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The Effect of Local Taxes, Special Allocation Funds, and Budget Surplus on Capital Expenditure in Regencies and Cities of South Sulawesi Province

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Abstract

Regional fiscal capacity plays a crucial role in infrastructure investment. This study examined the effect of local taxes, special allocation fund, and budget surplus on capital expenditure in regencies and municipalities in South Sulawesi Province. The research employed a quantitative approach using secondary data obtained from the budget realization reports of 24 local governments during the 2020–2024 period, collected from the audit board of the Republic of Indonesia. Since the population consisted of all regency and municipal governments, a saturated sampling technique was applied, allowing the entire population to serve as the research sample. Panel data regression analysis was conducted using EViews version 13. The findings revealed that local taxes, special allocation fund, and budget surplus each had a positive and statistically significant effect on capital expenditure. Furthermore, the simultaneous test confirmed that the three independent variables jointly exerted a significant influence on capital expenditure across regencies and municipalities in South Sulawesi Province. The findings imply that local governments should strengthen local tax collection, optimize the utilization of special allocation funds, and manage budget surpluses more effectively to increase capital expenditure, improve public infrastructure, enhance service quality, and promote sustainable regional economic development.

Keywords

Budget Surplus, Capital Expenditure, Local Government, Local Tax, Special Allocation Fund.

1. Introduction

Fiscal decentralization has granted local governments greater authority to manage public affairs and financial resources to improve public services and regional development (Onofrei et al., 2022). In Indonesia, regional autonomy authorizes provincial and local governments to administer governmental affairs according to local needs within the framework of the Unitary State of the Republic of Indonesia (Law of the Republic of Indonesia Number 23 of 2014 on Regional Government). This responsibility is implemented through the Regional Government Budget (*Anggaran Pendapatan dan Belanja Daerah*/APBD), in which capital expenditure plays a strategic role by financing long-term public assets such as land, buildings, roads, irrigation systems, and other infrastructure that supports sustainable economic development and public service quality (Government Regulation of the Republic of Indonesia Number 12 of 2019 on Regional Financial Management).

Despite its importance, optimizing capital expenditure remains a challenge for many local governments in Indonesia. The Regional Medium-Term Development Plan of South Sulawesi Province for 2025–2029 indicates that the expenditure structure has not fully supported sustainable regional economic growth (Minollah, 2020; Sepriadi & Mulyani, 2021). Capital expenditure allocations remain inconsistent and are constrained by limited fiscal space due to the growing share of mandatory expenditures, particularly personnel expenses, reducing the capacity for productive public investment (Purnama & Qibthiyyah, 2025).

These challenges are reflected in the realization of capital expenditure across regencies and municipalities in South Sulawesi during 2020–2024, which varied considerably among local governments. Makassar City consistently recorded relatively high capital expenditure, while Barru Regency experienced lower and more volatile expenditure levels, indicating disparities in fiscal capacity. Since capital expenditure depends largely on regional fiscal resources, these variations are likely associated with differences in local tax revenue, the Special Allocation Fund (*Dana Alokasi Khusus*/DAK), and Budget Surplus (*Sisa Lebih Perhitungan Anggaran*/SiLPA). Previous studies have also demonstrated that regional fiscal resources, particularly local taxes and special allocation fund, play an important role in determining capital expenditure allocation among local governments (Saud et al., 2020).

