the critical role of ROI in driving community welfare improvements, emphasizing the need for effective financial management and strategic planning by regional governments. The study underscores the importance of the prudent allocation of regional funds to optimize public services and infrastructure development, which are essential for enhancing overall welfare. It also points out that simply increasing BF or CE without targeted strategies may not yield substantial benefits for community welfare. To achieve a more comprehensive understanding of the factors affecting CW, further research is suggested. Expanding the scope of analysis and including additional variables, such as education, healthcare, and private investment, could provide a deeper insight into the complex dynamics influencing welfare. These findings are expected to guide policymakers in formulating strategies to foster sustainable regional development.

1. Introduction

Makassar City is a city that is the economic gateway to eastern Indonesia, and is the largest in the Eastern Indonesia region. Makassar City implements regional autonomy in carrying out regional development, in order to face these conditions.

The level of community welfare is measured by the Human Development Index (HDI). The Human Development Index is a concept that underlies development to achieve human welfare as the ultimate goal of development. Efforts to improve community welfare in human development include three basic components, namely life opportunities (health), knowledge (education), decent living (income). Makassar City has a level of welfare that increases every year, but the increase tends to be slow and there are still disparities between regions. This can be seen in the Makassar City Human Development Index (HDI) table for the last 10 years, as follows:

Table 1. Human Development Index

No	Year	Human Development Index (%)
1	2014	79.35
2	2015	79.94
3	2016	80.53
4	2017	81.13
5	2018	81.73
6	2019	82.25
7	2020	82.25
8	2021	82.66
9	2022	83.12
10	2023	83.52

Source: BPS Makassar City (2024)

Based on Table 1, it shows that the HDI in the city of Makassar, South Sulawesi Province continues to increase from year to year. In 2014 it was 79.35, increasing in 2015 to 79.94. Meanwhile in 2019 and 2020 the HDI did not increase with an HDI of 82.25. Then it increased again over the last three years,

namely 82.66 in 2021, 83.12 in 2022 and 83.52 in 2023. The increase in HDI is not only due to economic growth, but also from various aspects of development. Regional Original Income, balancing funds and capital expenditure can also improve community welfare.

The tool for carrying out real and responsible regional autonomy is the APBD where all government activities or policies can be seen through the APBD. Regional expenditure which includes routine expenditure and development expenditure constitutes all regional expenditure in the fiscal year period. Regional spending is prioritized to improve people's living standards, which is the government's goal and obligation through improving basic services such as improving educational facilities, health facilities and developing social security by considering analysis of spending standards (Article 167 paragraph 3 of Law No. 32/2004). Salih (2012) added that public spending must be used on target. The government carries out capital expenditure to obtain government fixed assets such as equipment, buildings and other infrastructure. The following is the realization of capital expenditure for Makassar City, South Sulawesi Province for the period 2014 – 2023.

Tabel 2. Capital Expenditure

No	Year	Capital Expenditure (in Rupiah)
1	2014	463,260,545,000
2	2015	673,026,826,000
3	2016	634,536,952,000
4	2017	625,025,978,000
5	2018	746,832,062,000
6	2019	884,202,774,000
7	2020	291,202,741,000
8	2021	322,970,000,000
9	2022	450,300,000,000
10	2023	1,113,010,000,000

Source: BPS Makassar City (2024)

Based on the realization of Makassar City capital expenditure above, it is known that the realization of capital expenditure has fluctuated. The highest realization of capital expenditure in 2023 was IDR 1,113,010,000,000, while the lowest realization of capital expenditure was in 2020 amounting to IDR 291,202,741,000. Capital Expenditures are Regional Government expenditures whose benefits exceed one budget year and will increase regional assets or wealth and will further increase routine expenditures such as operation and maintenance costs. By allocating more of the budget to capital expenditure, the level of community welfare will increase. This is in line with the results of research by Imanulloh & Purwanti (2017) which states that capital expenditure has a significant effect on community welfare.

Apart from that, the factor that influences community welfare is Regional Original Income. Original Regional Income is the sum of regional taxes, regional levies, results of management of separated regional assets and other legitimate income, obtained from receipts from sources within the region itself which are collected based on regional regulations in accordance with applicable laws and regulations (Setiawati et al., 2021).

