Local Revenue and Financial Independence on Economic Growth Through Capital Expenditure

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Abstract: This study aims to analyze changes in regional income and financial independence of regional economic growth with capital expenditure as a variable intervention in Denpasar City in 2017-2019. This exploration technique is a graphic subjective strategy with the cooperation of region and regional government in Denpasar 2017-2019. This study used the purposive sampling method. Test results show that the Regional Revenue directly has a positive effect on regional economic growth while financial independence does not directly affect regional economic growth, and capital expenditure cannot mediate local income growth and financial independence on economic growth.

Keywords: local revenue, financial independence, economic growth, capital expenditure.

Abstrak: Penelitian ini bertujuan untuk menganalisis pengaruh pendapatan daerah dan kemandirian keuangan terhadap pertumbuhan ekonomi daerah dengan belanja modal sebagai variabel intervening di Kota Denpasar pada 2017-2019. Metode penelitian ini adalah metode deskriptif kualitatif dengan populasi pemerintah kabupaten dan pemerintah kota di Denpasar 2017-2019. Metode Purposive Sampling digunakan untuk menentukan sampel yang digunakan dalam penelitian ini. Hasil tes menunjukkan Pendapatan Asli Daerah secara langsung memiliki efek positif pada pertumbuhan ekonomi regional sementara kemandirian keuangan secara langsung tidak mempengaruhi pertumbuhan ekonomi regional, dan belanja modal tidak dapat memediasi pengaruh pendapatan lokal dan kemandirian keuangan terhadap pertumbuhan ekonomi.

Kata kunci: pendapatan asli daerah, kemandirian keuangan, pertumbuhan ekonomi, belanja modal.

INTRODUCTION

The Asian financial crisis in the late 1990s was one of the most important events in Indonesian history. Indonesia became one of the countries hardest hit by the crisis, so that some economic progress achieved during the New Order regime was in vain. This crisis has inevitably affected the level of public trust in the government. Another impact caused by the crisis is that the pace of Indonesia's economic growth has also been shaken. Various steps have been taken by the government to revive the Indonesian economy, bearing in mind that the economy is one of the important aspects in the defense of a country. Various policies

were pursued by the government with the aim of increasing Indonesia's economic growth rate so that it could be free from the economic threat that was plaguing it. One of the steps pursued by the government is to carry out economic reforms. Economic reform in question is by implementing economic policy reforms in a number of sectors to restore public confidence that has declined due to the crisis that hit.

The economic crisis that occurred in early 1996 and its peak in 1997 prompted the central government to delegate some of the authority for financial management to the regions so that it was hoped that the regions could finance development and services on their own financial basis. Local self-governance is an approach taken by the focal government so neighborhood governments can deal with their own legislature without obstruction from the focal government (Fitriyanti and Pratolo, 2009). Regional autonomy is enforced with the issuance of Law No. 22 and 25 of 1999 were then revised through Law No. 32 of 2004 concerning Regional Government. Along these lines, neighborhood governments are required to have the option to deal with their assets and actualize great administration so it will affect the administrations gave to the network (Handra and Maryati, 2009). Territorial governments have wide rights and power to utilize their budgetary assets as per the necessities and desires of the individuals who create in the area. This also confirms that regions have the authority to determine the allocation of resources into spending by adhering to the principles of propriety, needs, and capabilities of the region (Nugroho and Rohman, 2012).

National development is a measure of prosperity and prosperity people of a country. The greater the level of development of a country indicates the country is increasingly developed and developing. Context national development is one of the aspects included in the theory macroeconomic. High and low number of development seen from the trend economic growth every year. Economic growth covers all activity of producing goods and services within a certain period and determine the numbers a country's national income and the welfare of its people (Putro, 2010).

The foundation of financial decentralization has gotten one of the arrangement changes actualized by the focal government in the new government framework or territorial independence. A few things that are finished by the focal government in supporting the usage of financial decentralization incorporate by sanctioning laws on local self-governance and monetary decentralization. Not halting at the foundation of lawful guidelines, uphold for the dedication of the administration gives a substantial type of fair guideline, conveyance and utilization of public assets and the usage of money related harmony between the focal and territorial governments. The strategy on financial decentralization started to be formally executed since 2001. The cycle started with the endorsement of Law No. 22 of 1999 concerning Regional Government and Law No. 25 of 1999 concerning Financial Balance among Central and Regional Governments. The establishment of financial decentralization is required to positively affect monetary development, this is confirmed by the huge distinction among pre and post financial decentralization.

