

CAPITAL EXPENDITURE OF LOCAL GOVERNMENTS

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ABSTRACT

Resource allocation is a fundamental issue for public sector budgeting especially revenue and expenditure budgeting because of the resources limitation. Regional budget allocation shows local government policies on development funding whereas capital expenditure is concerned with a component of direct expenditure of government budgets that produce output in the form of fixed asset. This study aims to determine factors that influence capital expenditure of local governments. These factors are locally-generated revenue, general allocation funds, special allocation funds, and revenue sharing fund of local governments. The population of this study are 35 local governments in the Province of Central Java, Indonesia. Using secondary data from the 2014-2016 Budget Realization Reports of local governments in the Province and employing multiple regression analysis, the findings indicate that locally-generated revenue, general allocation fund, special allocation fund, and revenue sharing fund positively affect capital expenditure. These findings imply that local governments should look more carefully at the proportion of general allocation fund allocated to capital expenditure in order to increase economic growth.

Keywords: Locally-Generated Revenue, Special Allocation Fund, General Allocation Fund, Revenue Sharing Fund, Capital Expenditure, Local Government.

INTRODUCTION

The 1998 political reform in Indonesia has led to some consequences on various sectors including public sector. The adoption of private sector management in the public sector is considered as the most crucial issues of the public sector reform in Indonesia. Such adoption can be related to the successful implementation of private sector management in some developed countries, such as UK, USA, New Zealand and Australia for central governments, and France, Italy and Germany for local governments (Lapsley & Pallot, 2000); Netherlands, UK (Almquist et al., 2013); Norway and Russia (Adhikari et al, 2015); UK (Fryer et al., 2009). Another example of such reforms is the adoption of accounting and control systems in public sectors (Blöndal et al., 2009; Blöndal, 2010; Moll & Hoque, 2011).

In the Indonesia context, regional autonomy is seen as one of significant changes resulted from the public sector reform. Law No. 22 of 1999 on Regional Government (subsequently revised by Law No. 32 of 2004) regulates regional autonomy that grants local governments much more authorities to administer its own region with little assistance from the central government. Thus, local governments have the discretion to use their financial resources to determine the allocation of resources for regional expenditures; by adhering to the principles of compliance, needs, and local capabilities as well as the aspirations of communities listed in local government budgets¹ (Shah & Shen, 2007; Bogt, 2008; Siddiquee, 2010; Kuntari, 2010; Chariri, 2017). Referring to the Law, the financial balance between the central government and local governments is a subsystem of state finance as a consequence of the division of tasks between

the central government and the local ones. The provision of state financial resources to local governments in the context of implementing decentralization is based on the submission of tasks by the central government to local governments by considering fiscal stability and balance. Balancing funds are the embodiment of the concept of transferring funds from the central government to the local governments in Indonesia (Rofiq & Santosa, 2013). Balancing funds consist of General Allocation Funds (*Dana Alokasi Umum*; DAU), Special Allocation Funds (*Dana Alokasi Khusus*; DAK) and Revenue Sharing Fund (*Dana Bagi Hasil*; DBH).

Regional Revenue and Expenditure Budget (APBD) is a reflection of local government activities and the allocation of the resources it uses (Saragih, 2003). The local government will select the priority of activities and allocate funds for such activities. The selected activity implies the policy of local government in considering public welfare. The Revised Law provides implications for changes in the decision-making system of resource allocation in local government budgets. In the previous era, the determination of the allocation amount refers to the realization of the previous year's budget by adding a slight increase (incremental) without any changes of line type/line item. Such budgeting is called line-item and incremental budgeting. Regional autonomy makes changes to local government budgeting to performance-based budgeting².

The capital expenditure budget describes the policies of local governments in regional development. Regional budgets are plans for local government activities and resource allocation. Regional budget allocations show local government policies in financing development. Public sector budget is an activity plan, which is manifested in the form of revenue generation plan and expenditure allocation in monetary unit. Regional Revenue and Expenditure Budget (APBD) is an annual financial plan of local government discussed and agreed by Assembly at Regional and determined by local regulations. APBD is the basis of local financial management which is a guide for the local government in providing services to the public within a fiscal year.