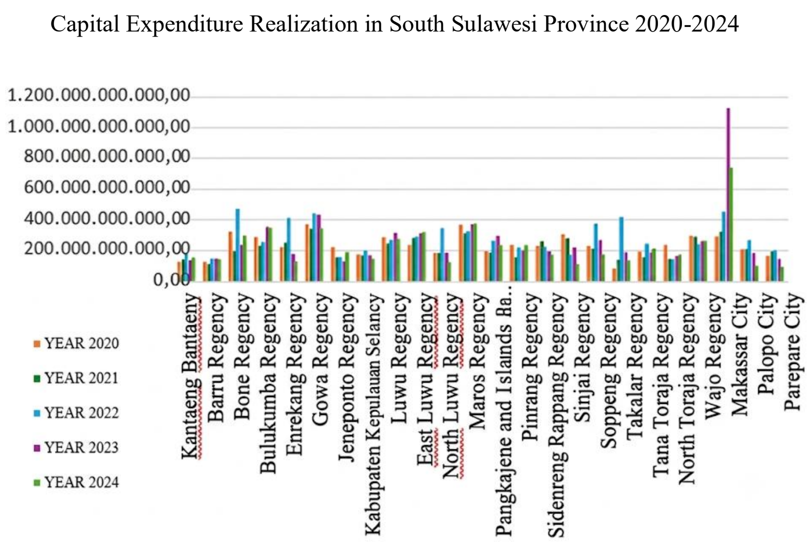

Figure 1. Capital Expenditure Realization of Regencies and Municipalities

Figure 1 presents the realization of capital expenditure in regencies and municipalities in South Sulawesi Province during the 2020–2024 period. The figure shows fluctuations in capital expenditure across the observed years. These variations indicate differences in regional spending priorities and budget allocation for infrastructure and public service development.

Previous studies have extensively examined the determinants of capital expenditure; however, their findings remain inconclusive. Zhafira and Sastri (2023) reported that local tax revenue and the special allocation fund have a positive and significant effect on capital expenditure, whereas Yusuf and Galuh (2023) found a significant negative relationship between the special allocation fund and capital expenditure. Putri et al. (2021), on the other hand, concluded that the effect of the special allocation fund is statistically insignificant. Contradictory evidence is also observed for budget surplus. Telaumbanua et al. (2021) found that budget surplus positively affects capital expenditure, whereas Marliana et al. (2022) reported no significant relationship. These inconsistent findings indicate that the influence of regional fiscal resources on capital expenditure remains unresolved, highlighting the need for further empirical investigation (Mahardika & Riharjo, 2019).

This study addresses the existing research gap by simultaneously examining the effects of local tax revenue, the special allocation fund, and budget surplus on capital expenditure across all regencies and municipalities in South Sulawesi Province during the 2020–2024 period. Unlike previous studies, which generally focused on individual fiscal variables or specific regional contexts, this study integrates the three principal sources of regional financing into a single analytical framework. Furthermore, it adopts Agency Theory to explain the accountability relationship between citizens as principals and local governments as agents in managing public financial resources (Jensen & Meckling, 1976). This theoretical perspective provides a more comprehensive explanation of how regional fiscal capacity shapes government investment decisions through capital expenditure.

This study aims to examine the effects of local taxes, special allocation funds, and budget surplus on capital expenditure in the regencies and municipalities of South Sulawesi Province. The findings are expected to contribute theoretically by enriching the literature on the determinants of capital expenditure from the perspective of Agency Theory. The study provides empirical evidence that can support local governments in designing more effective fiscal policies, strengthening public investment, and improving the allocation of capital expenditure to promote sustainable regional development.

2. Literature Review and Hypothesis Development

2.1. The Influence of Local Tax on Capital Expenditure

According to Agustini et al. (2022), local taxes constitute an important source of regional revenue used to finance government administration and regional development. As a major component of regional revenue, local taxes provide fiscal resources that enable local governments to fund the regional budget, including the allocation of capital expenditure for public infrastructure and long-term development assets. Higher local tax revenue strengthens fiscal capacity, allowing local governments to expand investment in productive assets such as roads, buildings, irrigation systems, and other public facilities. These investments are expected to improve the quality of public services, stimulate regional economic growth, and reduce disparities in infrastructure development across regions.

According to Jensen and Meckling (1976), agency theory explains the relationship between a principal and an agent, in which the principal delegates authority to the agent to manage resources and make decisions on its behalf. In the context of local government, the public serves as the principal, while the local government acts as the agent responsible for managing regional financial resources in an accountable and efficient manner. Accordingly, local governments are expected to optimize local tax revenue and allocate it effectively to capital expenditure, thereby fulfilling their responsibility to improve public welfare through sustainable infrastructure development. This theoretical perspective suggests that stronger local tax performance should increase the government's capacity to finance capital expenditure. Empirical evidence supports this expectation. Mulyana et al. (2022) demonstrated that stronger regional fiscal capacity contributes positively to capital expenditure, indicating that increased fiscal resources enable greater public investment. Murti and Trisnawati (2021) found that local taxes significantly influence capital expenditure. Similarly, Zhafira and Sastri (2023), Anggoro et al. (2023), and Muchtar et al. (2024) reported that local taxes have a positive and significant effect on capital expenditure, indicating that higher regional tax revenue contributes to greater public investment.

H1: Local tax has a positive and significant effect on capital expenditure.