There was a change in Law No.22 of 1999 into Law No. 32 of 2004 is a form of improvement made by the central government. The amendment was made with the aim of being a concrete step by the government in strengthening the implementation of the regional autonomy system, namely by revising the holding of the election of the Regional Head from initially elected by the DPRD then directly elected by the people. The revision and

improvement of the law also includes a form of full commitment from the central government in striving for the creation of an area with good and stable economic growth.

The Central Statistics Agency noted that economic growth occurred at the first time that fiscal decentralization was enacted, namely in 1999 by 0.79%, in 2000 it had increased to 4.92% but slightly decreased in 2001 which was 3.64%, in in 2002 economic growth increased again to 4.50% and experienced an increase for 2 consecutive years ie in 2003 found the figure of 4.78% and 2004 to 5.03%. Until early 2004 there were revisions and improvements to Law No. 22 of 1999 became Law No. 32 of 2004. Since the enactment of the new law, Indonesia's economic growth has increased until in 2008 there was a world financial crisis that made economic growth decline and in 2009, not long after the Indonesian economy increased again, namely in 2010. Economic growth fluctuating for 4 years until 2014 reached 5.01%, decreased in 2015 to 4.88% and again increased in 2016 to 5.03%.

There is a change by Law Number 23 of 2014 concerning Regional Government. Additionally, the arrangements of Article 293 and Article 330 of Law Number 23 of 2014 concerning Regional Government provide the order to coordinate Regional Financial Management with a Government Regulation. Government Regulation Number 12 of 2019 concerning Regional Financial Management repudiates Government Regulation Number 58 of 2005 concerning Regional Financial Management (State Gazette of the Republic of Indonesia Number 140 of 2005, Supplement to the State Gazette of the Republic of Indonesia Number 4578). As a country with a developing economy, Indonesia in the last 3 years, namely in 2017-2019 was able to prove the realization of a fairly stable economic growth rate even though in 2018 there was a decline from the previous year. Based on records published by BPS in 2019, Indonesia's economic structure spatially contributes to the largest Gross Domestic Product (GDP) is dominated by economic activity in Java at 58.49% and Sumatra as the second highest contributor of GDP at 22.03 %. Based on the BPS archive, almost 80% of Indonesia's economic growth comes from regions, this can certainly happen because of the increasingly advanced regional economic growth.

Through territorial self-governance it is relied upon to have the option to energize the progression of a locale through financial advancement of the provincial government as observed from the greatness of monetary development. Financial Growth is the capacity of a district to give the necessities to products and ventures to the network in enormous amounts with the goal that the opportunities for an expansion in expectations for everyday comforts (Sularso and Restianto, 2011). Monetary development is the improvement of exercises in the economy which causes the products and ventures created in the network to increment. In view of article 6 of guideline Law No. 33 of 2004, one of the wellsprings of commonplace financing starts from close by pay containing neighborhood charges, nearby claims, the results of the organization of segregated neighborhood assets and other legitimate neighborhood pay. In accordance with the devolution of power and the presence of laws that control neighborhood subsidizing sources turns into a chance and difficulties for nearby governments to have the option to investigate and streamline the potential (nearby money), particularly neighborhood income.

The magnitude of the local revenue provides an overview of the region's ability to carry out regional autonomy. however, in reality not all regions are able to finance regional expenditure using local revenue. This happens because the ability of the region to provide funding from the regions is very dependent on the ability to realize economic potential into

a form of activity that supports the economy. The ability of local governments to optimize local funding sources will have an impact on increasing local revenue received by the region. With an expansion in neighborhood income a region is relied upon to have the option to positively affect provincial financial development.

It is hoped that an increase in regional financial capacity will occur at this time. Increased regional finances affect the region's ability to finance economic activities carried out by the region. Economic activity that runs well in an area illustrates the growth rate of the region well. Thus, it is able to attract investors to invest in the area so that it has an impact on increasing the sources of Local Revenue especially those originating from local taxes and levies. High Local Original Revenues will then be used by local governments to provide adequate public services so that this will increase capital expenditure.

Great local budgetary administration will influence the advancement of a zone. Provincial budgetary administration that is completed monetarily, productively, and adequately or meets the standards of significant worth for cash and cooperation, straightforwardness, responsibility and equity will have the option to empower financial development. Great provincial budgetary administration requires solid HR as well as be bolstered by satisfactory territorial money related limit. The degree of capacity of a territory can be estimated by the measure of territorial income. The endeavors of neighborhood governments in investigating local abilities can be estimated utilizing nearby government money related proportion examination. The estimation of provincial government execution can be utilized as an evaluation of the responsibility and capacity of a district doing territorial independence. In this manner, a zone with great budgetary execution implies that the district has the monetary ability to back the usage of provincial independence (Sularso and Restianto, 2011). Financial management that must be done by the local government requires regional independence in exploring local potentials and improving financial performance.