APBD consists of regional income, regional expenditure and regional financing. One of the benchmarks of local government services to the public is the existence of public facilities allocated in local budgets in capital expenditure items (Lapsey et al., 2010). The allocation of capital expenditure is based on regional needs for facilities and infrastructures for both government and public facilities. Each budget period for the procurement of local government fixed assets is based on budget priorities and public services that have long-term impacts (Kelly & Rivenbark, 2011).

In the regional budgeting practice, the allocation of resources into the development/expenditure budget is a process that is full of political interests (Chang, 2009; Jones & Pendlebury, 2010). The capital budget is aimed at meeting public needs for public facilities provided by the local government. The involvement of legislative bodies with their political interests in the budgeting process often causes the allocation of capital expenditures to be distorted and ineffective in solving problems in society (Keefer & Khemani, 2003; Ablo & Reinikka, 1998).

Determination of capital expenditure allocation relates to long-term financial planning, not only for procurement, but also for the maintenance of the asset. Therefore, capital expenditure policy should pay attention to the benefits and financial capacity of local government in the long term (Allen & Tomasi, 2001). The enactment of regional autonomy gives local government the opportunity to further develop the potential of the region, then local government needs to increase budget of capital expenditure. Source of fund used to finance capital expenditure consists of locally-generated revenue (*Pendapatan Asli Daerah*; PAD),

general allocation fund (*Dana Alokasi Umum*; DAU), special allocation fund (*Dana Alokasi Khusus*; DAK) and fit sharing fund (*Dana Bagi Hasil*; DBH). This study aims to determine factors that influence capital expenditure in local government. These factors are locally-generated revenue, general allocation funds, special allocation funds, and revenue sharing fund of local government.

RESEARCH METHODOLOGY

Capital expenditure shows long-term plans and spending on fixed assets. Capital expenditure can support the welfare of the community and improve public services in shaping the character of an independent region. Therefore capital expenditure must be an important concern for local governments to be able to support the welfare of society (Mardiasmo, 2009). The financial balance between the government and regional government is a subsystem of state finance as a consequence of the division of tasks between the government and the regional government. The provision of state financial resources to regional governments in the context of implementing decentralization is based on the submission of tasks by the government to regional governments by taking into account fiscal stability and balance. Balancing funds are the embodiment of the concept of transferring funds from the central government to the regional governments that apply in Indonesia. Balancing funds consist of Revenue Sharing Fund, General Allocation Funds, and Special Allocation Funds. In the context of Indonesia, the issue of autonomy becomes important in the local government. This includes the funding of central and regional government balances, (ie independent variables that are examined) in funding local government activities.

Revenue from the region is derived from locally-generated revenue³; a source of financing for local government in creating local infrastructure. PAD is derived from local taxes, regional retributions, separated wealth management results and other legitimate PAD. Therefore, in this decentralization period, local governments are required to be able to develop and increase their own PAD by maximizing their resources in order to finance all activities of the creation of infrastructure or facilities through the allocation of capital expenditure in the APBD. The better PAD of a region, the greater its capital expenditure allocation (Ardhani, 2011). Darwanto & Yulia (2007) stated that PAD has a positive and significant impact on capital expenditure allocation. This finding may indicate that the amount of PAD becomes one of the decisive factors in determining capital expenditure.

General allocation fund⁴ is a fund derived from the state revenue and expenditure budget, which is funding from the central government. DAU is allocated to equitable regional finance to finance expenditure needs in the context of decentralization. The financial balancing fund is a consequence of the transfer of central government authority to the local government. Thus, there is a significant transfer in the APBN from the central government to local governments. Local governments can use general allocation fund (DAU) to provide services to the public that are realized through capital expenditures (Ardhani, 2011). The results of research, Darwanto & Yulia (2007) states that there is a positive and significant relationship between DAU and capital expenditure.

Special allocation fund⁵ is a form of balancing fund, which is a fund sourced from APBN allocated to local governments to finance special activities such as regional affairs and national priorities. The objective of DAK is to reduce the burden of special activities to be borne by the local government. The utilization of DAK is directed to development of investment activities, procurement, improvement, improvement of physical facilities and infrastructure of public

services with long economic life, with the directed utilization of DAK for such activities is expected to improve public services realized in capital expenditures (Ardhani, 2011). Research conducted by Anggiat Situngkir (2009) shows that DAK has a positive and significant impact on capital expenditure budget.

