



The Role of Economic Growth in Moderating the Effect of Local Revenue and Transfers on Capital Spending: A Case from Central Java

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ABSTRACT

This study investigates the effects of regional original revenue, general allocation fund, and special allocation fund on capital spending, with economic growth as a moderating variable in the Province of Central Java. This research examines 35 regencies and cities over the period 2020–2023. The analysis methods include descriptive statistics, classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity), and hypothesis testing using multiple linear regression and moderated regression analysis. The results indicate that regional original revenue has no significant effect on capital spending. The general allocation fund negatively affects capital spending, while the special allocation fund has a positive effect. Furthermore, economic growth does not moderate the relationship between regional original revenue, general allocation fund, and special allocation fund on capital spending.

Keywords: regional original revenue, general allocation fund, special allocation fund, capital spending, economic growth

ABSTRAK

Penelitian ini menguji pengaruh pendapatan asli daerah, dana alokasi umum, dan dana alokasi khusus terhadap belanja modal dengan pertumbuhan ekonomi sebagai variabel pemoderasi di Provinsi Jawa Tengah. Jumlah populasi yang digunakan adalah 35 Kabupaten dan Kota di Provinsi Jawa Tengah dengan periode pengamatan 2020-2023. Analisis yang digunakan antara lain uji statistik deskriptif, uji asumsi klasik (uji normalitas, uji multikolinearitas, uji autokorelasi, dan uji heteroskedastisitas), dan uji hipotesis (analisis regresi linier berganda dan moderated regression analysis). Hasil dari penelitian ini menunjukkan bahwa pendapatan asli daerah tidak berpengaruh terhadap belanja modal, dana alokasi umum berpengaruh negatif terhadap belanja modal, dan dana alokasi khusus berpengaruh terhadap belanja modal. Pertumbuhan ekonomi tidak mampu memoderasi pengaruh pendapatan asli daerah, dana alokasi umum, dan dana alokasi khusus terhadap belanja modal.

Kata kunci: pendapatan asli daerah, dana alokasi umum, dana alokasi khusus, belanja modal, pertumbuhan ekonomi

INTRODUCTION

Indonesia has implemented a regional autonomy policy since 1999 to reform local government. This policy, under Law No. 32/2004 on Regional Government, grants autonomous regions the right and obligation to regulate and manage their own affairs and community interests. This autonomy makes local governments more capable of managing their regions, including the economy, as they have better knowledge of

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their regions (Sucipto, 2022). Development decentralization aims to encourage local growth, particularly in the local economy. Regional autonomy also optimizes regional income potential and allows for greater allocation of regional spending to productive sectors, allowing regions to explore their local potential (Wang et al., 2022). High-income regions experience faster development than low-income ones due to local governments' ability to allocate resources for infrastructure, education, and health services, improving people's quality of life. High-income regions also attract investment due to attractive facilities and incentives, creating new jobs and strengthening economic competitiveness (Tresnajaya et al., 2024). Low-income regions often face limited resources, making it difficult to finance development programs that spur economic progress and improve community welfare. This highlights the importance of addressing resource constraints in developing regions.

Local governments annually prepare a draft regional revenue and spending budget (APBD), which serves as a guideline for operational activities during the fiscal year (Pentoria et al., 2023). This process is crucial in determining the direction of development and allocating resources to meet community needs and achieve predetermined goals. Local governments allocate capital spending to meet long-term needs that support regional progress, such as procurement or construction of assets with a useful life of more than one year, such as facilities and infrastructure. These assets can be in the form of land, equipment, machinery, buildings, roads, irrigation, and other physical infrastructure (Andang & Ali, 2022). Regional autonomy measures a region's success by developments in various sectors, including development, economy, and infrastructure provision for public services. This is reflected in city organization, utilization of vacant land, and the development of infrastructure that supports comfort and convenience in community services.

Capital spending in a region is influenced by both own-source revenue and general and special allocation funds (Mulyana et al., 2022). The general allocation fund focuses on equity and justice, aligning with government affairs. Local governments can use the funds received from the central government to finance capital spending in their regions. The general allocation fund in Indonesia is a yearly sum allocated to local governments for regional development (Simanjuntak, 2024). It serves as a balancing fund for regional revenue and spending budgets. However, it can lead to economic inequality due to fiscal decentralization and limited tax revenue. This is due to underutilization of natural resources by local governments. The distribution mechanism of the General Allocation Fund (DAU) cause imbalances in fund receipt among regions. Regions with low own-source revenue (PAD) are more dependent on DAU, limiting innovation in regional revenue extraction and slowing economic growth.