The independence of this region is reflected by the ability of the region to generate revenue from the region which is derived from regional economic potentials or also called regional original income (Rusydi, 2010). Local revenue can be allocated for public activities which is one of the hopes of society to the government in this era of fiscal decentralization (Kawa, 2011). However, in reality not all regions are able to escape from the central government, because the level of needs of each region is different. Therefore the central government cannot simply take its hands off its autonomy policy. Therefore, the central government will ultimately transfer funds, in the form of balance funds intended for local government needs. for some regions the allocation of transfer funds is actually a source of regional income, so that regional independence is not yet fully implemented. Financial performance is a performance measure that uses financial indicators. Financial performance analysis is basically carried out to reassess past performance by conducting various analyzes so that a financial position is obtained that represents the reality of the entity and potential performance that will continue. According to (Halim and Abdullah, 2006) financial analysis is an effort to identify financial characteristics based on available financial statements. In government organizations to measure financial performance there are several performance measures, namely the degree of decentralization, financial dependence, regional financial independence ratios, effectiveness ratios, efficiency ratios, harmony ratios, and growth. The degree of decentralization and independence of regional finances will be a ratio in measuring regional financial performance.

The proportion of local money related freedom (financial independence) shows the area's capacity to fund its own administration exercises, advancement, and administrations to the individuals who have made good on duties and tolls as a wellspring of salary required by the district. the proportion of provincial money related freedom outlines the reliance of the district on outer subsidizing sources. The higher the proportion of local money related autonomy implies that the degree of local reliance on outer gatherings, particularly the focal and common governments, is getting lower. Furthermore, the proportion of autonomy likewise delineates the degree of network interest in settling nearby charges and expenses.

Government expenditure or government expenditure is one of the strategic instruments in the economy. Likewise in the Regional Budget, there are elements of income and expenditure. One of the funds allocated by the government is in the form of capital expenditure budget in the regional budget to add fixed assets. However, basically the allocation of capital expenditure is used for the construction of regional facilities and infrastructure, both for the smooth implementation of government tasks or for public facilities

Regional economic growth is expected to occur, one of the factors that influence it is the increase in public infrastructure. Capital expenditure has an important role in improving public infrastructure. The higher the value of capital expenditure, the higher the expected impact on economic development in the area. Normally improving public infrastructure will improve the quality of public services and will slowly increase public participation in economic development and have an impact on increasing regional economic growth. The regional autonomy policy requires a large amount of capital realize development and economic growth. Shopping area in the context of economic growth focusing on capital expenditure budgets. According to (Kartika and Dwirandra, 2014), capital expenditure is part of shopping done by the region. Capital expenditure budget is a single units shopping elements contained in direct shopping. Shop directly is one of the two main parts of shopping area besides shopping no live. The difference between direct expenditure and capital expenditure is broad the scope, where direct spending covers a broader aspect, while capital expenditure is narrower.

Capital Expenditures are standard territorial government uses that advantage more than one financial year and will increment local resources or riches. in view of PP No. 58 of 2005 expressed that capital uses are uses made with regards to buying/securing fixed resources and different resources that have a valuable existence of over a year to be utilized in government exercises. While in Permendagri No.13 of 2006 capital use is characterized as consumption did in the system of buying/obtainment or building unmistakable fixed resources that have an estimation of over a year to be utilized in government exercises, for example, as land, hardware, and apparatus, structures and structures, streets, water system and networks, and other fixed resources.

The conceding of provincial self-rule does in fact influence the monetary development of a district since it offers opportunity to neighborhood governments to make their own budgetary plans and gain approaches that can influence the ground of their areas. Financial development urges local governments to do monetary advancement by overseeing existing assets and shaping new openings that will influence the improvement of the territorial financial exercises. In any case, the truth that happens in the current government is that with an expansion in territorial financial development it isn't constantly trailed by an increment in the allotment of capital use that is planned not as much as representative use of the

complete yearly financial plan (Utomo, 2012). Though capital expenditure is a stimulus for regional economic growth. Consequently, the government needs to provide greater capital expenditure allocations (Nugroho and Rohman, 2012).

