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FACTORS AFFECTING CAPITAL EXPENDITURE ALLOCATION IN CENTRAL JAVA PROVINCE GOVERNMENT

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ABSTRACT

During the old government, Indonesia used a centralized system, where everything was decided and determined by the central government. Meanwhile, during the Reformation period, a regional autonomy system was implemented where the regions had the right to regulate their own regions with certain limitations. This study purposes to know the factors that affect the Capital Expenditure allocation in the Government of Central Java Province. This research was conducted because there were inconsistent results from previous studies.

The data used are secondary data using the period 2017 - 2020 in the district / city in Central Java. Where there are 29 Regencies and 6 Cities. The number of observations was 140 observations from 35 counties / cities observed over 4 periods. Based on the title, background, and problem formulation, the data analysis technique used is multiple linear regression analysis which purposes to measure the strength of the linear association between two or more variables.

The results showed that the General Allocation Fund had a significant positive effect on capital expenditure, the Special Allocation Fund had a significant positive influence on capital expenditure, Regional Original Revenue had a significant positive influence on capital expenditure and Gross Regional Domestic Revenue had no influence on capital expenditure.

Keywords: General Allocation Fund (GAF); Regional Original Revenue (ROR); Special Allocation Fund (SAF); Gross Regional Domestic Revenue (GRDP); Capital Expenditure

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INTRODUCTION

Capital expenditure is an element of direct expenditure in the government budget that produces output in the model of fixed assets. In the implementation of the ensuing fixed assets, some are in direct contact with public services or used by everyone (such as roads, sidewalks, sports buildings, bridges, jogging tracks, bus stops, stadium and traffic signs) and some are not directly utilized by the people (such as government office buildings). From a public policy perspective, most of the capital expenditures have a relation with public services, so that in each annual cost the amount should be large.

However, capital expenditures are not always directly related to public services. Some physical projects produce output in the form of buildings that are fully enjoyed by the apparatus (bureaucracy) or work units that are not strightly related to the function of public services. An example is capital expenditures for the construction of the Bappeda (Regional Development Planning Agency) office or regional inspectorate. Basicly, the portion of capital expenditures is made to produce fixed assets belonging to the regional government in accordance with the needs of the regional government and or the community in the area concerned. From a participatory budgeting perspective, community entanglement is supposed to provide essential input in choosing fixed assets to be obtained from the application of the capital expenditure budget.

The phenomenon of many corruption cases that occurred in the Central Java Province, for example, is the case of the Kebumen Regent of corruption, namely by accepting bribes from a number of partners or contractors who were promised to obtain work projects whose source of funds came from the 2016 special allocation fund (SAF) (https://regional.kompas.com). In addition, there is also the former regent of Cilacap Probo Yulastoro in the case of corruption in the regional treasury of the Cilacap Regency government worth 10.8 billion rupiah (http://mediaindonesia.com/read/detail/131126-mantan-bupati-cilacap-soon-run-trial-again-corruption-related).

The allocation of assets into the capital expenditure budget is a full with political interests. This budget is actually intended to supply the public's need for public facilities and infrastructure arranged by local governments. However, the political interest from the legislature involved in the arrangement of the budget process, causes the allocation of capital expenditure became irrelevant and often ineffective to accentuate public interest.

LITERATURE REVIEW

Fiscal Decentralization in Indonesia

According to Law Number 32 of 2004, decentralization is the handover of government rules by the government to local regions to organize and arrange government affairs within the system of the Unitary State of the Republic of Indonesia. One of the goals of decentralization and regional regulation is to bring the government closer to the society, so that government services can be accomplished more efficiently and effectively.

Decentralization focused on the district and city levels is at the third level after the central and provincial governments. Some research suggest that decentralization should be obtained at the provincial level, because provinces are considered to have bigger capacity, to handle all delegated responsibilities than districts and cities.

According to Article 14 of Law Number 32 of 2004, mandatory affairs that are under the authority of regional governments for regencies/municipalities are affairs on a regency/municipal scale, including:

a. Development control and planning;
b. Spatial utilization, supervision;
c. Implementation of public order and peace;

d. Handling the health sector;
e. Implementation of education;
f. Handling social problems;
g. Employment services;
h. Population services, and civil registration;
i. Government general administration services;
j. Investment administration services;

Regional Revenue and Expenditure Budget (APBD)

The establishment of local government in principle is to empower the participation of the government and local communities in regional development. Mardiasmo (in Tuasikal, 2008) explains that the main goal of implementing regional autonomy is to increase public services quality and propel the regional economy.