The Special Allocation Fund, sourced from the APBN, is allocated to regions to fund activities aligned with national priorities. Its purpose is to enhance physical facilities and infrastructure development, promoting economic growth (Nugroho et al., 2021). The funds are intended for investment in the procurement, improvement, and repair of long-lived facilities and infrastructure. The allocation of these funds is expected to impact capital spending by increasing government fixed assets for public service improvement (Mulyana et al., 2022; Simanjuntak, 2024). Local governments play a crucial role in managing these funds.

One of the phenomena that has recently become a topic of discussion is the number of damaged roads. As in 2023, Central Java, precisely in Klaten Regency, repaired a number of

roads leading to tourist attractions, such as the Janti-Bentangan, Pucangmiliran-Wunut, Selogringging-Cokro, and Janti-Cokro sections. According to information published on the official website of the Klaten Public Works and Spatial Planning Agency (DPUPR), the road repairs were funded by the central government through physical and assignment special allocation funds. The total budget for special allocation funds in the road sector allocated to DPUPR Klaten reached 8.7 billion rupiah to finance the repair of these roads. Efforts to improve roads to these tourist attractions are part of the local government's efforts to equalize the development of infrastructure in the main sector, which is expected to be a lever for the community's economy. In addition, this tourist area contributes significantly to local revenue. The increase in local revenue generated from the tourism sector has a positive effect on the ability of the region to finance various development needs, including capital spending.

Based on information obtained from the official website of the Central Java Provincial Government (<https://jatengprov.go.id>), in fiscal year 2023, Central Java Province is projected to experience an increase in regional revenue of Rp13.79 billion. The increase came from three main components, namely transfer revenues of Rp956 million, legal local revenues of Rp398.7 million, and local own-source revenues which experienced a significant increase of Rp12.43 billion. This increase in own-source revenue reflects the local government's efforts to optimize revenue from resources managed directly by the regions, such as local taxes and levies. In addition, Central Java's economic growth in the second quarter of 2023 was recorded at 5.23%, slightly higher than the national figure of 5.17%. With this projection, the Central Java economy is expected to continue to grow positively in the range of 5.20% to 5.60% throughout 2023, indicating the stability of the regional economy despite global and national challenges.

In this context, it is important to conduct research on the influence of other factors related to local revenue receipts, such as local own-source revenues, general allocation funds, and special allocation funds, on capital spending allocations in districts and cities in Central Java. This study aims to analyze the extent to which these three sources of local revenue affect local capital spending and how economic growth can moderate the relationship between local revenue and capital spending, thereby generating a deeper understanding of local financial management in supporting infrastructure development and improving community welfare. Research on regional capital spendings in Central Java regencies and cities has yielded varied results. The study reveals that these spendings are significantly influenced by internal and external factors. Further research is needed to understand the dynamics of regional budget management and provide policy recommendations to enhance efficiency. The research will incorporate economic growth as a moderating variable, which can reveal how macroeconomic conditions affect local budget management, particularly in relation to capital spending. This approach will provide a more precise understanding of regional budget management dynamics and improve policy recommendations. Economic growth is a crucial external factor that helps understand the optimal use of regional resources like own-source revenues, general allocation funds, and special allocation funds for development and community welfare. The effect of economic growth on capital spending depends on ongoing economic conditions, which can either enhance or limit its effectiveness. Economic growth is not only a result of economic policy but also influences the role of these funds in increasing regional capital spendings.

LITERATURE REVIEW**97****Public Value Theory**

Public value is defined as a strategic thought and action of public policy makers and public managers in the face of complexity and as a suggestion for evaluating the effectiveness and efficiency of public services (Fukumoto & Bozeman, 2019). Meanwhile, according to (Benington, 2011), public value is described as a multidimensional structure, in its creation not only looking at results but looking at the process to be able to provide trust or justice. This is a form of a good approach in managing and improving existing public services continuously. The strategy trilogy is a method for creating public value, highlighting the role of public managers as similar to private managers (Utami et al., 2023). Public managers provide economic value to capital owners, while public managers aim to maintain public satisfaction. Balancing public satisfaction with high public value is crucial, as the created value will increase satisfaction (Hartley et al., 2017; Sucipto, 2022).