As for who states, that the government does need to increase capital investment in order to increase regional economic growth (Kawa, 2011). (Adi, 2007) states that economic growth that has been occurring so far is largely determined by regional development expenditure factors. This is in accordance with the assessment of Kuncoro (2004) which expresses that the advancement of offices and framework by nearby governments positively affects financial development. (Hamzah, 2008), states that the monetary development of a district is affected by the budgetary presentation of nearby governments, shown by the proportion of autonomy and amicability proportion altogether constructive outcome on financial development, while the adequacy proportion doesn't essentially impact financial development. (Harianto and Adi, 2007), said that local unique pay impacts monetary development. (Kawa (2011), states that the proportion of provincial freedom, the proportion of adequacy of neighborhood income, and the proportion of spending proficiency doesn't altogether impact financial development, the proportion of operational use agreement and the proportion of capital consumption concordance have a critical beneficial outcome on monetary development.

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(Suwandi *et al.,* 2015) in their examination demonstrated that the proportion of the level of monetary decentralization and financial reliance impacted the assignment of capital use, the adequacy proportion of neighborhood income positively affected the distribution of capital consumption, and the proportion of the commitment of regional owned enterprises degrees didn't influence the portion of capital use . Capital consumption distribution affects provincial financial development. Local capital consumption has no interceding impact on the connection between the level of monetary decentralization proportion, the viability of nearby income, and the degree of commitment of regional owned enterprises to local financial development. However, capital consumption distributions can intervene the connection between financial reliance on territorial monetary development.

THEORITICAL REVIEW

The territorial spending plan is one of the devices that assumes a significant function in improving public administrations and in that is reflected in the necessities of the network by considering the potential and wellsprings of local riches. The National Budget is a yearly government budgetary arrangement endorsed by the House of Representatives/Parliament (Law on State Finance, 2002). The main objective of the budget formulation process is to

translate the government's economic planning, which consists of input and output planning in financial units. Therefore, the budget formulation process must be able to explore and control the sources of public funds.

Increased local revenue will encourage regional economic growth. An increase in local revenue will trigger and spur regional economic growth to be better than the previous regional economic growth. An increase in local revenue can also optimize and increase activity in sectors related to economic growth, such as the industrial and trade sectors, the service sector, and other sectors. In the context of the management of state finances, including regional finance, one expenditure that is in the public spotlight is expenditure in the form of capital expenditure. The public spotlight is reasonable because, every allocation of financial resources is one form of meeting the needs of the community in improving their welfare. This is a reflection of public or community trust in the government in managing public funds. In this case the agency theory plainly clarifies the connection between the principal and the agent (agency) which is reflected in the contract between an individual and another individual or between one group and another group, being one of the main references in terms of accountability of public funds .

The contract made shows the agreement between the principal as the trustee and the agent as the trustee, this relationship is built on trust. In public sector organizations, especially in local governments, the regions act as agents who accept the mandate of the people to run the wheels of government, and the people represented by the legislative assembly are positioned as principals who have one of the main tasks to oversee the activities of organizations run by the government , both the central and regional governments (Tuasikal, 2008). One unmistakable sign of organization and head relations that are of public worry at present is the devolution of power from the focal government to territorial governments, namely decentralization, including fiscal decentralization. Emphasized that the objectives of implementing fiscal decentralization must be able to: (1) increase the efficiency of national resource allocation and regional development activities; (2) can fulfill regional aspirations; (3) increasing accountability, transparency, and community participation in decision making at the regional level; (4) improve fiscal balance between regions and ensure quality community services in each region; (5) improve social welfare for the community.

Another goal is to increase the independence of local governments in managing their households. With the independence of the region in managing good regional resources, financial and non-financial resources show that the government has a high commitment in the welfare of the people. This means that if the regional government has a high sensitivity in improving regional welfare, then the regional government is trying to make savings in the use of the budget and trying to make expenditures, especially capital expenditure which is oriented towards means to remedy the economic capacity of the association. Unfortunately, the functions and authorities devolved to the regions are not supported by regional readiness in financing development, because the ability of one region to another in financial matters is not the same. Keeping that in mind, the public authority follows up with a bunch of enactment overseeing monetary relations between the focal and provincial governments to back the execution of their functions and authorities, namely fiscal decentralization. This indicates that the financial relationship between the center and the regions needs to be given clear and firm arrangements, so that local revenue sources can be optimized according to public needs. In line with the division of authority stated above,

regions are given the authority to collect taxes and levies and provide revenue sharing and financial assistance in the form of balance funds.