2.2. The Influence of Special Allocation Fund on Capital Expenditure

According to Ambya (2023), the special allocation fund constitutes a transfer from the central government intended to support regional development by financing specific priority programs and infrastructure. As part of the regional budget, the special allocation fund provides local governments with additional fiscal resources to finance capital expenditure, particularly for acquiring, constructing, and improving long-term public assets. The availability of these earmarked funds enables local governments to address infrastructure needs that cannot be fully financed through locally generated revenue, thereby supporting more balanced regional development and improving the quality of public services.

According to Jensen and Meckling (1976), agency theory explains the relationship between a principal and an agent, in which the principal delegates authority to the agent to manage resources and make decisions on its behalf. In the context of local government, the central government acts as the principal by transferring the special allocation fund, while local governments serve as the agents responsible for managing these funds effectively and in accordance with national development priorities. Therefore, local governments are expected to allocate the special allocation fund efficiently to capital expenditure, ensuring that transferred resources are converted into productive public assets. This theoretical perspective suggests that greater special allocation fund allocations should strengthen local governments' capacity to finance capital expenditure. Empirical evidence supports this argument. Yusuf and Galuh (2023) found that the special allocation fund has a positive and significant effect on capital expenditure. Similarly, Zhafira and Sastri (2023) reported that the special allocation fund positively and significantly influences capital expenditure.

H2: Special allocation fund has a positive and significant effect on capital expenditure.

2.3. The Influence of Budget Surplus on Capital Expenditure

According to the Government Accounting Standards Committee in 2020, the budget surplus represents the excess of realized revenue over expenditure that can be utilized in the subsequent fiscal period as a source of regional financing. As a financing component within the regional budget, the budget surplus provides additional fiscal resources that can be allocated to regional expenditures, including capital expenditure. The availability of a budget surplus enables local governments to finance the acquisition, construction, and improvement of long-term public assets without relying solely on current-year revenues or external financing, thereby supporting sustainable regional development and improving public service delivery (Somantri et al., 2025).

According to Jensen and Meckling (1976), agency theory explains the relationship between a principal and an agent, in which the principal delegates authority to the agent to manage resources and make decisions on its behalf. In the context of local government, the public acts as the principal, while local governments serve as the agents responsible for managing regional financial resources in an accountable and efficient manner. Consequently, local governments are expected to utilize the budget surplus effectively to support capital expenditure, thereby fulfilling their responsibility to enhance regional assets and public welfare (Kuntari et al., 2019; Tiyas & Wuryani, 2022). This theoretical perspective suggests that a larger budget surplus provides greater fiscal flexibility to finance productive investment. Empirical evidence supports this argument. Angelina et al. (2020) found that the budget surplus has a significant effect on capital expenditure. Likewise, Telaumbanua et al. (2021) reported that the budget surplus has a positive and significant impact on capital expenditure.

H3: Budget surplus has a positive and significant effect on capital expenditure.

2.4. The Simultaneous Effect on Capital Expenditure

Local taxes, special allocation fund, and the budget surplus constitute local financial resources that reflect fiscal capacity within the regional budget to finance expenditures, including capital expenditure (Masdar, 2025). Local taxes represent the region's revenue-generating capacity, the special allocation fund indicates financial support from the central government, and the budget surplus provides an additional financing source that can be utilized in the subsequent fiscal period to support regional development.

According to Jensen and Meckling (1976), agency theory explains the relationship between a principal and an agent, in which the principal delegates authority to the agent to perform tasks and make decisions on its behalf. In the context of local governance, local governments act as the agents responsible for managing regional financial resources efficiently and accountably on behalf of the public as the principal. Accordingly, local taxes, special allocation funds, and the budget surplus collectively enhance the local government's fiscal capacity to allocate capital expenditure for productive public investment. Empirical evidence supports this relationship. Telaumbanua et al. (2021) found that locally generated revenue, balancing funds, and the budget surplus simultaneously have a significant effect on capital expenditure. Similarly, Zhafira and Sastri (2023) reported that local taxes, local levies, and special allocation fund simultaneously influence capital expenditure.

H4: Local tax, special allocation fund, and budget surplus have a simultaneous effect on capital expenditure.

