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The Effect of Local Revenue and Central Government Transfers on Capital Expenditure In The City Of Surabaya (2015–2024)

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Abstract
This research aims to analyze the influence of Regional Original Income (LOR) and Central Transfer Funds on Surabaya City Government Capital Expenditures in 2015–2024. In implementing fiscal decentralization, regional governments are given the authority to manage regional finances as an effort to support development through the allocation of capital expenditure. This research uses a quantitative approach with a causal associative type of research. The data used is secondary data obtained from the Surabaya City Government Budget Realization Report for 2015–2024. Data analysis was carried out using multiple linear regression with the help of the SPSS application and supported by classical assumption tests and hypothesis testing. The research results show that LOR has a positive and significant effect on Capital Expenditures, while Central Transfer Funds has a negative and significant effect on Capital Expenditures. Simultaneously, these two variables also have a significant effect on to 2 the budget adjustment policy during the COVID-19 pandemic which resulted in an increase in transfer funds not being followed by an increase in capital expenditure. These findings indicate that efforts to increase LOR need to be continued so that local governments have greater fiscal space to support development through capital expenditure.

1. Introduction

Fiscal decentralization is one form of implementing regional autonomy, which grants local governments the authority to manage their finances in accordance with the needs and characteristics of their respective regions. This policy aims to improve the quality of public services and promote more equitable and targeted development. Fiscal decentralization is based on the view that local governments are better placed to understand the needs of the community than the central government; thus, the devolution of authority to local governments can promote the provision of more efficient public services, as the planning and budget allocation processes are carried out based on development priorities that are in line with the characteristics of each region (Oates, 1972). These powers provide local governments with the scope to manage financial resources independently, with the aim of improving community welfare whilst enhancing the quality of public services (Mardiasmo, 2021). The implementation of fiscal decentralization in Indonesia is underpinned by Law No. 23 of 2014 on Regional Government, which was subsequently reinforced by Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments, regulating the management of regional revenue, the distribution of fiscal powers, and the mechanisms for financial transfers from the central government to local governments.

The success of fiscal decentralization can be reflected in the ability of local governments to direct development budgets through capital expenditure as set out in the Regional Revenue and Expenditure Budget (APBD). Capital expenditure covers outgoings intended to acquire, construct or add to fixed assets that provide long-term benefits, such as roads, bridges, school buildings, health facilities and various other public infrastructure (Halim, 2021). The utilization of the budget in this area plays a crucial role as it generates assets capable of supporting the sustainable improvement of public service capacity (Mahmudi, 2020). The size of the capital expenditure allocation also demonstrates the local government's commitment to accelerating development, improving the quality of services to the community and strengthening economic activity in its region; consequently, capital expenditure is often used as a measure to assess the extent to which the local government prioritize development that has a direct impact on the community.

Local governments finance capital expenditure through various sources of funding, primarily derived from Local Own-Source Revenue (LOR) and transfer funds from the central government. Under Law No. 1 of 2022 on Financial Relations between the Central Government and Local Governments, LOR comprises revenue derived from local taxes, local levies, proceeds from the management of segregated local assets, and other legitimate sources of income to which local governments are entitled. LOR indicates a region's level of fiscal autonomy, as local governments can directly manage and optimize these revenue sources to support development needs and public services (Halim, 2021). An increase in LOR reflects the growing strength of a region's fiscal capacity to finance various development programs without heavy reliance on assistance from the central government. In addition to relying on LOR, local governments also receive transfer funds from the central government as part of the intergovernmental financial relations mechanism, which aims to support the implementation of development and the equalize of local fiscal capacity. Transfer Funds to Regions consist of Revenue-Sharing Funds (DBH), General Allocation Funds (DAU), Special Allocation Funds (DAK), and various other forms of transfer allocated based on the specific characteristics, needs and development objectives of each region. The availability of these funds expands the capacity of local governments to finance development, particularly for regions that still have limited fiscal capacity, thereby ensuring that the implementation of development programs can proceed more effectively and equitably.

The city of Surabaya is one of the regions with relatively high financial capacity compared to many other regions in Indonesia. This is evident from the trend in Local Own-Source Revenue (LOR) and Central Government Transfer Funds, which have generally increased over the period 2015–2024. According to the Surabaya City Government's Budget Implementation Report, LOR rose from Rp4.04 trillion in 2015 to Rp6.11 trillion in 2024. A decline occurred only in 2020, when LOR stood at Rp4.29 trillion due to the COVID-19 pandemic, which led to a fall in tax and local levy receipts. Central Government Transfer Funds also increased from Rp2.56 trillion in 2015 to Rp3.92 trillion in 2024. This indicates that the Surabaya City Government's revenue sources continued to grow over the study period.