The various sources of revenue are expected to be able to encourage regional per capita income through increasing various types of government expenditure or expenditure that can stimulate social and economic activities of the community. With an increase in government spending, especially capital expenditure is expected to encourage an increase in the community's economy which in turn can spur growth in per capita income (Tuasikal, 2008). Neighborhood income is the spine used to back provincial spending (Kartika and Dwirandra, 2014).

Exploration directed by (Liliana *et al*., 2011) found that revenue figures correlated very closely with spending levels. Furthermore (Darwanto and Yustikasari, 2007) and (Tuasikal, 2008) prove a positive relationship between local revenue and capital expenditure. This means that the high local revenue indicates increasing capital expenditure. Then, (Ogujiuba and Abraham, 2012) conducted a study in Nigeria, with the result that income and expenditure were highly correlated. An elevated level of monetary development is equal to the penance of enormous direct use, and the other way around. In light of these suppositions, it tends to be reasoned that use straightforwardly influences monetary development. This is in accordance with research by (Adi, 2006) which expresses that part of direct use, which is capital use, positively affects financial development, in other words, if development spending increases, economic growth increases and vice versa. This is in line with the theory of the expenditure approach (expenditure approach) which states that government consumption (budget) is one of the important elements that support the rate of economic growth reflected through GDP trends on the national scene. The autonomy proportion shows the district's reliance on outside financing sources. The freedom proportion additionally delineates the degree of network support in territorial turn of events. The higher the network investment, the higher the proportion of autonomy, where adequate assets are accessible for capital use designation. The higher the ratio of independence, the regional development will be more advanced, so that economic growth can increase (Sularso and Restianto, 2011). (Ani and Dwirandra, 2012), stated that regional financial performance in the form of an independent ratio had a positive and significant effect on economic growth.

Figure 1. Conceptual Framework
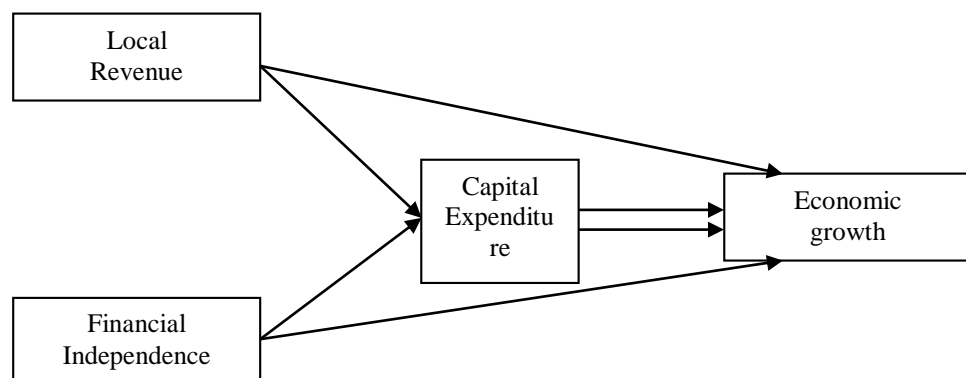
METHODOLOGY

Population and Sample. Population is a generalization area that has certain characteristics determined by researchers to be studied (Sugiyono, 2017). The population in this study is the city of Denpasar in 2017-2019. The sample is part of the population that meets the requirements to be used as research objects. The sample in this study is Regional Original Income, Financial Independence, Economic Growth, Capital Expenditures in Denpasar City in 2017-2019. The sampling technique in this study was purposive sampling, namely sampling with certain considerations

The conditions used to select samples are as follows: (1) City Government which has compiled financial reports between 2017-2019. (2) 2017-2019 regional government financial reports have been examined by the Supreme Audit Board. (3) Examination Report (LHP) of 2017-2019 regional government financial report has been published through Denpasar Kota official website.

Definition of Variable Operations. The effectiveness of local revenue is the ability of local governments to realize planned local revenue compared to targets set based on the real potential of the region.

$$Local\ Revenue\ Effectiveness\ Ratio = \frac{Local\ Revenue}{Total\ Local\ Revenue}\ x\ 100\%............................ (1)$$

Note:
Local Revenue   = locally-generated revenue.
Total Transfer Revenue   = regional allocation funds.

Financial independence is the ability of the region to finance its own government activities, development, and services to the people who have paid taxes and levies as a source of income needed by the region.

$$Financial\ Independence\ Ratio = \frac{Local\ Revenue}{Total\ Transfer\ Revenue}\ x\ 100\%................................ (2)$$

Note:
Local Revenue   = locally-generated revenue.
Total Transfer Revenue   = regional allocation funds.