Public value theory emphasizes the importance of effective communication and transparency in resource management for a mutually beneficial relationship between government and society (Bryson et al., 2014). In local government, strong public relations can increase public trust in the management of local funds, such as own-source revenues and general allocation funds (Moore, 1997; Utami et al., 2023). These funds, provided by the central government, help finance capital spendings for infrastructure development and other programs, while also strengthening the fiscal capacity of regions, especially in regions with limited economic capacity. Efficient capital spending can enhance infrastructure, create jobs, and boost regional competitiveness (Mulyana et al., 2022). Investment in capital spending can accelerate regional economic growth. High-growth regions show a more significant positive effect on infrastructure and development. Local governments' ability to manage revenues, allocation funds, and capital spendings can influence sustainable economic development. Building good communication and maintaining positive public relations can create a fiscal climate that supports sustainable growth.

Local Revenue and Capital Spending

According to (Halim, 2022), Regional Original Revenue (PAD) is all local government revenue sourced from the region's original economic products. If local revenue is greater than government aid, the region can be considered independent (Simanjuntak, 2024). The higher the own-source revenue obtained by a region, the more likely the region is to allocate funds into capital spendings. With the local revenue generated, the region can finance its own needs and reduce the government budget. Research from (Mulyana et al., 2022; Simanjuntak, 2024) supports the researcher's assumption that local own-source revenue has a positive effect on capital spending. The higher the own-source revenue, the greater the capital spending allocation that can be made by the local government. An increase in local revenue brings benefits in the provision of public facilities, especially through the development of facilities and infrastructure, with the main focus on infrastructure. Based on this description, H1 in the study is formulated as follows.

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H1 : Local Revenue has a positive and significant effect on Capital Spending

Vol.5 No 2.

General Allocation Fund and Capital Spending

General allocation funds enable local governments to allocate budgets for infrastructure development and public service improvements. The more funds received, the greater the potential to increase capital spending. Research from (Martati & Asniwati, 2020) supports this assumption, stating that the greater the general allocation funds provided from the center, the greater the provision and procurement of public services and facilities through regional capital spendings. The positive impact of the general allocation fund on capital spending indicates a link between these funds and regional infrastructure development, as the central government channels funds to local governments for various programs and activities, primarily focusing on capital spendings (Aswan et al., 2024). (Mulyana et al., 2022) suggests that higher general allocation funds from the central government can increase the capital spending budgets. This increase in funds allows regions to allocate more financial resources to various sectors, including capital spending. This can positively impact regional economic growth and community welfare. Effectively directed capital spendings can reduce the development gap between regions and accelerate development in regions still lagging behind. The study concludes that the general allocation fund has an effect on capital spending, forming the hypothesis (H2) in the research.

H2 : General Allocation Fund has a positive and significant effect on Capital Spending

Special Allocation Fund and Capital Spending

The Special Allocation Fund is a funding source from the State Budget (APBD) for specific regions, aimed at meeting regional needs comparable to national programs (Gonschorek & Schulze, 2018). It is prioritized for regions meeting criteria for additional funding. This allows local governments to allocate larger budgets for development projects, such as road and bridge construction. The greater the Special Allocation Fund received, the higher the likelihood of capital spending increase, as it is intended to improve public facilities and infrastructure. (Nugroho et al., 2021) supports the hypothesis that the special allocation fund positively impacts capital spending, with a significant partial effect. The increase in central transfer funds for special activities has been used to improve facilities and infrastructure, including tourism development (Amina et al., 2025). Infrastructure development, such as roads to tourist destinations, enhances accessibility and encourages tourism growth. This leads to increased visitor numbers, positively impacting the local economy and revenue (Wijatmoko et al., 2023). The budget for infrastructure projects also increases, including construction, maintenance, and project management. The more infrastructure built, the greater the allocation of funds for capital spending. Infrastructure development not only facilitates mobility but also creates jobs and increases per capita income, contributing to long-term economic growth in the region. Based on this description, H3 in the study is formulated as follows.

H3 : Special Allocation Fund has a positive and significant effect on Capital Spending

The Moderating Effect of Economic Growth

Economic growth is crucial for regional development, and effective capital spending management is vital, particularly for public facilities. Capital spending is linked to increased regional income. The level of economic growth influences local revenue on capital spending (Triyanto et al., 2017). Higher growth rates lead to increased consumption and

productivity, as the per capita income of the population increases. Therefore, effective capital spending management is essential for regional development. (Mulyana et al., 2022) supports the researcher's assumption that economic growth is able to moderate the relationship between local revenue and capital spending. The higher the level of economic growth in a region can increase local revenue on capital spending. Economic growth in the region increases the per capita income of the population, so that the level of consumption and productivity of the population is also increasing. High economic growth is also one of the goals of an ongoing development process. Good economic growth is supported by adequate facilities and infrastructure and infrastructure, with the aim of facilitating economic activity.