Table 1. Trends in Local Revenue, Central Government Transfers and Capital Expenditure for the City of Surabaya, 2015–2024

Year	Local Government Revenue (M Rp)	Transfer Funds (M Rp)	Capital Expenditure (M Rp)
2015	4.035,65	2.558,58	1.785,13
2016	4.090,21	2.730,55	1.789,39

2017	5.161,84	2.821,71	2.517,89
2018	4.973,03	2.971,89	2.430,06
2019	5.381,92	3.104,32	2.754,30
2020	4.289,96	2.725,83	1.583,66
2021	4.727,28	3.218,95	1.016,34
2022	5.314,70	3.476,61	1.766,03
2023	5.771,82	3.832,96	1.671,90
2024	6.114,39	3.920,06	1.897,24

Source: Surabaya City Government's Long-Term Development Plan (LRA) 2015–2024

An increase in local government revenue is not always accompanied by a rise in capital expenditure allocations. This situation is evident in the case of the Surabaya City Government, which has experienced fluctuations in the actual capital expenditure over the past few years. In 2019, actual capital expenditure stood at Rp2.75 trillion, but this figure fell to Rp1.02 trillion in 2021, despite an increase in central government transfer funds over the same period. This phenomenon indicates that an increase in local government revenue capacity does not automatically lead to increased expenditure on fixed assets or public infrastructure. The decline is thought to be linked to the policy of refocusing and reallocating the budget during the COVID-19 pandemic, as set out in the Minister of Home Affairs' Instruction No. 1 of 2020, which led local governments to prioritize funding for the health sector, social assistance and economic recovery programs over physical development projects funded by capital expenditure.

The relationship between Local Own-Source Revenue (LOR), central government transfer funds and capital expenditure can be understood through the 'Flypaper Effect' theory, which explains that local governments tend to respond to transfer funds from the central government by increasing expenditure to a greater extent than they do in response to revenue derived from their own local sources (Hines & Thaler, 1995). Transfer funds essentially provide additional fiscal space that can be utilized to finance various development needs, including the provision of infrastructure through capital expenditure. However, in budgeting practice, local governments often face a range of urgent needs, meaning that available funds are not always directed towards the creation of long-term assets. This situation indicates that the level of local revenue does not necessarily result in a proportional increase in capital expenditure; consequently, the relationship between LOR, central government transfer funds and capital expenditure remains relevant for further study.

Various previous studies have also produced inconsistent results regarding the impact of local own-source revenue (LOR) and central government transfer funds on local government capital expenditure. Widodo (2023) found that LOR and transfer revenue had a positive and significant impact on capital expenditure. Similar findings were reported by Iqbal (2025), who showed that an increase in LOR and transfers from the central government was able to drive an increase in capital expenditure by regency and city governments in North Sumatra. In contrast to these results, Febriyanti and Dewi (2024) found that the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) had no effect on local government capital expenditure in Bali Province, although LOR continued to show a positive influence. The research findings of Lovyana and Nursiam (2025) also reveal a different pattern, as LOR and DAK were not found to significantly influence capital expenditure, whilst the Revenue-Sharing Fund (DBH) and DAU actually demonstrated a positive and significant influence on provincial governments in Indonesia. These differing findings suggest that the relationship between LOR, central government transfer funds and capital expenditure remains context-dependent, and therefore does not yet yield conclusions that apply equally to every region.

Discrepancies in the findings of previous studies indicate that the relationship between Local Own-Source Revenue (LOR), Central Government Transfer Funds and capital expenditure still requires more in-depth analysis. Most previous studies have utilized data from the Regional Revenue and Expenditure Budget (APBD), which represents budgetary plans and therefore does not fully reflect the actual financial position at the end of the period. The use of Budget Realization Report (LRA) data is important as it captures the actual budget implementation and provides a more accurate picture of local financial management patterns. Studies specifically examining the City of Surabaya are also still relatively limited, particularly those covering the periods before, during and after the COVID-19 pandemic; consequently, the dynamics of changes in local fiscal policy over that timeframe have not yet been comprehensively explained.