Capital expenditure allocation is the allocation of budget expenditure for the acquisition of fixed assets and other assets that provide benefits over one accounting period, compared to the total expenditure in the APBD.

$$Capital\ Expenditure\ Ratio = \frac{Capital\ Expenditure}{Total\ Expenditure}\ x\ 100\%.. (3)$$

Note:

Capital Expenditure   = the planned allocation to make purchases / repairs / replacements for everything categorized as company assets.

Total Expenditure   = all the expend in a year.

Regional economic growth is an increase (GDP) or GRDP regardless of whether the increase is greater or smaller than the rate of population growth or whether there is a change in economic structure.

$$G = \frac{PDRBt2 - PDRBt1}{PDRBt1} \: x \: 100\% \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \: (4)$$

Note:

PDRBt2   = Product Domestic Regional Bruto year 2

PDRBt1   = Product Domestic Regional Bruto year 1

G   = Growth of GDP

Data analysis technique. Data analysis is a method used in processing the data obtained to produce an analysis result. This is because the data obtained from research cannot be used directly but needs to be processed so that the data can provide information that can be understood, clear, and thorough. The study uses a quantitative approach and hypothesis testing is done by using multiple linear regression models to test the effect of each independent variable on the dependent variable partially.

RESULTS

Classic assumption test

Normality test. Normality Test used is the Central Limit Theorem (CLT) model. Central Limit Theorem is a theorem that states if the sample tested (for a sample size of 30 or more) then the distribution of the sample is considered to follow the normal distribution. So based on the research sample of 81, the sample is considered to have a normal distribution because the number exceeds 30 samples.

Multicollinearity Test

Table 1. Multicollinearity Test Results

Variable	Criteria Tolerance	Score Tolerance	Criteria VIF	Score VIF	Result
LR, FI	>0,10	0,561	<10	1,783	Not occur multicollinearity
LR, CE	>0,10	0,527	<10	1,898	Not occur multicollinearity
FI, CE	>0,10	0,949	<10	1,053	Not occur multicollinearity

Source: (data processed in 2020)

The results of data transformation presented in table 1 show that the data are free from multicollinearity because all independent variables have a tolerance value> 0.1 and VIF <10.

Heteroscedasticity Test

Table 2. Heteroscedasticity Test Results

Model	Variable	Criteria	Sig.	Results
1	LR	> 0,05	0,759	Heteroscedasticity does not occur
	FI	> 0,05	0,600	Heteroscedasticity does not occur
2	LR	> 0,05	0,233	Heteroscedasticity does not occur
	CE	> 0,05	0,053	Heteroscedasticity does not occur
3	FI	> 0,05	0,438	Heteroscedasticity does not occur
	CE	> 0,05	0,234	Heteroscedasticity does not occur

Source: (data processed in 2020)

The results of data transformation presented in table 2 show that the significant value of each independent variable in the regression models 1.2, and 3 is greater than 0.05, so that the data is free from heterokedasticity.

Autocorrelation Test

Table 3. Autocorrelation Test

Model Regression	Variable	Criteria DW	Sig.	Results
1	CE	-2 < DW < 2	1,078	No autocorrelation occurred
2	EG	-2 < DW < 2	1,897	No autocorrelation occurred
3	EG	-2 < DW < 2	1,921	No autocorrelation occurred

Source: (data processed in 2020)

Based on table 3 above obtained significant DW values in the regression models 1,2 and 3, namely 1,078, 1,897, and 1,921. The significant value is> -2 and <2, so that the conclusion is that this study did not occur autocorrelation.

F test

Table 4. Test Results F

Model 1	Regression		F Count	Sig	Resultd
1	LR, FI	⟶ CE	51,286	0,000	Significant
2	LR, CE	⟶ EG	34,581	0,000	Significant
3	FI, CE	⟶ EG	26,946	0,000	Significant

Source: (data processed in 2020)

Based on table 4 the F Test results above in the first regression model, the calculated F value was 51.286 with a significant value of 0,000. Because the significant value is smaller

than 0.05, it can be concluded that the Regional Original Revenue and financial independence both obtained a calculated F value of 34.581 with a significant value of 0,000. Because the significant value is less than 0.05, it can be concluded that the Regional Revenue and capital expenditure together affect the economic growth. While the third regression model obtained the calculated F value of 26,946 with a significant value of 0,000. Because the significant value is less than 0.05, it can be concluded that financial independence and capital expenditure together affect the economic growth.