Revenue sharing fund⁶ is funded from APBN revenue allocated to regions based on percentage figures to fund local needs in the context of decentralization (Law No. 33 of 2004, central and local government). DBH transferred by the central government to the local government consists of 2 types, namely DBH tax and DBH non tax (natural resources). DBH is a potential source of local revenue and one of the basic capital of local government in obtaining development funds and meet regional expenditures that are not derived from PAD other than DAU and DAK.

HYPOTHESES

The research hypothesis is structured on the basis of the following theoretical framework.

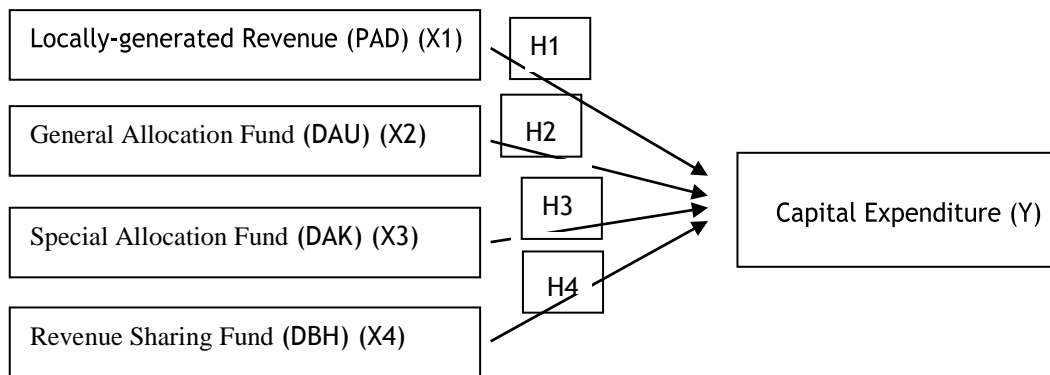


FIGURE 1
THEORETICAL FRAMEWORK: LOCALLY-GENERATED REVENUE, GENERAL ALLOCATION FUND, SPECIAL ALLOCATION FUND AND PROFIT SHARING FUND ON CAPITAL EXPENDITURE

H1 : Locally-generated Revenue (PAD) has a positive effect on Capital Expenditure.

H2 : General Allocation Fund (DAU) has a positive effect on Capital Expenditure.

H3 : Special Allocation Fund (DAK) has a positive effect on Capital Expenditure.

H4 : Revenue Sharing Fund (DBH) has a positive effect on capital expenditure in regencies and cities.

The type of research method used is quantitative analysis, that seeks to collect, present, and analyze data so as to provide a clear picture of the object under study. Data is obtained by processing data from local government documents in the Central Java Audit Agency (BPK) in the form of quantitative data, namely Budget Realization Report of APBD of regency/municipality government in Central Java on the amount of realization of locally-generated revenue (PAD) general allocation fund (DAU), special allocation fund (DAK), profit sharing fund (DBH) and capital expenditure.

The operational definition is the determination of the construct so that it becomes a measurable variable. The operational definition describes the particular way in which the researcher operates the construct, making it possible for other researchers to perform better replication of construct measurements. Operational definition in this research as follows.

Capital Expenditure (Y)

The allocation of capital expenditure is measured in the capital expenditure budget. Capital expenditure budget is direct expenditure used to finance investment activities (add assets) in the Government of Central Java and Regency Period 2014-2016.

Direct expenditure is a budgeted expenditure directly related to the implementation of programs and activities (Lamartina & Andrea, 2007). Direct expenditure consists of personnel expenditures, goods and services expenditures, and capital expenditures. Direct expenditure in this study can be seen from the Realization Report of APBD at agencies and cities Government of Central Java Period Year 2014-2016. Indicators of Capital Expenditure are:

1. Purchases of land.
2. Purchases of equipment and machinery.
3. Purchases of buildings.
4. Developments of road, irrigation, and networking.
5. Other fixed assets.

$$\text{Capital Expenditure (Rp)} = \text{Land Purchasing} + \text{Equipment and Machine Purchasing} + \text{Buildings Purchasing} + \text{Developments of road, irrigation, and networking} + \text{Other Fixed Assets Purchasing}$$