1. In Law Number 17 of 2003 Article 16 about State Finance it is declared that APBD is a regional financial management which is appointed annually by local regulations.
2. APBD consists of Revenue Budget, Expenditure Budget, and Financing.
3. Regional Revenue comes from Regional Original Revenue.
4. Regional Expenditures are broken down by organization, function, and type of spending.

In accordance with the Permendagri Number 32 of 2008 Article 1 paragraph 1, about Guidelines for the Preparation of the Regional Budget for Fiscal Year 2009, explain that the local Revenue and Expenditure Budget (APBD) is the annual financial arrangement of the local government which is analyzed and authorized together by the local government and DPRD, and determined by regional regulations. In accordance with the Permendagri Number 13 of 2006 Article 22 paragraph 1, the structure of the APBD is a single unit consisting of: Regional Revenue, Regional Expenditures, and Regional Financing.

General Allocation Fund (GAF)

Based on Law Number 33 of 2004, the General Alocation Fund is a budget sourced from APBN incomes which is alocated with the purpose to proper distribution of financial capability among regions to overcome regional needs in order to build regional decentralization. The General Allocation Fund (GAF) is one of the tools for the central government to achieve equitable development in Indonesia with the aim of reducing inequality in financing needs and tax control between the Center Government and the Regions Government, which has been overcome by the existence of a financial balance between the Center Government and the Regions Government (with a profitsharing policy) and a minimum GAF of 25% of Domestic Revenue).

With this balance, especially from the GAF, it will provide certainty for the Regions in obtaining sources of financing to finance the expenditure needs for which they are responsible. This is in accordance with the *fiscal gap principle* formulated by the Directorate General of Fiscal Balance of the Ministry of Finance which is in line with Law Number 25 of 1999 concerning Financial Balance between the Central and Regional Governments that the need for GAF by a Region (Province, Regency and City) is determined using approach to the concept of a *fiscal gap*, where the GAF needs of a region are determined by regional needs (*fiscal needs*) and regional potential (*fiscal capacity*).

The GAF distributed to the regions comes from the APBN with the aim of equitable distribution of financial capacity between regions and the value is a minimum of 25% of the routine budget in the APBN. This fund is allocated 10% for provinces and 90% for districts/cities. This is aimed at equitable distribution of financial capacity between regions in reducing inequality in financial capacity between regions through the establishment of a formula that takes into account the needs and potential of the region.

Special Allocation Fund

Based on Law Number 33 of 2004, the Special Allocation Fund is a fund sourced from the APBN which is allocated to certain regions with the aim of helping to fund special activities which are regional affairs and in accordance with national priorities. On the website www.depkeu.djpk.go.id the SAF policy aims to:

1. It is prioritized to assist regions with financial capacity below the national average, in order to fund the activities of providing physical facilities and infrastructure for basic public services, which have become regional affairs.
2. Support the acceleration of the development of facilities and infrastructure in coastal areas and small islands, border areas with other countries, underdeveloped/remote areas, flood/landslide prone areas, as well as including the categories of food security areas and tourism areas.
3. Encouraging increased productivity, expanding employment opportunities and diversifying the economy, especially in rural areas, through special activities in agriculture, marine and fisheries, as well as infrastructure.
4. Increase access of the poor to basic services and basic infrastructure through special activities in the fields of education, health, and infrastructure.
5. Increase access of the poor to basic services and basic infrastructure through special activities in the fields of education, health, and infrastructure.
6. Improve the integration and synchronization of activities funded from SAF with activities funded from the budget of Ministries/Agencies and activities funded from APBD.
7. Gradually transfer deconcentration and co-administration funds used to fund activities that have become regional affairs to SAF. The funds diverted came from the budget of the Ministry of Public Works, Ministry of National Education and Ministry of Health.

Gross Regional Domestic Product (GRDP)

The development process includes changes in the composition of production, changes in the pattern of use (allocation) of production resources among sectors of economic activity, changes in the pattern of distribution of wealth and income among various groups of economic actors, changes in the institutional framework in people's lives as a whole. Economic growth is the process of increasing *output* per capita produced by Gross Regional Domestic Product (GRDP) per capita. Boediono (in Putro, 2010) states that economic growth is a process of increasing output in the long term. The use of economic growth indicators will be seen over a long period of time, for example ten, twenty, fifty years or even more. Economic growth will occur, meaning that it must come from the forces that exist within the economy itself.