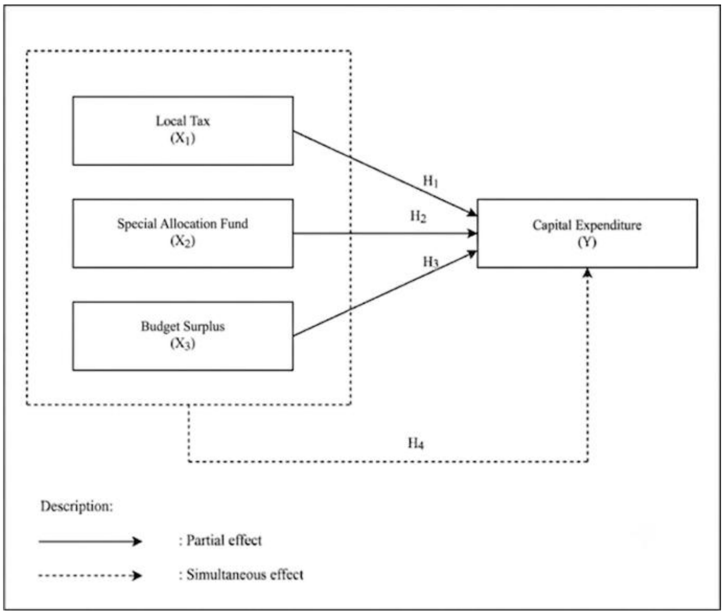

Figure 2. Conceptual Framework

Figure 2 illustrates the conceptual framework of the study, showing the relationships between local tax, special allocation fund, budget surplus, and capital expenditure. Local tax, special allocation fund, and budget surplus are proposed to have positive effects on capital expenditure. The framework also indicates that these three variables simultaneously influence capital expenditure.

3. Methods

This study employed a quantitative research design to examine the effects of local tax revenue, the special allocation fund, and budget surplus on capital expenditure in the regencies and municipalities of South Sulawesi Province, Indonesia. A quantitative approach was adopted because it is grounded in the positivist paradigm and is appropriate for testing hypotheses through statistical analysis (Sugiyono, 2018). The study relied on secondary data obtained from the Budget Realization Reports (*Laporan Realisasi Anggaran*/LRA) of local governments covering the 2020–2024 period. These reports were accessed through the Electronic Information and Documentation Management Official (*Elektronik Pejabat Pengelola Informasi dan Dokumentasi*/e-PPID) portal of the Audit Board of the Republic of Indonesia (*Badan Pemeriksa Keuangan*/BPK). The independent variables comprised local tax revenue, the special allocation fund, and budget surplus, while capital expenditure served as the dependent variable. All variables were measured using their realized monetary values reported in the Budget Realization Reports and analyzed on a ratio scale.

The study population consisted of all local governments in South Sulawesi Province that published Budget Realization Reports, comprising 24 local governments, including 21 regencies and 3 municipalities. A saturated sampling technique was employed, in which the entire population was included as the research sample to ensure comprehensive representation of the study area (Elfrianto & Lesmana, 2022). With observations spanning five fiscal years (2020–2024), the dataset formed balanced panel data by combining cross-sectional and time-series dimensions, thereby providing a more comprehensive basis for examining the relationships between regional fiscal resources and capital expenditure.

Data were collected using the documentation method by identifying, compiling, and processing the budget realization reports of all regencies and municipalities in

South Sulawesi Province for the study period. This method was selected because it provides objective, well-documented, and verifiable financial information that is suitable for quantitative analysis (Elfrianto & Lesmana, 2022).

The data were analyzed using EViews version 13. Before estimation, all variables were transformed into their natural logarithmic (Ln) form to improve data distribution and reduce potential statistical bias. The analysis began with descriptive statistics to summarize the characteristics of the research variables. The appropriate panel data regression model was then determined through the Chow test, Hausman test, and Lagrange Multiplier test to identify the most suitable estimation approach among the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) (Basuki, 2021). After selecting the optimal model, classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests, were conducted to ensure the validity of the regression model (Priyatno, 2022). Panel data regression analysis was performed to examine the effects of local tax revenue, the special allocation fund, and budget surplus on capital expenditure. Hypotheses were tested using the F-test to assess the simultaneous effect of the independent variables, the t-test to evaluate their partial effects, and the adjusted coefficient of determination (Adjusted R^2) to measure the model's explanatory power (Junaidi, 2010).