Makassar City's Original Regional Income (PAD) has fluctuated over the last 10 years. In 2014 - 2017, Makassar City's Original Regional Income (PAD) tended to experience an increase, where in 2014 Makassar City's Original Regional Income (PAD) was IDR 731,170,425,000, IDR 828,871,893,000 in 2015, IDR 971,859,754,000 in 2016 and IDR 1,337,404,011,000 in 2017. The greater the PAD that a region has, the greater the public services provided by the Regional Government to the community and vice versa. As a form of decentralization, local governments will not depend on the central government if they have a high level of PAD. Research conducted by Fernandes & Putra (2022), Putra & Dewi (2018) shows that the greater the contribution of Original Regional Income to total Regional Income, the greater the level of welfare of the community. High Original Regional Income shows that the Regional Government is able to explore and maximize potential sources of income in the area. Increasing Original Regional Income will increase the region's

ability to finance public service needs such as improving health support facilities, education and public facilities so that it can provide benefits to the community and improve community welfare.

Balancing Funds are funds sourced from the APBN which are allocated to regions to fund regional needs in the context of implementing decentralization (Aditya et al., 2021). The Balancing Fund aims to reduce the fiscal gap between the central government and regional governments and local economic developers. Balancing funds come from the Profit Sharing Fund (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK). Based on the realization of the equalization funds for Makassar City for the period 2014 - 2023, overall conditions experienced fluctuations, with the highest realization of equalization funds in 2016 amounting to IDR 1,992,747,630,000, while the lowest realization of equalization funds was in 2014 amounting to IDR 1,251,876,573,000.

The correlation between the Balancing Fund and the Human Development Index is reflected in agency theory that the relationship between the principal and the agent acts on behalf of the public, serves the interests of the principal, and the agent receives certain rewards for his actions. Research conducted by Putra & Dewi (2018) states that the Balancing Fund and the Human Development Index are interrelated, the higher the balancing fund, the higher the allocation of funds for capital expenditure to increase the development of public infrastructure which can improve the welfare of the community.

Based on the above phenomenon, researchers are interested in further research regarding "The Influence of Regional Original Income and Balancing Funds on Capital Expenditures and Community Welfare in Makassar City, South Sulawesi Province".

2. Literature Review
2.1 Regional Original Income

Syam et al., (2018) stated that regional original income (PAD) is a source of PAD which comes from total regional taxes, the results of regionally owned companies and the processing of other regional assets which are separated, and other regional income which is legal and expressed in units. rupiah. Regional original income (PAD) is all the rights of the Regional Government which are recognized as adding to the value of net assets. In a broad sense, regional original income is all regional cash receipts which increase the equity of funds for the period of the relevant fiscal year which are the rights of the Regional Government (Fitri et al., 2021).

2.2 Balancing Fund

Balancing Funds are funds sourced from the APBN which are allocated to regions to fund regional needs in the context of implementing decentralization (Aditya et al., 2021). The Balancing Fund aims to reduce the fiscal gap between the central government and regional governments and local economic developers. Meanwhile, according to Djaenuri (2012), the definition of balancing funds is a source of regional income originating from the APBN to support the implementation of regional government authority in achieving the goal of granting autonomy to regions, namely primarily improving services and better community welfare.

2.3 Capital Expenditures

According to Article 55 of Government Regulation Number 12 of 2019, capital expenditure is budget expenditure for the acquisition of fixed assets and other assets that provide benefits for more than 1 (one) accounting period. Capital Expenditure is Regional Government expenditure whose benefits exceed one budget year and will increase regional assets or wealth and will further increase routine expenditure such as operation and maintenance costs (Rahmatullah et al., 2022).

2.4 Public Walfare

Community welfare is an inseparable part of the economic development paradigm.

Economic development is said to be successful if the level of community welfare improves. The gaps and inequalities in community life are a result of the success of economic development without being accompanied by an increase in community welfare. According to Badrudin (2012) Community welfare is a condition that shows the condition of people's lives which can be seen from the community's standard of living. Community welfare is a condition where basic needs are met which can be seen from a decent house, the fulfillment of the need for clothing and food, education and health, or a condition where a person is able to maximize his utility at a certain budget limit level and a condition where physical needs are met. and spiritual (Todaro & Smith, 2011).