Locally-generated Revenue (PAD)

Locally generated Revenue (PAD) is the original income of a region which consists of local tax hail, regional retribution of income from regional company profit and other legal income. While PAD as independent variable is measured with local tax, local retribution result of region owned by region and result of management of area wealth at agencies and cities Central Java Province period year 2014-2016. Prior research conducted by Nuarisa (2013), Fitriyanti & Pratolo (2009), stated that the locally-generated revenue affects capital expenditure allocation and the results of this study are not in accordance with research conducted by Nurlis (2016) which shows that PAD has no effect on capital expenditure. Locally-generated revenue indicators are:

1. Total of local taxes for fiscal year 2014-2016.
2. The result of regional retributions in fiscal year 2014-2016.
3. The results of regional-owned enterprises in fiscal year 2014-2016.
4. The result of the management of the province's wealth in fiscal year 2014-2016.

$$\text{PAD (Rp)} = \text{Local Taxes} + \text{Local Retributions} + \text{Results of Separated Wealth Management} + \text{Others Legitimate PAD}$$

General Allocation Fund (DAU)

General allocation fund (DAU) is a general transfer from central government to Local Government to overcome horizontal inequality with the main objective of equitable distribution of inter-regional financial capability. General allocation fund for each regencies and cities of Central Java Province can be seen from the balancing fund posted in the APBD realization report. Prior research conducted by Nuarisa (2013) stated that general allocation fund affects the allocation of capital expenditure. Indicators from general allocation fund include:

1. Block fiscal:
 - a. Gained from fiscal needs minus fiscal policy. Fiscal needs are government policies related to income and expenditure of a region. Fiscal policy is a policy undertaken by the government by increasing or decreasing income.
2. Basic allocation:

General allocation fund can be formulated as follows:

$$DAU (Rp) = Block\ Fiscal + Basic\ Allocation$$

$$Block\ Fiscal (Rp) = Fiscal\ Needs - Fiscal\ Policies$$

Special Allocation Fund (DAK)

Special allocation fund (DAK) is fund sourced from APBN revenues allocated to certain regions with the aim of assisting in funding specific activities such as regional affairs and in accordance with national priorities. Special allocation fund in Central Java consists of total special transfer funds in fiscal year 2014-2016, measured in Rupiah (Rp). This data is obtained from Regional Financial Management and Asset Management (DPPKAD) of Central Java Province. Indicators of special allocation fund are total transfer funds of a special nature. Prior study conducted by Mawarni et al. (2013) and Nuarisa (2013) state that special allocation fund affects the allocation of capital expenditure. Meanwhile, the results of this study are not in accordance with research conducted by Situngkir (2009) which states that DAK is not liable to capital expenditures.

Revenue Sharing Fund (DBH)

DBH is a fund sourced from APBN revenues allocated to regions based on percentage figures to fund local needs in the context of decentralization implementation (Law No.33 of 2004, About Financial Balance of Local Government). DBH transferred by the central government to the local government consists of 2 types, namely tax DBH (DBHP) and non-tax, Natural Resources DBH (DBHSDA). This data is obtained from Central Java and the Central Java Provincial Financial and Revenue Management Office (DPPKAD). Prior research conducted by Wandira (2012) stated that there is a relationship between revenue sharing fund and capital expenditure that the higher the revenue sharing fund tends to have higher capital expenditure. The results of this study are also supported by research conducted by Situngkir (2009) stated that revenue sharing fund influences the allocation of capital expenditure. Indicators of DBH include:

1. Tax DBH consists of local revenue on income tax receipts.
2. Non-tax DBH consists of natural resources such as petroleum mining and natural gas mining.