4. Results

This section presents the empirical findings of the study based on panel data regression analysis of regencies and municipalities in South Sulawesi Province during the 2020–2024 period. The analysis begins with descriptive statistics, followed by model selection and classical assumption testing, before presenting the hypothesis testing results. The findings explain the effects of local taxes, special allocation funds, and budget surplus on capital expenditure, both individually and simultaneously, providing empirical evidence addressing the research objectives.

Table 1. Descriptive Statistics Test

Test	Capital Expenditure	Local Tax	Special Allocation Fund	Budget Surplus
Mean	26.13176	24.47939	26.21046	24.66542
Median	26.13654	24.29366	26.20248	24.76894
Maximum	27.75395	27.97594	27.02457	27.34671
Minimum	25.15115	22.79814	25.32477	20.65050
Std. Dev.	0.410231	1.043512	0.351244	1.033364

Table 1 presents descriptive statistics for all research variables during the 2020–2024 observation period. The capital expenditure variable has a mean value of 26.13176, with a minimum of 25.15115, a maximum of 27.75395, and a standard deviation of 0.410231, indicating relatively low data variation. The local tax variable has a mean of 24.47939, with a minimum of 22.79814, a maximum of 27.97594, and a standard deviation of 1.043512, indicating greater data variation compared to the other variables. Furthermore, the special allocation fund records the highest mean value at 26.21046, with a minimum of 25.32477, a maximum of 27.02457, and a standard deviation of 0.351244, demonstrating a relatively homogeneous data distribution. Meanwhile, budget surplus has a mean value of 24.66542, a minimum of 20.65050, a maximum of 27.34671, and a standard deviation of 1.033364, indicating a relatively high level of data variation. In general, the standard deviation values for all variables are lower than their respective mean values; thus, it can be concluded that the research data exhibits a relatively low level of dispersion and effectively represents the observed conditions.

Table 2. Panel Data Model Selection Tests

Test	Test Statistic	Probability	Selected Decision
Chow Test	Cross-section F	0.0907	Common Effect Model (CEM)
Hausman Test	Cross-section Random	0.1554	Random Effect Model (REM)
Lagrange Multiplier Test	Breusch–Pagan (Both)	0.0013	Random Effect Model (REM)

Based on the panel data model selection results presented in Table 2, the Chow Test produced a Cross-section F-probability of 0.0907, which exceeds the 0.05 significance level, indicating that the CEM is preferred over the FEM. Subsequently, the Hausman Test yielded a probability value of 0.1554 (> 0.05), suggesting that the REM is more appropriate than the FEM. Because the Chow Test indicated CEM while the Hausman Test indicated REM, the Lagrange Multiplier (LM) Test was conducted to determine the most appropriate model. The LM Test produced a Breusch–Pagan probability value of 0.0013, which is below the 0.05 significance level, indicating that the REM is superior to the CEM. Therefore, based on the overall model selection procedure, the REM was selected as the most appropriate panel data regression model and was used for subsequent analyses.

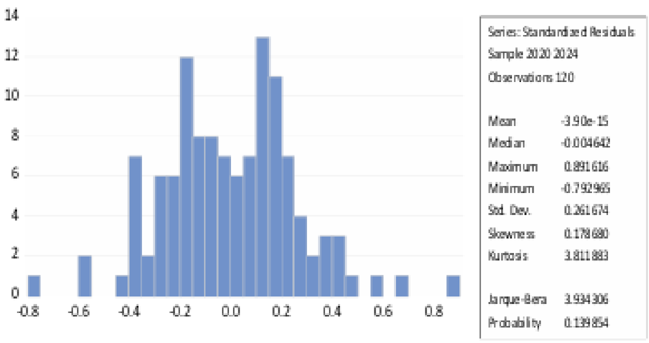

Figure 3. Normality Test

Based on the normality test results presented in Figure 3, the probability value obtained is 0.139854. Since this value exceeds the significance level of 0.05 (0.139854 > 0.05), the null hypothesis of the normality test cannot be rejected. This indicates that the residuals are normally distributed and do not exhibit significant deviations from the normal distribution. Therefore, the normality assumption required for panel data regression analysis is satisfied. The fulfillment of this assumption suggests that the estimated regression model is appropriate for subsequent hypothesis testing, allowing the statistical inference and parameter estimates to be interpreted with greater reliability.