The phenomenon of declining capital expenditure amidst rising central government transfers also raises questions about how local governments prioritize the use of their financial resources. This situation indicates that an increase in local government revenue is not always accompanied by a rise in investment in public assets and infrastructure, which are vital components of regional development. Against this background, this study aims to analyze the impact of Local Own-Source Revenue and Central Government Transfer Funds on the capital expenditure of the City of Surabaya during the period 2015–2024. The findings are expected to enrich the empirical evidence on local financial management and provide useful information for local governments in formulating more effective budgetary policies to support development and improve public services.

2. Research Method

This study employs a quantitative approach, specifically a causal-associative research design, to analyze the cause-and-effect relationship between the independent and dependent variables through inferential statistical testing (Sugiyono, 2022). The quantitative approach was chosen because this study focuses on measuring and testing the influence of Local Own-Source Revenue (LOR) and Central Government Transfer Funds on Capital Expenditure using data that can be expressed numerically. The use of regression analysis is considered appropriate for identifying relationships between local government fiscal variables that have numerically measurable characteristics, thereby enabling the influence to be tested objectively and systematically (Muin, 2021).

This study utilized all the Surabaya City Government's Budget Implementation Reports as the study population. The sample comprised the Surabaya City Government's Budget Implementation Reports (LRA) for the period 2015–2024, covering ten financial years. The sample was selected using purposive sampling, taking into account the completeness and consistency of the data available throughout the observation period. The research data were sourced from secondary data in the form of Budget Implementation Reports (LRA) obtained via the official website of the Surabaya City Government; thus, their validity and reliability can be accounted for as a source of information in the research analysis process.

This study comprises two independent variables and one dependent variable. The dependent variable (Y) is Capital Expenditure, namely the total realized capital expenditure of the Surabaya City Government in a single financial year, which includes expenditure on land, plant and machinery, buildings and structures, roads, networks, irrigation, and other fixed assets, measured in rupiah in accordance with the Local Government Financial Report (LRA). The first independent variable (X1) is Local Own-Source Revenue (LOR), namely the total realized LOR revenue comprising local taxes, local levies, proceeds from the management of segregated local assets, and other legitimate LOR sources, measured in rupiah. The second independent variable (X2) is Central Government Transfer Funds, namely the total realized revenue from transfers from the central government, comprising the General Allocation Fund (DAU), the Special Allocation Fund

(DAK) for physical and non-physical projects, and the Revenue-Sharing Fund (DBH), measured in rupiah.

The data analysis technique employed multiple linear regression, with the model equation as follows:

$$\mathbf{Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon}$$

Notes:
Y = Capital Expenditure;
α = Constant;
β_1, β_2 = Regression coefficients;
X_1 = Local Government Revenue;
X_2 = Central Government Transfer Funds;
ε = Error term

Before hypothesis testing was carried out, the regression model was tested using classical assumption tests to ensure that the model met the necessary statistical requirements (Ghozali, 2021). The Shapiro-Wilk test was used to assess whether the model residuals were normally distributed, given the small sample size ($n = 10$). Multicollinearity was assessed using the Variance Inflation Factor (VIF), with criteria of VIF < 10 and Tolerance > 0.10 as an indication of the absence of serious multicollinearity. The heteroscedasticity test utilized the Glejser test and an analysis of the residual scatterplot. The autocorrelation test utilized the Durbin-Watson (DW) statistic, with an ideal value ranging from 1.5 to 2.5, indicating the absence of autocorrelation.

Hypothesis testing was carried out in two stages. The t-test (partial) was used to test the effect of each independent variable on the dependent variable at a significance level of $\alpha = 0.05$. The hypothesis was accepted if Sig < 0.05 and rejected if Sig > 0.05. The F-test (simultaneous) was used to test the combined effect of all independent variables on the dependent variable, using similar acceptance criteria. The hypothesis is accepted if Sig < 0.05 and rejected if Sig > 0.05. The coefficient of determination (R^2) and Adjusted R^2 measure the ability of Local Revenue (LOR) and Central Government Transfer Funds to explain changes in Capital Expenditure (Ghozali, 2021).