Hypothesis test

Table 5. Summary of path analysis results

Regression		Koefiisien Reg. Standardized (Beta)	Coefficient Reg. Unstandardized (B)	t count	Sig.	Keterangan
LR	CE	0,960	0,939	9,655	0,000	Significant
FI	CE	-0,411	-8,343	-4,140	0,000	Significant
LR	EG	0,368	4,521	3,237	0,002	Significant
CE	EG	0,379	4,763	3,334	0,001	Significant
FI	EG	0,102	2,594	1,138	0,259	NonSignificant
CE	EG	0,609	7,656	6,810	0,000	Significant

Source: (data processed in 2020)

Based on table 5 above, it is explained that in the first regression model, regional original income and regional independence influence capital expenditure. In the second regression model, Local Revenue and capital expenditure affect economic growth. The third regression model, regional independence does not affect economic growth, while capital expenditure affects economic growth. Based on the table above, it can be the path diagram is illustrated as follows:

Figure 2. Path diagram of the influence of Local Revenue and financial independence on economic growth with capital expenditure as mediating
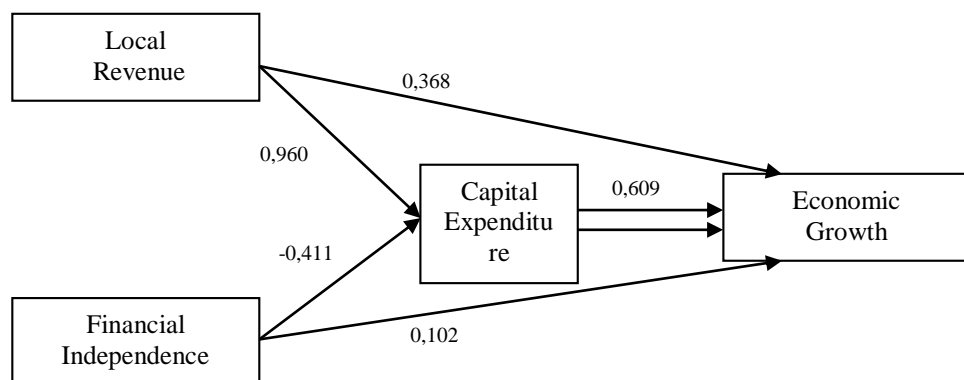
Path analysis also shows the magnitude of direct, indirect and influence from one variable to another. The results of the processed data regarding direct effect, indirect effect and total effect are as follows:

Table 6. Summary of direct influences, indirect influences and total influences

	LR			CE			LR, CE			FI, CE		
	DE	IE	TE	DE	IE	TE	DE	IE	TE	DE	IE	TE
CE	0,960	-	-	0,411	-	-	-	-	-	-	-	-
EG	0,368	0,364	0,732	0,102	0,250	0,148	0,379	-	-	0,609	-	-

Source: (data processed in 2020)

DISCUSSION

Local Revenue to Economic Growth. The results of testing the first hypothesis, indicate that in the Original Local Revenue has a t count of 3.237 and obtained a significant of 0.002 smaller than a significant value of 0.05. Therefore, it can be concluded that the Regional Original Revenue influences and statistically significant effect on economic growth, then H1 is accepted

Some of the backgrounds of local governments in implementing regional autonomy is as one of the efforts of local governments to get closer to the people. It is assumed that local governments better understand what public services are needed and about people's aspirations compared to the central government. One form of implementing regional autonomy is with fiscal decentralization. Fiscal decentralization makes regions have greater authority in optimizing Regional Original Revenue. The main capital of the regional government in financing and supporting economic activities carried out comes from regional revenue, namely Regional Original Revenue. Increased economic activity shows that the economic growth of the area is also good. This explains that the higher the portion of Regional Original Revenue of an area will affect the economic growth of the region.

The effectiveness ratio illustrates the ability of regions to realize planned local revenue compared to targets set based on the real potential of the region. The ability of regions to carry out their duties is said to be effective if the ratio achieved is 1 (one) or 100%. However, the higher the effectiveness ratio, the better the ability of the region. The higher the ability of regions to realize targeted, the more it can meet the needs of development spending to increase regional economic growth (Sularso and Restianto, 2011).

Financial independence does not affect economic growth. The second hypothesis testing results show that the independence of the region has a t count of 1.138 and obtained a significance of 0.259 greater than a significant value of 0.05. Therefore, it can be concluded that regional independence has no effect and is not statistically significant on economic growth, so H2 is rejected. The opportunity for the government to increase the more efficient proportion of various local potentials for the benefit of public services is an encouragement for regional governments to maximize economic growth. This will also show that local governments have been able to increase regional independence.