The most important measure in the economic concept is gross domestic product (GDP) which measures the total value of goods and services produced in a country or nationally and GRDP to measure the total value of goods and services produced in an area or locale. GDP is used for many purposes but the most important is to measure the overall performance of an economy.

Contemporary development economics theorists are still refining the meaning, nature, and concept of economic growth. These theorists state that economic growth is not only measured by the increase in GDP and GRDP, but is also given immaterial weights such as enjoyment, satisfaction, happiness, security, and peace that is felt by the wider community (Arsyad, 1999).

GDP is the total output (production) produced by an economy. The calculation method in practice is to divide the economy into several production sectors (industrial origin). The total output of each sector is the total output of the entire economy. However, it is possible that the

output produced by one sector of the economy comes from the output of another sector. Or it could be an input for the economic sector as well or something else.

In other words, if you are not careful, there will be double counting or even multiple counting. As a result, GDP could inflate several times the actual figure. To avoid the above, in the calculation of GDP using the production method, the added value of each sector is added up. What is meant by added value is the difference between the output value and the intermediate input value.

NT= NO-NI

Where:
NT = Value Added
NO = Output Value
NI = Input Value

Gross Regional Domestic Product (GRDP) is the total gross value added arising from the economic sector in the region. What is meant by gross value added is the value of the product (output) minus 1 (one) with intermediate costs. Gross value added includes the components of income (wages and salaries) interest, rent, land and profits. By calculating the added value, it can be seen the amount of GRDP.

Capital Expenditure

In order to realize public services to the community, each Regional Government needs to set priorities for capital expenditures and good planning so that they can be the key to dealing with the obstacles faced. According to Government Regulation Number 71 of 2010 concerning Government Accounting Standards, capital expenditures are expenditures made in the context of capital formation which are to increase fixed assets/inventory that provide benefits for more than one accounting period, including expenditures for maintenance costs that are maintaining or increase the useful life, and increase the capacity and quality of assets.

Fixed assets owned by local governments are the result of capital expenditures being the main requirement in providing public services. In increasing the quantity of fixed assets, local governments allocate funds in the form of capital expenditure budgets in the APBD, which every year the Regional Government always procure fixed assets in accordance with budget priorities and public services that can have a long-term financial impact.

The quality of public services can be improved by improving *service quality management*, namely efforts to minimize the *gap* between service levels and consumer expectations (Bastian, 2010). Thus, the Regional Government must be able to allocate the capital expenditure budget properly because capital expenditure is one of the steps for the Regional Government to provide services to the public.

In realizing good public services, it can be seen from the optimization of ROR revenue which should be supported by the efforts of the Regional Government by improving the quality of public services. Excessive exploitation of ROR will actually burden the community, become a disincentive for the region and threaten the economy at a macro level (Mardiasmo in Tuasikal, 2008).

RESEARCH METHODS

According to Government Regulation No. 71 of 2010, capital expenditures are direct expenditures used to finance investment activities (fixed assets). Capital expenditures include capital expenditures for the acquisition of land, buildings and buildings, equipment and intangible assets. Capital expenditure variable indicators can be measured by:

Capital Expenditure = Land Expenditure + Equipment and Machinery Expenditure + Shopping for Buildings + Shopping for Streets, Irrigation, and Network + Shop Other Fixed Assets

The independent variables in this study consisted of GAF (General Allocation Fund), ROR (Regional Original Income), SAF (Special Allocation Fund) and GRDP (Gross Regional Domestic Income).

GAF (General Allocation Fund)

General Allocation Fund is a general transfer from the central government to local governments to overcome horizontal inequality with the aim of equitable distribution of financial capacity between regions. The General Allocation Fund for each Regency/City can be seen from the balance fund post in the APBD Realization Report. The general allocation fund (GAF) variable can be measured by:

GAF = Basic Allocation (BA) + Fiscal Gap (FG)

Where:
BA: Regional Civil Servant Salary
FG: Fiscal Needs – Fiscal Capacity

ROR (Regional Original Income)