$$DBH (Rp) = Tax\ DBH + Non\ Tax\ DBH$$

The population is budget realization report of APBD of all regencies and cities local governments in Central Java Province amounting to 35 regencies/cities during fiscal year 2014-2016. All elements of the population will be investigated. Data used is documentary data. Documentary data is the type of research data as follows capital expenditure, data of locally-generated revenue (PAD), data of general allocation fund (DAU), data of the special allocation fund (DAK) in the regencies and cities of Central Java from 2014-2016. Data on revenue sharing fund (DBH) in the regencies and cities of Central Java Province from 2014-2016. Sources of data in this study is secondary data. Source data from the document report on the realization of APBD is obtained from the office of Audit Agency (BPK) of Central Java Province which is BPK RI Representative of Central Java Province located at Jl. Perintis Kemerdekaan No.175 Semarang. From the realization report of APBD year 2014-2016 can be obtained data on the amount of budget capital expenditure, locally-generated revenue (PAD), general allocation fund (DAU), special allocation fund (DAK) and revenue sharing fund (DBH) obtained from audit agency. The data collection methods used in this research are library studies and documentation. This study uses classic assumption test, normality test, multicollinearity test, autocorrelation test, heteroskedasticity test and multiple linear regression analysis. The regression equation used is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Information:

Y : Capital Expenditure.

X1: Locally-generated Revenue.

X2: General Allocation Fund.

X3: Special Allocation Fund.

X4: Revenue Sharing Fund.

RESULTS AND DISCUSSION

Model	Unstandardized Coefficients		Standardized Coefficients	t-value	Sig.
	B	Std. Error	Beta		
(Constant)	-1422571886531.015	322803335337.462		-4.407	0.000
PAD	0.350	0.061	0.386	5.754	0.000
DAU	0.166	0.047	0.244	3.511	0.001
DAK	56543008673.429	13511008518.107	0.270	4.185	0.000
DBH	1.478	0.313	0.298	4.724	0.000

a: Dependent Variable: CE.

Multiple linear regression equation in this research uses Standardized Coefficients. This is because each variable has a unit and serves to explain the magnitude of regression coefficients on each variable in explaining the dependent variable, with the equation formula as follows:

$$Y = \alpha + \beta_1 PAD + \beta_2 DAU + \beta_3 Ln_DAK + \beta_4 DBH + e$$

From multiple linear regression calculation, it can be seen the relationship between independent variables and dependent variable that can be formulated as follows:

$$\text{Capital Expenditure} = -1422571886531.015 + 0.350 X1 + 0.166 X2 + 56543008673.492 X3 + 1.478 X4 + e$$

- $X1$ = PAD
 $X2$ = DAU
 $X3$ = Ln_DAK
 $X4$ = DBH

Based on the table of statistical test, it is obtained that $F_{\text{count}}=59.439$ while $F_{\text{table}}=2.46$ ($\alpha=5\%$). Because the value of $F_{\text{count}}=59.439$ bigger than $F_{\text{table}}=2.46$ and reinforced with probability value 0.000, smaller than $\alpha=0.05$, hence from result of that H_0 is refused and H_a is accepted. Therefore, the results indicate that locally-generated revenue, general allocation fund, special allocation fund, and revenue sharing fund simultaneously affect capital expenditure.

Model	R	R-Square	Ajusted R Square	Std. Error of the Estimate	Durbin-Watson
	0.839 ^a	0.704	0.692	20624159.92213	1.624

a: Predictors: (Constant), DBH, LN.DAK, PAD, DAU.
b: Dependent Variable: CE.

The coefficient of sample determination is the proportion of total Y variable explained by relationship Y with X. The amount of adjusted coefficient of $R^2=0.692$. It shows that the amount of independent variables simultaneously affecting dependent variable is 69.2% and the rest is 30.8% influenced by other variables that are not included in this research model.

The Effect of Locally-generated Revenue on Capital Expenditure of Regencies and Cities in Central Java Province Year 2014-2016

Based on t test, the results of research obtain information that the variable of locally-generated revenue (PAD) has a positive and significant effect on the allocation of capital expenditure with t count of 5.754, with a significance level of 0.000. Thus the alternative hypothesis (H_1) is accepted and does not accept the null hypothesis.

The hypothesis indicates that the higher the PAD, the higher the government's expenditure on capital expenditure will be, and if local governments have lower PAD then the government's spending on capital expenditures is also low. This result is in accordance with research conducted by Darwanto & Yustikasari (2007). This mean that the higher the PAD, the government spending on capital expenditure will be higher. In line with the Law No. 58 of 2005 on the management of regional finances which states that PAD is prepared in accordance with the needs of governance and local revenue capability. That means that in every APBD preparation, if the local government will allocate capital expenditure then it should be fully adjusted to the needs of the region by considering the PAD received. Between PAD and capital expenditure there is a reciprocal relationship in local government finances. The higher the PAD,

the higher the capital expenditure.