Economic growth increases local governments' ability to effectively manage and utilize general allocation funds, leading to greater impact on capital spending (Gonschorek & Schulze, 2018; Mulyana et al., 2022). Each additional general allocation fund results in an increase in capital spending under good economic conditions. The process of allocating capital spending is intertwined with the role of the general allocation fund in improving services and community welfare. Many local governments rely on central government financial assistance for public facilities, infrastructure, and regional development efforts, and the general allocation fund can support long-term investment projects.

The purpose of using special allocation funds can be directed at efforts to improve the Human Development Index (HDI), which is one of the national issues that need to be resolved. This is due to the high level of poverty that exists in the regions (Halim, 2022). (Triyanto et al., 2017) supports the researcher's assumption that capital spendings made by local governments for the procurement of infrastructure, facilities, and infrastructure have the aim of increasing regional economic growth. If a region has achieved an increase in economic growth, local governments tend to reduce the allocation of capital spendings and utilize DAK to finance special activities that are regional affairs and are in line with national priorities other than capital spendings (Wijatmoko et al., 2023). This is because the original purpose of capital spending, which is to encourage economic growth, has been successfully achieved. This shows that economic growth has a significant influence but the influence of special allocation funds on capital spending is reduced. In other words, the greater economic growth, the greater the influence of special allocation funds on capital spending. Based on this description, hypothesis (H4, H5, and H6) in this study is formulated as follows.

H4: Economic growth moderates the influence of local revenue on capital spending

H5: Economic growth moderates the influence of general allocation funds on capital spending

H6: Economic growth moderates the influence of special allocation funds on capital spending

Based on the theoretical framework above, the research framework can be described as follows.

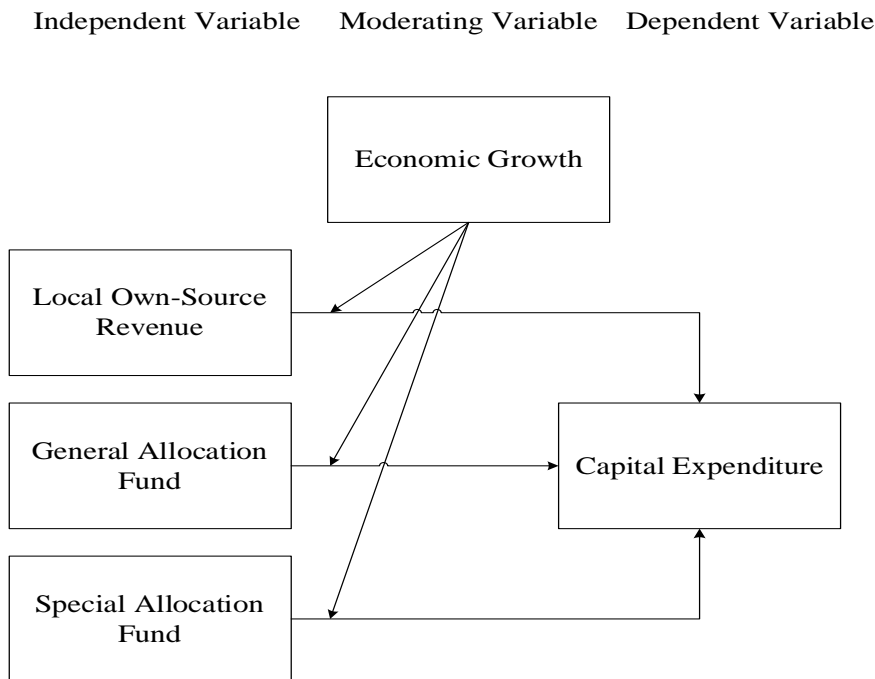


Figure 1. Research Framework

METHODS

This study aims to investigate the determinants of capital spending in regencies and cities within Central Java Province, Indonesia. Specifically, it examines the influence of Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK) on capital spending. Additionally, the study explores the moderating role of economic growth in the relationship between these fiscal variables and capital spending. By identifying the direct and moderated effects of local revenue and intergovernmental transfers on capital investment, this research is expected to provide insights into the fiscal behavior of local governments and support more effective public financial management.