According to Law Number 33 of 2004, Regional Original Revenue is the revenue obtained by the region from sources within its own region which is collected based on regional regulations in accordance with applicable laws and regulations. Original Regional Revenue is a source of original regional revenue that is excavated in the area to be used as the basic capital of the regional government in financing development and regional efforts to minimize dependence on funds from the central government. Regional Original Income consists of regional taxes, regional levies, the results of separated regional wealth management, and other legitimate regional revenues. Regional Original Income Variables are measured by the formula:

ROR = Local Tax + Regional Retribution + Yield Management of Separated Regional Wealth + Other Legitimate ROR

SAF (Special Allocation Fund)

Special Allocation Funds are funds sourced from the APBN which are allocated to certain regions with the aim of helping to fund special activities which are regional affairs and in accordance with national priorities. The SAF allocation for each region is determined by a regulation of the minister of finance. The calculation of SAF allocation is carried out in 2 (two) stages, namely:

a. Determination of certain areas that receive SAF; and
b. Determination of the amount of SAF allocation for each region

In determining certain areas, the general criteria, special criteria, and technical criteria must be met. The amount of SAF allocation for each region is determined by calculating the index based on general criteria, special criteria, and technical criteria (Regulation of the Minister of Finance of the Republic of Indonesia Number 201 of 2012).

GRDP (Gross Regional Domestic Income)

Nominal GRDP (or called GRDP at Current Prices) refers to the value of GRDP without considering the effect of price. While real GRDP or called GRDP at constant prices) corrects the nominal GRDP figure by including the effect of price. GRDP can be calculated using two approaches, namely the expenditure approach and the income approach. The general formula for GRDP with an expenditure approach is:

GRDP = consumption + investment + expenditure + government + export - import

Population and Sampling Techniques

The population in this study were all City/Regency governments in Central Java from 2017-2020. The sample used in this study is district and city governments in Central Java. This research technique uses the census method. The census method is a method by taking samples of all districts and cities in Central Java. The sample data used are districts and cities in Central Java, namely 35 districts/cities.

Types and Sources of Data

The type of data used in this research is secondary data. The source of the data is the report document on the realization of the Central Java Regency/City Regional Budget which was obtained from the Central Java Provincial Government Finance Bureau. From the 2017-2020 APBD realization report, data can be obtained regarding the amount of the Capital Expenditure budget, Regional Original Revenue (ROR), General Allocation Fund (GAF), and Special Allocation Fund (SAF). While the Gross Regional Domestic Product (GRDP) per capita data is obtained from the Central Java Statistics Agency (BPS).

Analysis Method

Data analysis method is a method used to process and predict research results in order to obtain a conclusion (Sekaran, 2020). Based on the title, background, and problem formulation, the data analysis technique used is multiple linear regression analysis which aims to measure the strength of the linear association (relationship) between two or more variables. The models used from multiple linear regression are:

$$\mathbf{Y = 0 + 1\ X1 + 2\ X2 + 3\ X3 + 4\ X4 + e}$$

RESULTS AND DISCUSSIONS

Sample Description

The sample data of this study are data taken from district and city governments throughout Central Java, including APBD Realization Reports, Gross Regional Domestic Product data, Regional Original Income data, and General Allocation Funds and Special Allocation Funds during 2017 to 2020 obtained from Central BPS and Central Java BPS and through the website of the Ministry of Finance at http://www.djpk.depkeu.go.id/ and also from the Central Java Provincial Government Finance Bureau.

The population of this study is 35 district and city governments during 2017 to 2020. Based on the determination of the number of samples that have been determined in the previous chapter, the number of samples from the research during 2017 to 2020 is 35 district and city governments during 4 years of research then obtained as much as 4 x 35 = 140 observational data.

Data analysis

Analysis of the data used in this study is multiple linear regression. For this analysis, it is first tested for the absence of deviation problems from the classical assumptions. The normality test aims to test whether in the regression model, the independent variables and the dependent variable have a normal distribution or not. According to Ghozali (2021), that the distribution of

data can be seen by comparing the profitability of the Kolmogorov Smirnov test with a significance level of 0.05 with the following criteria:

a. If the profitability value (Kolmogorov Smirnov) > the significance level of 0.05, the data distribution is said to be normal.
b. If the profitability value (Kolmogorov Smirnov) < the significance level of 0.05, the data distribution is said to be abnormal.
c. To detect normality can be done with statistical tests as follows:

Table 1. Kolmogorov Smirnov Normality Test (Before LN)