The results of this study are supported by research conducted by Nuarisa (2013), Fitriyanti & Pratolo (2009), stated that the locally-generated revenue affects capital expenditure allocation and the results of this study are not in accordance with research conducted by Nurlis (2016) which shows that PAD has no effect on capital expenditure.

The Effect of General Allocation Fund on Capital Expenditure of Regencies and Cities in Central Java Province Year 2014-2016

Based on t test, the results of research obtain information that variable general allocation fund (DAU) has a positive and significant effect on capital expenditure allocation with the result t arithmetic 3.511, with a significance level of 0.001. Thus the alternative hypothesis (*H1*) is accepted and does not accept the null hypothesis.

According to Nuarisa (2013), the amount of capital expenditure is affected by general allocation fund received from the central government. This indicates that there is a relationship between the DAU transfer funds from the government, with the allocation of regional expenditure through capital expenditure. The higher the DAU, the allocation of capital expenditure also increases. This is because the region has their own revenue.

The results of this study are supported by research conducted by Nuarisa (2013) stated that general allocation fund affects the allocation of capital expenditure.

The Influence of Special Allocation Fund on Capital Expenditure of Regencies and Cities in Central Java Province Year 2014-2016

Based on t test, the result of research found out that variable special allocation fund (DAK) has positive and significant effect on Capital Expenditure Allocation with result $t_{count}=4.185$, with significance level=0.000. Thus, the alternative hypothesis (*H1*) is accepted and does not accept the null hypothesis.

This explains that regencies and cities receiving large DAK will tend to have high capital expenditures as well. These results provide a strong indication that capital expenditure behavior will be strongly influenced by the source of DAK revenues. The purpose of DAK is that local governments can provide adequate facilities and public services infrastructure according to the national program attached to the fund. DAK is a special grant, whereby, it is designated for the designated development from the central government. Therefore, its realization is a realization of capital expenditure. Thus, it can be concluded that the local governments in Central Java actually allocate DAK for infrastructure development in various regions.

The results of this study are supported by a study conducted by Mawarni et al. (2013) and Nuarisa (2013) which state that special allocation fund affects the allocation of capital expenditure. Meanwhile, the results of this study are not in accordance with research conducted by Situngkir (2009) which states that DAK is not liable to capital expenditures.

The Effect of Revenue Sharing Fund on Capital Expenditure of Regencies and Cities in Central Java Province Year 2014-2016

Based on t-test, the result of research found out that variable revenue sharing fund has positive and significant effect on capital expenditure allocation with the result $t_{count}=4.724$, with the significance level=0.000. Thus the alternative hypothesis (*H1*) is accepted and does not

accept the null hypothesis.

These results are described in Wandira (2013) stated that provinces with high DBHs will tend to have large capital expenditures as well. These results provide a strong indication that capital expenditure behavior will be strongly influenced by DBH revenue sources. DBH is a potential source of local revenue and is one of the basic capital of local government in obtaining development funds and meet the spending that is not derived from PAD other than DAU and DAK. The revenue sharing pattern is performed with a certain percentage based on the producing region. Therefore, it can be concluded that if the budget of DBH increases then the allocation of capital expenditure also increases.

The results of this study in accordance with research conducted by Wandira (2012) stated that there is a relationship between revenue sharing fund and capital expenditure, that the higher the revenue sharing fund tend to have higher capital expenditure. The results of this study are also supported by research conducted by Situngkir (2009) stated that revenue sharing fund influences the allocation of capital expenditure.

Endogeneity Issues

It is possible that capital expenditure can increase regional revenues and revenue sharing funds (which is the distribution of funds from the central government for a portion of regional revenues). Capital expenditure is the expenditure of regional governments whose benefits exceed one fiscal year and will add regional assets or assets in the form of equipment, infrastructure, and other fixed assets. It is possible for these assets, equipment and infrastructure to increase regional revenues. To answer the issue, an endogeneity test using Hausman test (2019) (<http://www.statisticshowto.com/hausman-test>) is carried out as in Table 3.