This study employs a quantitative research approach to examine the influence of regional fiscal variables and economic growth on capital spending in local governments. The population of this research includes all regencies and cities within Central Java Province, consisting of 29 regencies and 6 cities, totaling 35 local governments. The sampling technique used in this study is saturated sampling (census sampling), whereby the entire population is used as the sample. Thus, the sample comprises all 35 regencies and cities in Central Java Province. The data used in this study are secondary data collected from official sources of Directorate General of Fiscal Balance (Direktorat Jenderal Perimbangan Keuangan—DJPK) at www.djpk.depkeu.go.id and the Central Statistics Agency (Badan Pusat Statistik—BPS) at www.bps.go.id. The data include the Regional Revenue and Spending Budget (APBD) Realization Reports and Gross Regional Domestic Product (GRDP) per capita as an indicator of economic growth. The observation period spans four years, from 2020 to 2023. With 35 local governments observed over 4 years, a total of 140 data points were analyzed in this study.

Variables and Operational Definitions

101

This study involves one dependent variable, three independent variables, and one moderating variable. The operational definitions of each variable are described in Table 1 as follows.

Table 1. Variables and Operational Definitions

No.	Variable Name	Operational Definition	Formula
1	Capital Spending (BM)	Government spending used for the acquisition of fixed assets and other capital investments that provide benefits for more than one accounting period.	Capital Spending = Land Spending + Equipment and Machinery Spending + Building and Structure Spending + Roads, Irrigation, and Network Spending + Other Fixed Assets Spending
2	Regional Original Revenue (PAD)	Locally generated revenue sourced from local taxes, retributions, separated regional wealth management, and other legitimate local income.	PAD = Local Taxes + Regional Retribution + Results from Management of Separated Regional Assets + Other Legitimate PAD
3	General Allocation Fund (DAU)	Funds sourced from the national budget (APBN) aimed at equalizing fiscal capacity among regions to support decentralization.	Taken directly from Budget Realization Report (IDR billion)
4	Special Allocation Fund (DAK)	Funds from the APBN allocated to specific regions to support designated programs in accordance with national priorities.	Taken directly from Budget Realization Report (IDR billion)
5	Economic Growth (Z)	The increase in economic output over time, measured by the growth of GRDP (Gross Regional Domestic Product) per capita annually.	Economic Growth = $(GRDP_t - GRDP_{t-1}) / GRDP_{t-1}$

Statistical Test

To examine the influence of Regional Original Revenue, General Allocation Fund, and Special Allocation Fund on Capital Spending, as well as to test the moderating role of Economic Growth in these relationships, statistical analysis is conducted using a quantitative approach. The testing employs multiple linear regression analysis and moderated regression analysis with the assistance of statistical software. Prior to hypothesis testing, classical assumption tests are performed to ensure that the data meet the requirements for a valid regression model, including tests for normality, multicollinearity,

heteroscedasticity, and autocorrelation. The results of this analysis are expected to provide empirical insights into the extent to which the independent variables and the moderating variable influence capital spending in the regency and city governments of Central Java Province during the 2020–2023 period.

To incorporate the moderating variable Economic Growth, the equation will include interaction terms to test the moderation effect. Here's how the regression equations would look with Economic Growth (Z) moderating the relationships between the independent variables (PAD, DAU, DAK) and Capital Spending (BM).

1. Main Effect Model (Multiple Linear Regression)

This model tests the influence of PAD, DAU, and DAK on Capital Spending (BM). The equation for the model is as follows:

$$BM = \alpha + \beta_1 * PAD + \beta_2 * DAU + \beta_3 * DAK + \epsilon$$

Where:

BM = Capital Spending

PAD = Regional Original Revenue

DAU = General Allocation Fund

DAK = Special Allocation Fund

α = Constant

$\beta_1, \beta_2, \beta_3$ = Regression Coefficients for PAD, DAU, and DAK

ϵ = Error term

2. Moderated Regression Model (Interaction Model)

This model tests whether Economic Growth (Z) moderates the effect of the independent variables (PAD, DAU, DAK) on Capital Spending (BM). The interaction terms are included to assess this moderation effect.

Table 2. Interaction Model

Model	Equation
Moderation of Economic Growth on PAD and BM	$BM = \alpha + \beta_1 * PAD + \beta_2 * Z + \beta_3 * (PAD \times Z) + \epsilon$
Moderation of Economic Growth on DAU and BM	$BM = \alpha + \beta_1 * DAU + \beta_2 * Z + \beta_3 * (DAU \times Z) + \epsilon$
Moderation of Economic Growth on DAK and BM	$BM = \alpha + \beta_1 * DAK + \beta_2 * Z + \beta_3 * (DAK \times Z) + \epsilon$