The results of this study are in line with research conducted by Apriana and Rudy Suryanto (2010) which states that regional independence has no effect and is not significant on economic growth. This is able to explain that the regional government has not optimally utilized its local strength optimally. An area should be able to compensate for external forces by maximizing local potential, one of which is by facilitating the investment process.

Capital expenditure affects economic growth. To prove the third hypothesis in this study using a third regression model. Based on the results of the t test in table 5 it is known that capital expenditure has a t value of 3.334 and obtained a significance of 0.001 smaller than a significant value of 0.05. Therefore, it can be concluded that capital expenditure has a statistically significant effect on economic growth, then H3 is accepted.

Capital expenditure is used to finance the addition of existing infrastructure or adequate infrastructure. Kuncoro (2004), the development of facilities and infrastructure by local governments has a positive effect on economic growth. Improving public sector services on an ongoing basis will improve public facilities and infrastructure, government investment will also include improvements to education, health and other supporting facilities. A fundamental condition for economic development is a balanced level of development capital procurement with population growth. The formation of capital must be broadly defined so that it covers all expenditures that increase productivity (Ismerdekaningsih and Rahayu, 2002). With the addition of infrastructure and improvement of existing infrastructure by local governments, it is expected to spur economic growth in the region (Adi, 2007). The findings in this study successfully support the research of Sularso and Restianto (2011), which states that capital expenditure affects economic growth. In line with this, Utomo (2012), also argues that capital expenditure affects economic growth.

Capital expenditure is not able to mediate the effect of regional original income on economic growth. The fourth hypothesis testing results seen based on the results of calculations from hypothesis testing. In this calculation, the indirect effect is 0.364 lower than the direct effect of 0.368. This shows that capital expenditure is not able to mediate the effect of local revenue on economic growth, so H4 is rejected.

Regional own-source revenues are the main source of regional government revenue to meet financing from a region's economic activities. The existence of regional autonomy provides a great opportunity for local governments to explore and utilize Regional Original Revenue optimally, so as to be able to support adequate public services. Improving the quality of economic activity by maximizing investment is one of the efforts of regional governments to realize positive economic growth. In this case, the government is also required to be able to optimize the potential sources of revenue it has. One of the efforts was made by providing a greater proportion of capital expenditure for development in the productive sector. In this study, capital expenditure is not able to mediate the effect of regional own-source revenues on economic growth. This is due to the fact that the regional government has not yet maximized the management of the region's original income. Management of local revenue is still embodied by unproductive work programs. This can also be caused by the absence of government regulations governing the amount of capital expenditure that must be issued by each region so that regional spending is carried out based on the awareness of the local government itself regarding the importance of infrastructure in economic growth.

Capital expenditure is unable to mediate financial independence towards economic growth. The results of the fifth hypothesis testing are seen based on the results of calculations from hypothesis testing. In this calculation the indirect effect is obtained by -

0.250 lower than the direct effect of 0.102. This shows that capital expenditure is not able to mediate the effect of regional independence on economic growth, then H5 is rejected.

Regional financial capacity as indicated by the financial performance of local governments can be used as a tool to measure the success of regional autonomy. The management and utilization of a region's local capabilities by the regional government which have not yet maximally affected the independence of a region. Another factor that influences economic growth is investment issued by local governments as a stimulus for Economic Growth. The size of the regional investment which is realized through the proportion of capital expenditure is influenced by whether or not the financial performance of the area. The results of this study are in line with research conducted by Kelvin, Kurni Adidan Afriza Tahar (2015) which states that capital expenditure has no mediating effect on the relationship between the degree of fiscal decentralization ratio, the effectiveness of local revenue, the level of local revenue contribution and regional independence on economic growth.

CONCLUSION

The local revenue variable has a significant value in the second regression model. Therefore, it can be concluded that local revenue has an effect on economic growth.

The variable of financial independence can be concluded that regional independence does not affect economic growth.

The capital expenditure variable can be concluded that capital expenditure has a statistically significant effect on economic growth.

The indirect effect of local revenue on economic growth is lower than the direct effect value. Then it can be concluded that capital expenditure is not able to mediate the influence of local revenue on economic growth.

The indirect effect of financial independence on economic growth is lower than its direct effect. Then it can be concluded that capital expenditure is not able to mediate the effect of regional independence on economic growth.

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