3. Research Results

This section presents the results of the data analysis and discusses the findings in relation to the research objectives and relevant theoretical and empirical evidence. The analysis focuses on Local Government Revenue, Transfer Funds, and Capital Expenditure of the Surabaya City Government during the 2015–2024 period. The discussion begins with descriptive statistics to provide an overview of the characteristics, distribution, and variation of each research variable. It is subsequently followed by further analysis of the relationships among the variables and an interpretation of the findings within the context of regional financial management.

Descriptive Statistics

Descriptive statistics were used to provide an initial overview of the characteristics and distribution of the research data. The analysis covered three fiscal variables, namely Local Government Revenue, Transfer Funds, and Capital Expenditure of the Surabaya City Government during the 2015–2024 period. Each variable consisted of 10 annual observations derived from the Surabaya City Budget Realization Reports. The descriptive analysis included the minimum, maximum, mean, and standard deviation values, with all monetary figures presented in millions of rupiah.

These statistics provide a general description of the magnitude and variation of each variable throughout the observation period, as presented in Table 2.

Table 2. Descriptive Statistics for the Research Variables

Variable	**N**	**Minimum (M Rp)**	**Maximum (M Rp)**	**Mean (M Rp)**	**Standard Deviation**
Local Government Revenue	10	4,035.65	6,114.39	4,986.10	702.68
Transfer Funds	10	2,558.58	3,920.06	3,136.07	473.28
Capital Expenditure	10	1,016.34	2,754.30	1,921.21	512.57

Source: Surabaya City LRA data 2015–2024, processed by the researcher (2026)

According to Table 2, Surabaya City's own-source revenue (LOR) for the period 2015–2024 averaged Rp4,986.10 billion with a standard deviation of Rp702.68 billion, indicating moderate variability that reflects relatively stable growth despite a decline in 2020 due to the COVID-19 pandemic. Central Government Transfer Funds averaged Rp3,136.07 billion with a standard deviation of Rp473.28 billion, which was relatively more stable than the LOR. Capital Expenditure averaged Rp1,921.21 billion with the relatively largest standard deviation, namely Rp512.57 billion. The standard deviation for each variable is smaller than its respective mean, indicating that the research data is of reasonably good quality and does not show significant deviation.

Normality Test

The Shapiro-Wilk normality test yielded a statistic of 0.949 with a significance level of 0.660 ($p > 0.05$), indicating that the model residuals are normally distributed.

Table 3. Results of the Normality Test (Shapiro-Wilk)

Test	**Statistic**	**Sig.**
Shapiro-Wilk	0,949	0,660

Source: SPSS output, processed by the researcher (2026)

Test for Heteroscedasticity

The test for heteroscedasticity using a scatterplot analysis shows that the residuals are scattered randomly without any systematic pattern, indicating that there is no problem of heteroscedasticity.

Autocorrelation Test

The autocorrelation test using the Durbin-Watson statistic yielded a DW value of 2.376, which falls within the range indicating the absence of autocorrelation ($1.5 < DW < 2.5$); the model is therefore deemed free from violations of the autocorrelation assumption.

Table 4. Results of the Autocorrelation Test (Durbin-Watson)

Test	**DW Value**	**Notes**
Durbin-Watson	2,376	Free of autocorrelation

Source: SPSS output, processed by the researcher (2026)

Multiple Linear Regression Analysis

Table 5. Multiple Linear Regression Coefficients

Variable	Coefficient (B)	Std. Error	t-value	Sig.	Notes
(Constant)	1.261,711	604,367	2,088	0,075	—
Local Government Revenue (X1)	1,401	0,259	5,412	0,001	Sig.
Transfer Funds (X2)	-2,016	0,384	-5,249	0,001	Sig.

Source: SPSS output, processed by the researcher (2026)

Based on Table 5, the resulting multiple linear regression equation is as follows:

$$Y = 1{,}261.711 + 1.401X_1 - 2.016X_2$$

The constant term of 1,261.711 indicates that capital expenditure is estimated at Rp1,261.711 billion if local revenue (LOR) and central government transfer funds remain constant. The coefficient for LOR of 1.401 indicates that every Rp1 billion increase in LOR will increase capital expenditure by Rp1.401 billion, assuming all other variables remain constant. The Central Government Transfer Funds coefficient of -2.016 indicates that every Rp1 billion increase in Central Government Transfer Funds will reduce Capital Expenditure by Rp2.016 billion assuming all other variables remain unchanged.