RESULTS**103****Descriptive Statistics**

Descriptive statistical analysis is an analysis used to provide an overview or description of data based on the mean, standard deviation, sum, maximum, and minimum values (Ghozali, 2018). This analysis is used to explain the variables of Local Revenue, General Allocation Funds, Special Allocation Funds, Capital Spending, and Economic Growth. The descriptive statistical results are presented in Table 3 below.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Local Revenue (PAD)	140	219.539.400.332	2.835.150.144.867	467.057.622.409	365.841.154.894
General Allocation Funds (DAU)	140	416.722.396.000	2.404.202.119.337	1.426.189.297.748	507.325.733.561
Special Allocation Funds (DAK)	140	63.023.321.818	608.845.982.007	214.706.528.964	96.820.343.642
Capital Spending (BM)	140	75.192.210.131	1.089.358.396.203	366.483.705.586	203.155.892.024
Economic Growth (Z)	140	-0,10282062	0,06328808	0,0298439868	0,03142401296

Table 1 show that the PAD in Central Java for 2020-2023 ranges from a minimum of Rp 219.54 billion to a maximum of Rp 2.83 trillion. The lowest PAD was in Salatiga in 2020, while the highest was in Semarang in 2023. The average PAD is Rp 467.06 billion with a standard deviation of Rp 365.84 billion, indicating that the data distribution is relatively narrow around the average and well-distributed. The DAU in Central Java for 2020-2023 ranges from Rp 416.72 billion to Rp 2.40 trillion. The lowest DAU was in Magelang in 2020, while the highest was in Cilacap in 2023. The average DAU is Rp 1.43 trillion with a standard deviation of Rp 507.33 billion, showing a small spread relative to the mean and a good distribution of data. Next, the DAK in Central Java for 2020-2023 ranges from Rp 63.02 billion to Rp 608.85 billion. The lowest DAK was in Magelang in 2021, while the highest was in Semarang in 2023. The average DAK is Rp 214.71 billion with a standard deviation of Rp 96.82 billion, suggesting that DAK is lower compared to other funding sources and has less influence on capital spending in the region. Capital spending in Central Java for 2020-2023 ranges from Rp 75.19 billion to Rp 1.09 trillion. The lowest was in Salatiga in 2022, while the highest was in Semarang in 2023. The average capital spending is Rp 366.48 billion, with a standard deviation of Rp 203.16 billion. The spread indicates that local governments are optimizing their capital spendings. Finally, economic growth in Central Java for 2020-2023 ranged from a minimum of -0.10% in Kudus in 2021 to a maximum of 0.06% in Boyolali in 2021. The average growth rate is 0.03%, with a standard

deviation of 0.03%, suggesting minimal variation in economic growth rates across the sample.

Classical Assumption Test

Based on the analysis conducted, all classical assumption tests were performed to ensure the validity of the regression model. The results indicate that the assumptions for normality, multicollinearity, heteroscedasticity, and autocorrelation have been adequately met, ensuring the robustness of the model. However, for clarity and conciseness, the detailed results of the classical assumption tests are not presented in the table. The fulfillment of these assumptions confirms that the regression model is appropriate for analyzing the relationship between the variables in this study.

Hypothesis Testing

1. Main Effect Model (Multiple Linear Regression)

The hypothesis testing for the main effects aims to assess the relationships between the independent variables (Local Revenue, General Allocation Fund, and Special Allocation Fund) and the dependent variable (Capital Spending). In this section, we will evaluate whether the independent variables significantly affect the dependent variable, based on the multiple linear regression analysis conducted. Table 4 summarizes the results of the test.

Table 4. Multiple Regression Test

Model	Coefficients ^a		T	Sig.
	Unstandardized Coefficients	Standardized Coefficients		
	B	Std. Error		
Constanta	57075,355	40128,580	1,422	,157
Local Revenue (PAD)	0,024	0,045	0,027	0,599
General Allocation Funds (DAU)	-0,111	0,031	-0,158	-3,577 0,000***
Special Allocation Funds (DAK)	1,418	0,081	0,896	17,609 0,000***

Based on the regression analysis results, the interpretation of the coefficients for the main effect hypothesis testing is as follows. The constant value is 57,075.355, which represents the estimated value of capital spending when all independent variables (Local Revenue, General Allocation Fund, and Special Allocation Fund) are equal to zero. For Local Revenue (PAD), the coefficient for Local Revenue is 0.024, with a standard error of 0.045. The t-value is 0.527, and the significance level is 0.599, which is greater than the 0.05 threshold. This indicates that Local Revenue does not have a statistically significant effect on capital spending in this model. In other words, variations in Local Revenue do not significantly impact capital spending in the regions of Central Java. This suggests that increases in local government revenue do not necessarily translate into proportional increases in capital investment (Mulyana et al., 2022; Triyanto et al., 2017). Although theoretically, higher local revenue should support greater development spending—especially on infrastructure and public services—the findings imply that other factors or budgetary priorities may limit such allocation toward capital spending. This outcome may be attributed to the nature of Capital Spending as only one component within the broader

category of Direct Spending, which also includes employee salaries, goods, and service procurement (Gonschorek & Schulze, 2018; Nugroho et al., 2021). Consequently, even if local revenue increases, the additional funds may be distributed among various other spending needs depending on the government's priorities.