Table 3. Multicollinearity Test

Variable	Centered VIF
Constant	NA
Local Tax	1.321975
Special Allocation Fund	1.211969
Budget Surplus	1.262698

The multicollinearity test results in Table 3 indicate that all independent variables have Centered Variance Inflation Factor (VIF) values below the tolerance threshold of 10: local tax (1.321975), special allocation fund (1.211969), and budget surplus (1.262698). These results demonstrate the absence of multicollinearity among the independent variables in the regression model. Consequently, the independent variables do not exhibit high correlation with one another; thus, the regression model satisfies the assumption of the absence of multicollinearity and is suitable for further analysis.

Table 4. Heteroscedasticity and Autocorrelation Test

Assumption Test	Test Statistic	Probability	Decision
Heteroscedasticity Test	Prob. Chi-Square (3)	0.5184	No heteroscedasticity
Autocorrelation Test	Prob. Chi-Square (2)	0.1704	No autocorrelation

Based on Table 4, the classical assumption test results indicate that the regression model satisfies the assumptions regarding heteroskedasticity and autocorrelation. The heteroskedasticity test yielded a Prob. Chi-Square value of 0.5184, while the autocorrelation test yielded a Prob. Chi-Square value of 0.1704. Both probability values exceed the 0.05 significance level; thus, it can be concluded that the model exhibits neither heteroskedasticity nor autocorrelation. This indicates that the residual variance is constant and the residuals across observation periods are not correlated with one another. Consequently, the panel data regression model meets the classical assumptions, making it suitable for further analysis and hypothesis testing.

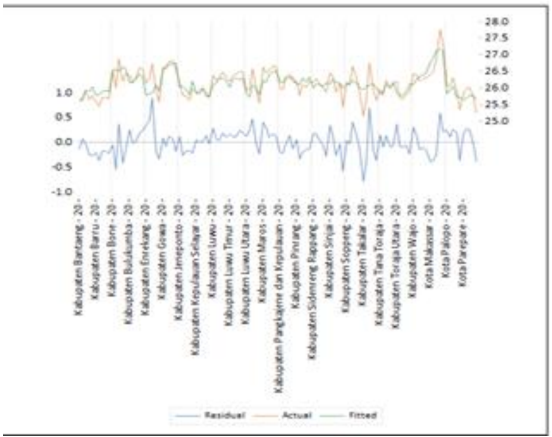

Figure 4. Heteroscedasticity Test

Based on Figure 4, it is evident that the residual plot (blue) does not exceed the boundaries (500 and -500). This indicates that the residual variance for each observation tends to be uniform or constant. Consequently, it can be concluded that the research model does not exhibit heteroscedasticity. These residual plot results are consistent with the Glejser Test findings, which show a Chi-Square (Obs*R-Squared) probability value of 0.5184 exceeding the 0.05 threshold, thereby confirming that the research model passes the heteroscedasticity test.

Table 5. Model Summary Test

Statistic	Value
R^2	0.534600
Adjusted R^2	0.522564
F-statistic	44.41597
Prob (F-statistic)	0.000000
Durbin–Watson Statistic	1.593205

As presented in Table 5, the Durbin–Watson statistic of 1.593205 indicates that the regression model does not exhibit serious autocorrelation problems, suggesting that the residuals are sufficiently independent. The model also demonstrates good explanatory power, with an R^2 value of 0.534600, indicating that 53.46% of the variation in capital expenditure is explained by local tax, the special allocation fund, and budget surplus, while factors outside the model influence the remaining 46.54%. The adjusted R^2 value of 0.522564 further confirms that the model retains strong explanatory ability after adjusting for the number of independent variables. Furthermore, the F-statistic of 44.41597, with a Prob (F-statistic) of 0.000000 ($p < 0.05$), demonstrates that the three independent variables jointly have a statistically significant effect on capital expenditure.

Table 6. Random Effect Model Regression Results Test

Variable	Coefficient	Std. Error	t-statistic	Prob.
Constant	7.212993	2.004305	3.598750	0.0005
Local Tax	0.128378	0.030242	4.244968	0.0000
Special Allocation Fund	0.512680	0.083156	6.165266	0.0000
Budget Surplus	0.094812	0.027862	3.402980	0.0009

Table 6 shows that local tax, the special allocation fund, and budget surplus have a positive and significant effect on capital expenditure. This is evidenced by positive regression coefficients and probability values for each variable that are less than 0.05. Among these three variables, the special allocation fund has the largest coefficient ($\beta = 0.512680$), thereby exerting the strongest influence on the increase in capital expenditure, followed by local tax ($\beta = 0.128378$) and budget surplus ($\beta = 0.094812$). These results indicate that an increase in regional fiscal capacity tends to drive an increase in capital expenditure allocations.