3. Research Methods

This type of research is quantitative research. Quantitative is testing theories, building facts, showing relationships and influences as well as comparisons between variables, providing statistical descriptions, interpreting and predicting results, namely emphasizing the existence of variables as research objects, and these variables must be defined in the form of operationalization of each variable (Siregar, 2013). This research will be carried out at the Makassar City Central Statistics Agency, South Sulawesi Province. The analytical method used in this research is multiple linear regression and hypothesis testing which consists of partial tests, model feasibility and coefficient of determination.

4. Results and Discussion
4.1 Research Results
a. Multiple Linear Regression

The following are the results of multiple linear regression of the variables Original Regional Income (X_1), balancing funds (X_2) and capital expenditure (X_3) on community welfare (Y).

Table 3. Multiple Linear Regression

Coefficients^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.278	.472		4.827	.003
X_1	.065	.016	.865	4.024	.007
X_2	.020	.026	.160	.745	.484
X_3	-.009	.006	-.206	-1.475	.191
a. Dependent Variable: Y					

Source: Calculation Results with SPSS 25 (2024)

Table 3 above shows the following regression equation:

$$Y = 2{,}278 + 0{,}065\, X_1 + 0{,}020\, X_2 - 0{,}009\, X_3 + e$$

The multiple linear regression equation above can be explained in detail as follows:

1) Constant

   The constant (a) is 2.278, this means that if Regional Original Income (X_1), balancing funds (X_2) and capital expenditure (X_3) together do not change or are equal to zero (0), then the amount of community welfare in Makassar City is 2,278.

2) Regional Original Income (X_1)

   The regression coefficient value for the Regional Original Income variable (X_1) is 0.065. In this research it can be stated that Original Regional Income (X_1) has a positive effect on the welfare of the people of Makassar City, this shows that when Original Regional Income (X_1) increases by one unit (1%) then community welfare (Y) will increase by 0.065.

3) Balancing Fund (X2)

   The regression coefficient value for the balancing fund variable (X_2) is 0.020. In this research it can be stated that the balancing fund (X_2) has a positive value on the welfare of the people of Makassar City. This shows that when the balancing fund (X_2) increases by one unit (1%) then the welfare of the community (Y) will increase by 0.020.

4) Capital Expenditure (X_3)

   The regression coefficient value for the capital expenditure variable (X_3) is – 0.009. In this research it can be stated that capital expenditure (X_3) has a negative value on the welfare of the people of Makassar City,

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this shows that when capital expenditure (X_3) increases by one unit (1%) the welfare of the community (Y) will decrease by –0.009.

b. Partial Test

The t test or partial test is used to determine whether variable X has a significant effect on variable Y with a significance level of 0.05. The following are the results of the t test for the variables Original Regional Income (X_1), balancing funds (X_2) and capital expenditure (X_3) on community welfare (Y).

Table 4. Partial Test

Coefficients[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.278	.472		4.827	.003
X_1	.065	.016	.865	4.024	.007
X_2	.020	.026	.160	.745	.484
X_3	-.009	.006	-.206	-1.475	.191
a. Dependent Variable: Y					

Source: Calculation Results with SPSS 25 (2024)

1) Hypothesis 1: Regional Original Income has a positive and significant effect on Community Welfare

Based on the results of the hypothesis test, it shows that Regional Original Income (X1) has a significant effect on community welfare (Y) with a significance value of 0.007 < 0.005. And the direction of the coefficient is in the same direction or positive. This indicates that if there is an increase in Original Regional Income (X_1) in Makassar City, then community welfare will also increase. So it can be concluded that hypothesis 1 in this study is accepted.

2) Hypothesis 2: The Balancing Fund has a positive and significant effect on Community Welfare

Based on the partial test results, it shows that the Balancing Fund (X_2) has no significant effect on community welfare (Y) with a significance value of 0.484 > 0.005. So it can be concluded that hypothesis 2 in this study is rejected

3) Hypothesis 3: Capital Expenditure has a positive and significant effect on Community Welfare

Based on the partial test results, it shows that capital expenditure (X_3) has no significant effect on community welfare (Y) with a significance value of 0.191 > 0.005. So it can be concluded that hypothesis 3 in this study is rejected.

c. Model Feasibility Test

Following are the results of the model feasibility test

Table 5. Model Feasibility Test

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.003	3	.001	17.432	.002[b]
	Residual	.000	6	.000		
	Total	.003	9			
a. Dependent Variable: Y						
b. Predictors: (Constant), X3, X2, X1						

Source: Calculation Results with SPSS 25 (2024)