Next, General Allocation Fund (DAU), the coefficient for the General Allocation Fund is -0.111, with a standard error of 0.031. The t-value is -3.577, and the significance level is 0.000, which is less than 0.05. This result suggests that the General Allocation Fund has a statistically significant negative impact on capital spending. A higher allocation of the General Allocation Fund is associated with a decrease in capital spending in the regions. This outcome contradicts the second hypothesis (H2), which assumed a positive and significant relationship. Consequently, H2 is rejected. The negative influence suggests that as the allocation of general funds increases, capital spending does not necessarily rise—perhaps even declining—highlighting a possible substitution effect, where general funds are diverted to non-capital spending categories such as salaries or operational expenses (Mulyana et al., 2022). This inverse relationship can be explained by the fact that general allocation funds are not specifically earmarked for capital investment but are rather intended to support overall regional financial equalization. Local governments may rely heavily on these funds to cover various needs, especially in regions with limited internal revenue sources. The example of West Sulawesi Province, where capital spending increased despite a reduction in general allocation funds, illustrates this dynamic (Amina et al., 2025). It suggests that regions may prioritize capital spending through other sources such as Local Revenue, rather than depending solely on centrally transferred funds. This suggests that the impact of general allocation funds on capital spending may vary depending on local budgeting strategies and priorities.

Then, Special Allocation Fund (DAK) have the coefficient for the Special Allocation Fund is 1.418, with a standard error of 0.081. The t-value is 17.609, and the significance level is 0.000, which is less than 0.05. This indicates that the Special Allocation Fund has a statistically significant positive effect on capital spending. A higher allocation of the Special Allocation Fund is associated with an increase in capital spending in the regions. These findings support the third hypothesis (H3) that posits a relationship between the Special Allocation Fund and capital spending, thereby confirming that H3 is accepted. This indicates that changes in DAK allocations directly impact the level of capital spending in local governments. When DAK decreases, capital spending also tends to decline, and vice versa, highlighting the critical role of DAK in supporting regional development, especially in funding specific programs aligned with national priorities (Nugroho et al., 2021; Wijatmoko et al., 2023). DAK is allocated from the state budget (APBN) to particular regions to finance specific sectoral activities such as education, healthcare, infrastructure, agriculture, fisheries, local government infrastructure, and environmental protection. These allocations aim to reduce disparities in public service delivery across regions and improve the overall quality of regional development. The fund is primarily used for capital investments, including the procurement of public facilities and infrastructure, which enhance public services and promote local economic growth (Mulyana et al., 2022; Utami et al., 2023).

In summary, among the independent variables, only the General Allocation Fund and Special Allocation Fund have statistically significant effects on capital spending. The Local Revenue variable does not show a significant effect in this model.

2. Moderated Regression Model (Interaction Model)

The interaction effect or moderating regression analysis (MRA) is conducted to examine whether the relationship between the independent variables and the dependent variable is influenced or moderated by another variable. In this case, we aim to assess whether Economic Growth moderates the effect of Local Revenue (PAD), General Allocation Fund (DAU), and Special Allocation Fund (DAK) on Capital Spending (Belanja Modal). By including interaction terms between the independent variables and the moderating variable, we can determine whether Economic Growth strengthens or weakens the impact of these variables on capital spending. The results of this analysis will provide insights into the role of Economic Growth in shaping the relationship between the independent and dependent variables. Table 5 summarizes the results of the MRA analysis.