Test of the Coefficient of Determination (R^2)

Table 6. Model Summary

R	R Square	Adjusted R Square	Std. Error
0,901	0,812	0,758	253,254

Source: SPSS output, processed by the researcher (2026)

An R value of 0.901 indicates a very strong relationship between Local Government Revenue (LOR) and Central Government Transfer Funds and Capital Expenditure. An R-squared value of 0.812 indicates that 81.2% of the variation in Capital Expenditure can be explained by LOR and Central Government Transfer Funds, whilst the remaining 18.8% is influenced by other factors outside the research model. The adjusted R-squared value of 0.758 indicates that the research model is effective in explaining the variation in capital expenditure.

F-Test (Simultaneous)

Table 7. Results of the F-Test

Model	Sum of Squares	df	Mean Square	F	Sig.	Ket.
Regression	1,936,804	2	968,402	15.118	0.003	Sig.
Residual	448,804	7	64,115			
Total	2,385,608	9				

Source: SPSS output, processed by the researcher (2026)

According to Table 8, the calculated F-value is 15.118 with a significance level of 0.003 ($p < 0.05$). This indicates that Local Own-Source Revenue (LOR) and Central Government Transfer Funds simultaneously have a significant effect on the City of Surabaya's capital expenditure. Consequently, the resulting regression model is a good fit and can be used to explain the variation in capital expenditure.

Hypothesis 1: The effect of LOR on capital expenditure. Based on the results of the t-test, a calculated t-value of 5.412 was obtained with a significance level of 0.001 ($p < 0.05$). As the significance level is less than 0.05, H_1 is accepted: LOR has a positive and significant effect on the capital expenditure of the City of Surabaya for the period 2015–2024.

Hypothesis 2: The effect of Central Government Transfer Funds on capital expenditure. Based on the results of the t-test, a calculated t-value of -5.249 was obtained with a significance level of 0.001 ($p < 0.05$). Although Central Government Transfer Funds have a significant effect, the direction of the effect is negative; therefore, H_2 is statistically accepted but with a direction opposite to that of conventional theoretical expectations: Central Government Transfer Funds have a negative and significant effect on the City of Surabaya's Capital Expenditure for the period 2015–2024.

4. Discussion

The Positive Impact of Local Government Revenue on Capital Expenditure

The research findings indicate that Local Own-Source Revenue (LOR) has a positive and significant effect on the capital expenditure of the City of Surabaya. These findings suggest that an increase in LOR is followed by an increase in budget allocations for the development of local assets and infrastructure. The greater the revenue derived from local resources, the greater the local government's capacity to finance development programs without relying on funds from the central government.

These findings are consistent with the research by Widodo (2023), which states that LOR has a positive and significant effect on local government capital expenditure. Similar results were also found by Iqbal (2025), who showed that regions with higher LOR tend to have a greater capacity to finance development through capital expenditure. Furthermore, research by Puspita and Budiwitjaksono (2023) indicates that a region's ability to enhance its financial autonomy is heavily influenced by the optimization of its Local Own-Source Revenue. The higher a region's Local Own-Source Revenue, the greater the local government's capacity to finance development needs independently. The consistency of these findings indicates that LOR is a key source of funding that plays a vital role in supporting regional development and strengthening the fiscal autonomy of local governments.

The findings of this study also support the Theory of Fiscal Decentralization proposed by Wallace E. Oates (1972). This theory explains that regions with stronger fiscal capacity will have greater freedom to determine development priorities in line with the needs of the community. In the context of this study, LOR provides the Surabaya City Government with greater scope to allocate its budget towards infrastructure development and the provision of public facilities.

This situation is evident from the financial development of the City of Surabaya during the study period. LOR increased from Rp4.04 trillion in 2015 to Rp5.38 trillion in 2019, accompanied by a rise in capital expenditure from Rp1.79 trillion to Rp2.75 trillion. After experiencing a decline during the COVID-19 pandemic, LOR rose again to reach Rp6.11 trillion in 2024, accompanied by an increase in capital expenditure to Rp1.90 trillion. This indicates that LOR is a key source of funding that plays a vital role in supporting regional development through capital expenditure (Rahmawati et al., 2024).

The Negative Impact of Central Government Transfer Funds on Capital Expenditure

The research findings indicate that Central Government Transfer Funds have a significant negative impact on the City of Surabaya's capital expenditure. These findings suggest that an increase in Central Government Transfer Funds received by the Surabaya City Government is not always accompanied by an increase in the allocation for capital expenditure. This finding suggests that additional funds from the central government are not entirely channeled towards financing the development of fixed assets or regional infrastructure, as local governments must also meet various other budgetary priorities. This situation demonstrates that the amount of transfer funds received by a region does not necessarily reflect a high level of local government investment in physical development, as reflected in capital expenditure.