		Unstandardized Residual
N		140
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	9.54225377
Most Extreme Differences	Absolute	.152
	Positive	.152
	Negative	-.114
Kolmogorov-Smirnov Z		1.798
Asymp. Sig. (2-tailed)		.003

a. Test distribution is Normal.
Source: Processed secondary data (2022)

Based on Table 1, N = 140 it can be seen that the *Kolmogorov-Smirnov value is* 1.798. *Kolmogorov-Smirnov* significance value above shows a value of 0.000 which means it is less than 0.05, then the data is not normally distributed, which means the data is not normally distributed. So that the data transformation needs to be carried out by Natural Logarithms to normalize data that are not normally distributed. The following are the results of the normality test after LN:

Table 2. Kolmogorov Smirnov Normality Test (After LN)

		Unstandardized Residual
N		140
Normal Parameters[a]	Mean	.0000000
	Std. Deviation	.42985651
Most Extreme Differences	Absolute	.111
	Positive	.094
	Negative	-.111
Kolmogorov-Smirnov Z		1.318
Asymp. Sig. (2-tailed)		.062

a. Test distribution is Normal.
Source: Processed secondary data (2022)

Based on Table 2, it is explained that the data used in this study is normally distributed where the *asymp.sig value* is 0.062 which is greater than the research significance level of 0.05 or 5%, meaning that the data used is normally distributed. Then the data can be used in testing with a regression model with the dependent variable being Capital Expenditure, the independent variables being the General Allocation Fund (GAF), Regional Original Income (ROR), Special Allocation Funds (SAF), Gross Regional Domestic Income (GRDP).

Multicollinearity Test

The results of the multicollinearity test are as follows:

Tabel 3. Multicollinearity Test

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	2.524	2.355		1.072	.286		
Ln_GAF	.260	.128	.190	2.021	.045	.596	1.678
Ln_ROR	.308	.084	.084	3.684	.000	.778	1.286
Ln_SAF	.248	.091	.225	2.729	.007	.770	1.299
Ln_PDRB	.068	.052	.106	1.308	.193	.802	1.248

a. Dependent Variable: Ln_CE

Source: Processed secondary data (2022)

The results of the multicollinearity test in Table 3 explain that the VIF *(variance inflation factor) value is* below 10 and the tolerance value is above 0.10. The results of the calculation of the *tolerance value for* the General Allocation Fund (GAF), Regional Original Revenue (ROR), Special Allocation Fund (SAF), Gross Regional Domestic Revenue (PDRB) showed results of more than 0.10, namely 0.596; 0.778; 0.770; 0.802 and the calculation results of the Variance Inflation Factor (VIF) value of 1.678; 1,286; 1,299; 1,248 no independent variables were found that had a VIF of more than 10, so it can be explained that according to the test, the regression model free from multicollinearity problems shows that there is no multicollinearity.

Heteroscedasticity Test

Heteroscedasticity assumption tests whether in a regression model there is an inequality of variance from the residual of one observation to another observation, it is called homoscedasticity. If the variance is different, it is called heteroscedasticity. A good model is that there is no heteroscedasticity. To detect the presence or absence of heteroscedasticity, it can be done by looking at the Plot Graph between the predicted value of the dependent variable, namely ZPRED and the residual SRESID. By detecting the presence or absence of heteroscedasticity, it is done by looking at the presence or absence of the *scatterplot graph* between SRESID and ZPRED where the Y axis is the predicted one and the X axis is the residual.