Table 5. Interaction Effect Test

Model	Coefficients ^a			T	Sig.
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta		
Constant	-803,533	58469,170		-0,014	0,989
Local Revenue (PAD)	0,018	0,067	0,020	0,267	0,790
General Allocation Funds (DAU)	0,006	0,074	0,009	0,087	0,931
Special Allocation Funds (DAK)	1,287	0,122	0,814	10,556	0,000
Economic Growth (Z)	806514,347	1369836,842	0,159	0,589	0,557
Local Revenue*Economic Growth	2,856	1,662	0,417	1,718	0,088
General Allocation Funds*Economic Growth	-0,658	1,767	-0,156	-0,373	0,710
Special Allocation Funds*Economic Growth	-5,933	3,497	-0,579	-1,697	0,092

Regarding the interaction effects, Economic Growth appears to moderately influence the relationship between Local Revenue (PAD) and capital spending, with a marginally significant interaction term ($p = 0.088$). This suggests that while the interaction between Local Revenue and Economic Growth slightly affects capital spending, the impact is not strong enough to establish a conclusive moderating effect. For the interaction between General Allocation Fund (DAU) and Economic Growth, and the interaction between Special Allocation Fund (DAK) and Economic Growth, the results show no significant moderating effect, as both interaction terms have p-values greater than 0.05 (0.710 and 0.092, respectively), indicating that these interactions do not significantly influence capital spending. In conclusion, the Special Allocation Fund is the only variable that consistently shows a significant effect on capital spending. The Economic Growth variable does not directly affect capital spending, nor does it significantly moderate the relationship between the independent variables and capital spending (Nugroho, 2024). Although there is a

marginally significant interaction between Local Revenue and Economic Growth, the results suggest that the overall impact of Economic Growth on capital spending is relatively weak. Therefore, policymakers should focus more on the Special Allocation Fund to influence capital spending, while the role of Economic Growth in this context seems limited.

The findings indicate that economic growth does not moderate the influence of the General Allocation Fund on capital spending due to existing economic disparities between regions. Although DAK is intended to support the financing of physical development projects and special activities aimed at improving public services, regional inequalities in economic growth reduce its overall effectiveness (Sawitri et al., 2020). In areas with slow or uneven economic growth, the impact of DAK on capital spending remains limited despite the funds received (Arniati, 2023). This is largely due to structural challenges such as low purchasing power, inadequate infrastructure, and limited market access, which hinder the optimal utilization of allocated funds. Furthermore, these regional disparities are often influenced by external factors beyond the control of local fiscal policies or DAK allocation. Regions that rely heavily on vulnerable economic sectors, such as agriculture or specific industries affected by weather patterns or global market fluctuations, may not be able to fully capitalize on the benefits of DAK (Bella, 2024). As a result, although the Special Allocation Fund can contribute to capital spending, unequal economic growth across regions undermines its role as a moderating variable. This suggests that enhancing the effectiveness of DAK requires not only financial support but also strategic efforts to address structural and economic imbalances at the regional level.

CONCLUSION

Based on the results of this study, it can be concluded that not all types of regional revenue or central government transfers significantly influence capital spending. The analysis shows that locally generated revenue does not have a significant impact on capital spending, indicating that increases in local revenue are not necessarily followed by proportional increases in investment-related spending. This finding contradicts the initial hypothesis and emphasizes that other spending priorities—such as employee salaries and operational spendings—may reduce the funds available for capital investment, depending on regional policy preferences.

Furthermore, while the General Allocation Fund was expected to positively influence capital spending, the study reveals a significant negative relationship. This suggests that regions may not be utilizing general allocations to increase capital investments, possibly due to competing financial obligations or misaligned fiscal priorities. On the other hand, the Special Allocation Fund is found to have a strong positive and significant impact on capital spending, in line with its designated function to fund specific developmental projects aligned with national priorities, particularly in infrastructure and public service sectors.

Finally, economic growth does not moderate the relationship between any of the revenue or transfer sources and capital spending. This implies that disparities in economic development across regions—such as in Central Java—diminish the capacity of economic growth to enhance the effectiveness of financial transfers or local revenues in stimulating investment. The inconsistency in economic performance, limited infrastructure, and structural challenges in less developed areas make it difficult for growth to act as a stabilizing or amplifying factor in fiscal policy outcomes related to capital spending.

This study has several limitations, particularly in terms of the scope of the moderating variables and other potential factors influencing capital spending beyond special allocation funds and economic growth. The analysis focused only on the direct and moderating effects of specific variables, without considering additional aspects such as regional fiscal capacity, governance quality, and budget utilization efficiency. Furthermore, the data used were aggregate in nature and covered a specific time period, which may not fully capture dynamic conditions or recent policy changes. Future research is recommended to include additional variables such as fiscal capacity, human development index, or the quality of local government institutions to gain a more comprehensive understanding of the determinants of capital spending. Qualitative approaches or case studies could also be employed to explore structural constraints in regions where special allocation funds are not optimally utilized. Moreover, stronger coordination between central and local governments is necessary to ensure the effective planning and implementation of special allocation funds, thereby enhancing the quality of regional development.

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