The findings of this study are consistent with a number of previous studies showing that transfer funds do not always stimulate an increase in capital expenditure. Febriyanti and Dewi (2024) found that the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) had no effect on local government capital expenditure in Bali Province. Similar results were also reported by Lovyana and Nursiam (2025), who showed that the Special Allocation Fund (DAK) had no significant effect on capital expenditure by provincial governments in Indonesia. Research by Andrianda and Rosada (2024) explains that Revenue-Sharing Funds (DBH), General Allocation Funds (DAU) and Special Allocation Funds (DAK) contribute to strengthening local fiscal capacity; however, this increase in revenue does not always lead to a rise in development expenditure, as the majority of the budget is still used to support public services and the performance of governmental functions. These consistent findings indicate that the relationship between transfer funds and capital expenditure does not always move in the same direction and is heavily influenced by the budgeting priorities applied by each local government.

The inverse relationship observed in this study can be explained by changes in budget management policies during the COVID-19 pandemic. Local governments made adjustments and reallocated budgets between 2020 and 2021 to support health responses, the provision of social assistance, and economic recovery programs in line with the national policies in force at the time. These shifts in priorities meant that a greater proportion of Central Government Transfer Funds was directed towards funding urgent needs rather than long-term asset development. This phenomenon was evident in 2021, when Central Government Transfer Funds rose to Rp3.22 trillion, whilst capital expenditure actually fell to Rp1.02 trillion—the lowest figure recorded during the observation period.

The findings of this study also show that the size of Central Government Transfer Funds does not automatically determine the level of capital expenditure allocated by local governments. A portion of these transfer funds is subject to usage stipulations set by the central government, meaning local governments do not have full discretion in allocating them for the development of local assets. Non-physical Special Allocation Funds for School Operational Assistance and Health Operational Assistance, for example, are more focused on supporting the provision of public services and the operational needs of government administration. These characteristics mean that increases in Central Government Transfer Funds are more often used to fulfil basic service obligations rather than to finance physical development; consequently, an increase in transfer funds is not always accompanied by an increase in capital expenditure, particularly when local governments face pressure from more urgent budgetary needs.

5. Conclusions

This study aims to analyze the impact of Local Own-Source Revenue (LOR) and Central Government Transfer Funds on the capital expenditure of the City of Surabaya during the period 2015–2024. The results of the study show that LOR has a positive and significant effect on capital expenditure. These findings indicate that an increase in LOR tends to be followed by an increase in the allocation of capital expenditure. This suggests that a region's ability to generate its own revenue plays a crucial role in supporting development through the provision of public facilities and infrastructure.

Central Government Transfer Funds have a negative and significant effect on capital expenditure. These results show that an increase in central government transfer funds is not always accompanied by an increase in capital expenditure. This situation is linked to changes in budget priorities during the COVID-19 pandemic, when a portion of the available funds was used to support the health sector, social assistance and economic recovery programs, resulting in a reduction in the allocation for capital expenditure. Local Revenue (LOR) and central government transfer funds together have a significant effect on the City of Surabaya's capital expenditure. The research findings also show that the majority of changes in capital expenditure can be explained by these two variables. This finding confirms that a local government's ability to manage its revenue sources and transfer funds plays a crucial role in determining the level of capital expenditure allocation.

Several recommendations based on the research findings are as follows: the Surabaya City Government needs to continue increasing its Local Own-Source Revenue (LOR) by optimizing the revenue sources available to the local government. Increasing Local Own-Source Revenue can strengthen the local government's financial capacity and provide greater scope for financing development through capital expenditure. The planning and management of central government transfer funds also need to be carried out more effectively so that the funds received can be utilized optimally in line with local development needs. A balance between operational needs and long-term development must be taken into account when drafting the local budget.

Future research could incorporate other variables that may influence capital expenditure, such as revenue-sharing funds, budget surpluses, operational expenditure, or economic growth. Research could also be conducted across several regencies and cities within a single region to ensure the findings have a broader scope. Furthermore, central government transfer funds could be categorised into different types of transfers to identify which components have the greatest impact on capital expenditure.

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