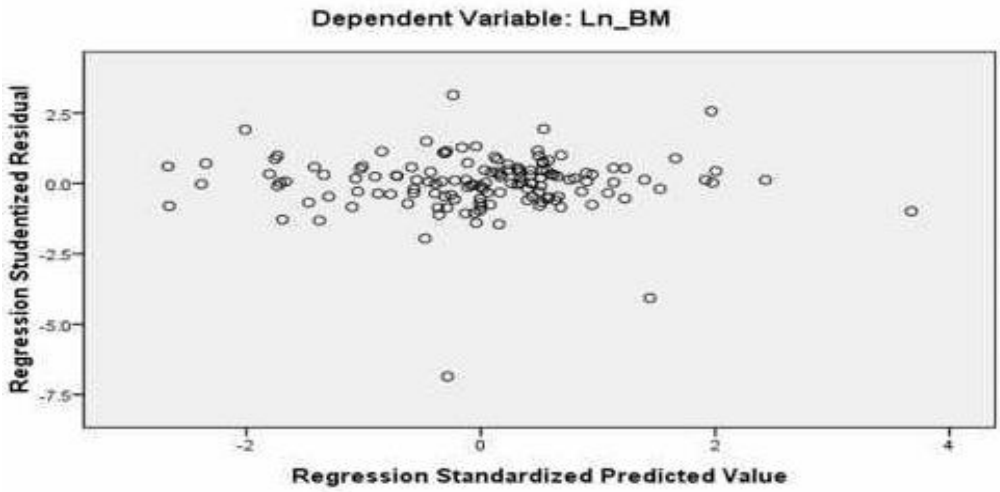

Figure 1. Scatterplot

Source: Processed secondary data (2022)

The results of the Plot graph display show that there is no clear pattern, and the points spread above and below the number 0 on the Y axis, so there is no heteroscedasticity.

Autocorrelation Test

The following are the results of the autocorrelation test in the regression model:

Tabel 4. Regression Model Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.540[a]	.303	.270	.43618	1.866

a. Predictors: (Constant), Ln_PDRB, Ln_SAF, Ln_ROR, Ln_GAF
b. Dependent Variable: Ln_CE
Source: Processed secondary data (2022)

Based on the results of the autocorrelation test in Table 4 for the regression equation, the Durbin Watson (DW) value for "k" = 4 and N = 140 is known to be 1.866; the value of Durbin Watson table (d_u) is 1.7763 and 4-d $_u$ is 2.2237. Because the Durbin-Watson (DW) 1.866 is greater than d $_u$ 1.7763 and Durbin-Watson (DW) is less than 2.2237, it can be concluded that the Durbin-Watson (DW)-test cannot reject H0 which states that there is no positive autocorrelation. or negative or it can be concluded that there is no autocorrelation in the regression.

Hypothesis test

Hypothesis testing in this study using multiple regression models. Multiple regression analysis aims to measure the strength of the relationship between two or more variables, and also shows the direction of the relationship between the dependent and independent variables. Multiple regression analysis was performed using the coefficient of determination test (R^2), F test (simultaneous test) and t test (partial test).

Coefficient of Determination (R^2)

The coefficient of determination shows the effect of the independent variables, namely GRDP, GAF, GAF and SAF together on capital expenditures.

Tabel 5. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.540[a]	.303	.270	.43618	1.866

a. Predictors: (Constant), Ln_PDRB, Ln_SAF, Ln_ROR, Ln_GAF
b. Dependent Variable: Ln_CE
Source: Processed secondary data (2022)

From the calculation results, we can know that the value of the coefficient of determination (adjusted R Square) is 0.303 or 30.3%. This means that the variables GRDP, ROR, GAF and SAF together have an effect of 30.3% on Capital Expenditures. While the remaining 0.697 or 69,7% is influenced by other variables that are not included in the study.

Simultaneous Test (F Test)

The model test is carried out using the F test, which is to examine the effect of the variables GRDP, ROR, GAF and SAF together on the budget allocation for capital expenditures. From

the calculation results we can know that F count (13.861) with a significance of 0.000. The significance value is smaller than 0.05. Thus it can be concluded that there is an effect of GRDP, GAF, SAF and ROR together on Capital Expenditures.

T-Test (Partial Test)

The t test (partial) is to see the effect of the independent variables partially on the dependent variable. The following are the results of the calculation of the t-value and its significance level in this study. The regression equation model is obtained as follows:

$$CE= 2.524 + 0.260GAF + 0.308ROR + 0.248SAF + 0.068\ GRDP + e$$

Based on the results of the t test (partial test) above, the results of hypothesis testing are obtained as follows:

1. Hypothesis 1: From the results of the estimated coefficient of the GAF variable, it is obtained by -0.260 with a significance of 0.045. A significance value less than 0.05 indicates that the change in GAF has a significant effect on Capital Expenditure (CE) one year ahead. The direction of the regression coefficient is positive, which means that an increase in GAF in a period will actually increase Capital Expenditure (CE) in the next year.
2. Hypothesis 2: From the estimation results of the ROR variable coefficient, it is obtained +0.308 with a significance of 0.000. A significance value smaller than 0.05 indicates that ROR has a significant effect on Capital Expenditure (CE) for the next year
3. Hypothesis 3: From the estimation results of the SAF variable coefficient, it is obtained +0.248 with a significance of 0.007. A significance value less than 0.05 indicates that SAF has a significant effect on Capital Expenditure (CE) for the next one year.
4. Hypothesis 4: From the results of the estimation of the coefficient of the GRDP variable, it is obtained that t = +0.068 with a significance of 0.193. A significance value greater than 0.05 indicates that GRDP does not have a significant effect on Capital Expenditure (CE) one year ahead.