Variables	Coefficients		(b-B)	Sqrt (diag(V _b -V _B))
	(b) Fixed	(B) Random	Difference	S.E.
PAD	0.349	0.331	0.017	0.244
DAU	0.148	0.168	-0.021	0.081
DAK	0.409	0.419	-0.010	0.068
DBH	1.226	1.461	-0.234	0.871

Test: H_0 : difference in coefficients not systematic
 $\chi^2(4)=2.59$
 $\text{Prob}>\chi^2=0.6294$

To choose to use the random effect model or fixed effects, the $\chi^2(4)$ is 2.59 at the level of $\alpha=5\%$.

H_0 =The preferred model is random effects.

H_a =The preferred model is fixed effects.

Then accepting H_0 as the best model is the random effects model.

Variables	Coefficients	Std. Error	p> t
PAD	0.331	0.075	0.000
DAU	0.168	0.052	0.001
DAK	0.419	0.082	0.000
DBH	1.461	0.384	0.000

Table 4			
LINEAR REGRESSION: RANDOM-EFFECTS			
Cons	-4.42e+10	4.19e+10	0.292
Test: H_0 : difference in coefficients not systematic			
Chi ² (4)=2.59			
Prob>chi ² =0.6294			

Based on the results of this endogeneity test used the Hausman Test, obtained a value of 0.6294 at the level of $\alpha=5\%$. It can be concluded that there is no endogeneity in the regression model.

Endogeneity does not occur, so that regional revenue (both from local revenues and revenues sharing) is a predictor for capital expenditure and not vice versa.

CONCLUSIONS AND RECOMMENDATIONS

Based on the research that has been conducted in the regencies and cities in Central Java Province during Fiscal Year 2014-2016, it can be concluded that locally-generated revenue (X1) has a significant positive effect on capital expenditure (Y), general allocation fund (X2) has a significant positive effect on capital expenditure (Y), special allocation fund (X3) has a significant positive effect on capital expenditure (Y), revenue sharing fund (X4) has a significant positive effect on capital expenditure (Y) in Central Java Province Year 2014-2016.

Capital expenditure can be allocated appropriately and according to the needs of every regency/city in Central Java. General allocation fund (DAU) is a general transfer from Central Government to Local Government to overcome horizontal inequality with the main objective of equitable distribution of inter-regional financial capability. General allocation funds for each regency and city of Central Java can be seen from the balancing fund posted in the APBD realization report. Therefore, each surrounding area can increase the general allocation fund by increasing the balance fund and utilizing general allocation fund intended to help finance activities in the region such as regional affairs and according to national priorities, in particular to finance basic facilities and basic public services achieve certain standards to encourage the acceleration of regional development.

To increase capital expenditure, the local government is expected to continue to explore the sources of locally-generated revenue so that dependence on the central government can be reduced and can improve the welfare of the community. Local governments are also expected to restructure human resources to reduce personnel expenditure by emphasizing quality over quantity so as to prioritize the allocation of regional spending to capital expenditure.

Further research can then use sample of regency and city government in other province, for example the region that has ratio of capital expenditure per capita of government lower than Central Java Province so that can get more significant result. For subsequent researchers it is advisable to multiply the census used for the results to be more representative of the selected population, and to take samples in addition to the existing regencies and cities in Central Java Province.

The variables used in future research are expected to be more complete and varied by adding other independent variables of either the size or type of local government revenue, as well as non-financial variables such as government policy and macro-economic conditions.

ENDNOTES

1. Local government budget referred to the budget of regional income and expenditure (*Anggaran Pendapatan dan Belanja Daerah/APBD*). According to Law number 17 year 2003, APBD is a form of regional financial management which is determined every year by Regional Regulation.
2. Performance-based budgeting is a resource allocation approach based on performance to be achieved. Performance targets are the needs of society, hence budget participation is more appropriate to use (Anthony & Govindarajan, 2007).
3. Locally-generated Revenue is known as *Pendapatan Asli Daerah (PAD)*.
4. General allocation fund is known as *Dana Alokasi Umum (DAU)*.
5. Special allocation fund is known as *Dana Alokasi Khusus (DAK)*.
6. Revenue sharing fund is known as *Dana Bagi hasil (DBH)*.

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