Based on the anova table above, it shows that the significance value for testing the research model (f) is 0.000. This value is smaller than the value of 0.05 so it can be said that the model used in this research is fit or suitable for use.

d. Coefficient of Determination

Test the coefficient of determination to determine the magnitude of the influence or contribution of the independent variable to the dependent variable. The following is a table of coefficient of determination test results:

Table 6. Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.947[a]	.897	.846	.00713
a. Predictors: (Constant). X3. X2. X1				

Source: Calculation Results with SPSS 25 (2024)

The coefficient of determination on the R Square value is 0.897 or 89.7%, which shows

that variations in community welfare (Y) can be explained by Regional Original Income (X_1), balancing funds (X_2) and capital expenditure (X_3), whereas the remaining 10.3% is influenced by other factors not explained in this research such as unemployment rate, education level and other factors.

4.2 Research Discussion

a. The Influence of Regional Original Income on Community Welfare

Based on the results of testing the first hypothesis, it is known that Regional Original Income (PAD) has a positive and significant effect on community welfare as measured by the Human Development Index (HDI). This indicates that the use of funds from Original Regional Income used is able to improve community welfare as demonstrated by regional development such as schools and hospitals, because with the increase in Original Regional Income, Makassar City is able to purchase necessities or facilities to support community activities which are then used optimally, so will be able to improve community welfare.

This is in line with the research results of Putra & Dewi (2018) and Anitasari & Imaningsih (2024) which stated that Regional Original Income (PAD) has a positive and significant effect on community welfare. However, this is different from the results of research by Harmayanti et al (2021) which states that Original Regional Income (PAD) does not have a significant effect on Community Welfare.

b. The Influence of Balancing Funds on Community Welfare

Based on the results of testing the second hypothesis, it is known that balancing funds do not have a significant effect on community welfare as measured by the Human Development Index (HDI). This indicates that the balancing funds owned by Makassar City have a positive tendency but do not have an impact on improving the welfare of the people in Makassar City. The results of this research

are supported by research by Harmayanti et al (2021) which states that balancing funds do not have a significant effect on community welfare. However, in contrast to the results of Community Research conducted by Putra & Dewi (2018) stated that the Balancing Fund and the Human Development Index are interrelated, the higher the balancing fund, the higher the allocation of funds for capital expenditure in increasing the development of public infrastructure which is able to improve the welfare of the community.

c. The Influence of Capital Expenditures on Community Welfare

Based on the results of testing the third hypothesis, it is known that capital expenditure does not have a significant effect on community welfare as measured by the Human Development Index (HDI). This indicates that improvements in public infrastructure and government investment have not had an impact on improving people's welfare. The relationship between capital expenditure and community welfare is very close, where the policies implemented by the government to improve the quality of human resources are based on the idea that education does not just prepare students to be able to enter the job market, but more than that, education is one of the efforts to develop national character. (national character building) such as honesty, justice, sincerity, simplicity and example. This is in line with the results of research by Maramis (2023) which states that capital expenditure does not have a significant effect on the human development index. However, this is different from the research results of Faturani & Dona (2023) and Imanulloh & Purwanti (2017)which state that capital expenditure has a positive and significant effect on the level of community welfare.

5. Closing

5.1 Conclusion

Based on the results of the analysis, it can be concluded that

1. Regional Original Income (PAD) has a positive and significant effect on the welfare of the people of Makassar City, South Sulawesi Province for the period 2014 – 2023.
2. Balancing funds originating from the Profit Sharing Fund (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK) do not have a significant effect on the welfare of the people of Makassar City, South Sulawesi Province for the period 2014 – 2023
3. Capital expenditure does not have a significant effect on the welfare of the people of Makassar City, South Sulawesi Province for the period 2014 – 2023.

5.2 Suggestion

Based on the results and analysis carried out by researchers, this research still has many shortcomings, so it needs to be improved and paid attention to in further research. The author's suggestions for further research are:

1. For the Government
   Regional governments are expected to be wiser and more careful in using PAD allocations, Balancing Funds and Capital Expenditures in order to improve community welfare, especially in the field of health, education and the economy in order to improve the achievements of the Human Development Index.
2. For Further Researchers
   For future researchers, in subsequent research it is hoped that the scope of research will be expanded, such as adding other variables originating from other sources of income other than PAD, Balancing Funds and Capital Expenditures.

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