Effect of General Allocation Fund on Capital Expenditure

The results of the study indicate that the General Allocation Fund has a positive and significant effect on the allocation of the Capital Expenditure budget at the Regency/City government in Central Java. This means that regencies/municipalities that have high Balancing Funds will allocate high capital expenditures as well, and vice versa. Regency/City areas that have low Balancing Funds will allocate low Capital Expenditures. The above is in line with research conducted by Yawa and Runtu (2015), where the GAF variable has a positive, significant correlation to capital expenditures.

Effect of Regional Original Revenue on Capital Expenditure Budget Allocation

The results showed that ROR had a positive and significant effect on capital expenditures in district/city governments in Central Java. This means that counties/cities with high ROR will allocate high capital expenditures as well. Vice versa, counties/cities that have low ROR will allocate low capital expenditures.

This study is in line with research conducted by Yawa and Runtu (2015) and Tuasikal (2008) with the results of ROR having a positive effect on capital expenditure allocation. Decentralization is purposed at realizing local independence, where autonomous local governments have the authority to regulate and manage the interests of local communities according to their own initiatives and capabilities based on community aspirations as stated in

Law No. 32 of 2004. On the other hand, the ability of regions to provide adequate funding originating from the region is very dependent on the ability to realize the economic potential into forms of economic activity that are able to create allocations of funds for sustainable regional development.

Effect of Special Allocation Funds on Capital Expenditure Budget Allocation

The results of the study indicate that the SAF has a positive and significant impact on the Capital Expenditure budget of the Regency/City government in Central Java. This means that districts/cities with high SAF will allocate high capital expenditures as well. On the other hand, districts/cities with low SAF will allocate low capital expenditures.

This study supports the research conducted by Tuasikal (2008) where partially the results of his research show that DAK has a positive effect on the allocation of capital expenditures, indicating that in this study the independence of local governments in financing its development, especially for capital expenditures, still relies on transfer funds from the central government.

Effect of GRDP on Capital Expenditure Budget Allocation

The results showed that GRDP did not have a positive and significant effect on capital expenditures in district/city governments in Central Java. This means that districts/cities with high GRDP do not always allocate high capital expenditures. On the other hand, districts/cities with low GRDP do not necessarily allocate low capital expenditures.

The results of this study are consistent with research conducted by Tuasikal (2008) and Indarti and Sugiartiana (2012), which states that economic growth is not followed by capital expenditures. This does not mean that in the management of local government expenditures related to the allocation of capital expenditures, GRDP is not the main reference in the process of preparing APBD and allocation of capital expenditures, but there are a number of certain factors that influence it, for example the process of preparing general budget policies for each counties /cities which not only pay attention to regional macroeconomic conditions but also socio-political conditions in the regions.

CONCLUSIONS

From the results of the analysis, there are 3 variables that are significant to the allocation of capital expenditures, namely the GAF, ROR and SAF variables so that it can be concluded that these variables affect the decision on how capital expenditure will be allocated by the district/city government.

For GRDP, it does not have a positive and significant effect on the allocation of Capital Expenditures, which means that Regency/City areas that have high GRDP do not always allocate high Capital Expenditures. Likewise, on the other hand, Regency/City areas that have low GRDP do not necessarily allocate low Capital Expenditures.

Research Limitations and Suggestions

This study has limitations, there are large differences in some of the data because they come from observations of different areas. Which causes the deviation of the standard deviation in descriptive statistics testing. For this reason, further analysis can use the panel regression analysis method (panel least square or pool least square) by adding aspects of the fixed effect originating from each region and at the same time knowing which areas are affected. have the most influence. In short, the observation year is 4 years from the 2017 – 2020 period. Suggestion for next research is local governments are expected to be able to:

1. Allocating GRDP Economic Growth, Balancing Funds, and Original Regional Revenues for the Capital Expenditure budget that is prioritized on improving people's welfare.

2. Optimizing local economic potential to increase regional revenues so as to create regional independence to finance expenses so that in the end dependence on the central government can be reduced

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