5. Discussion

The findings demonstrate that local tax revenue, the special allocation fund, and budget surplus each have a positive and significant effect on capital expenditure, while simultaneously exerting a significant influence on local government capital spending in South Sulawesi Province. These results indicate that stronger regional fiscal capacity enables local governments to allocate greater resources for infrastructure development and public services. The positive effect of local tax revenue suggests that higher locally generated revenue strengthens fiscal capacity and increases the allocation of capital expenditure while reducing dependence on central government transfers. Consistent with Agency Theory by Jensen and Meckling (1976), local governments, as agents, are responsible for managing tax revenue efficiently to meet public expectations through the provision of public infrastructure and services. This finding is consistent with Murti and Trisnawati (2021) and Zhafira and Sastri (2023), who also found that local tax revenue positively influences capital expenditure.

The results further reveal that the special allocation fund has the strongest positive influence on capital expenditure among the explanatory variables. This finding reflects the important role of fiscal transfers from the central government in supporting regional development, particularly for financing infrastructure and priority public service programs. Since the allocation of DAK is intended to fund specific sectors determined by the central government, local governments receiving larger transfers have greater opportunities to increase capital investment. This result supports the argument of Murti and Trisnawati (2021) that higher DAK allocations strengthen local governments' capacity to finance priority development programs. Similarly, Maulana and Fadhlia (2020) emphasized that DAK is closely associated with capital expenditure because it is primarily directed toward financing long-term public assets. Consistent with Agency Theory, effective management of transferred funds represents a form of accountability by local governments in delivering public benefits. The present finding corroborates those reported by Yusuf and Galuh (2023) and Zhafira and Sastri (2023).

Budget surplus was also found to positively and significantly affect capital expenditure, indicating that budget surpluses from previous fiscal years provide additional financing capacity for subsequent public investment. Rather than merely reflecting unspent funds, budget surplus can serve as an important financing source that supports infrastructure development when managed efficiently. This finding supports Telaumbanua et al. (2021), who argued that budget surplus can be utilized to increase capital expenditure through the acquisition and improvement of public assets. Likewise, Fahrezi et al. (2021) suggested that budget surpluses provide financial flexibility for local governments in financing development programs. From the perspective of Agency Theory, the effective utilization of budget surplus demonstrates the government's responsibility to optimize available public resources for the benefit of society (Jensen & Meckling, 1976).

Simultaneously, local tax revenue, the special allocation fund, and budget surplus significantly explain variations in capital expenditure, indicating that the combined contribution of local revenue, intergovernmental fiscal transfers, and accumulated budget surpluses shape regional investment decisions. The adjusted coefficient of determination shows that these three variables explain 52.26% of the variation in capital expenditure, while the remaining variation is attributable to other fiscal and institutional factors not included in the model. This finding highlights that capital expenditure depends not on a single funding source but on the integration of multiple fiscal resources. The result is consistent with Agency Theory, which emphasizes the responsibility of local governments to manage public financial resources efficiently and transparently to maximize public welfare (Jensen & Meckling, 1976). Moreover, the findings support previous studies by Telaumbanua et al. (2021) and Zhafira and Sastri (2023), confirming that regional revenue and financing sources jointly play a crucial role in strengthening capital expenditure allocation.

6. Conclusion

This study examines the effects of local tax revenue, the special allocation fund, and budget surplus on capital expenditure in the regencies and municipalities of South Sulawesi Province during the 2020–2024 period. The findings reveal that local tax revenue, the special allocation fund, and budget surplus each have a positive and significant effect on capital expenditure. In addition, the three variables jointly have a significant effect on capital expenditure, indicating that both locally generated revenue and intergovernmental fiscal transfers play important roles in supporting public investment. Among the explanatory variables, the special allocation fund exerts the strongest influence, highlighting the continued importance of central government transfers in financing regional infrastructure development. These findings reinforce Agency Theory by demonstrating that effective management of regional financial resources enables local governments to allocate greater capital expenditure for improving public services and promoting sustainable regional development. The results provide empirical evidence that can assist local governments in formulating fiscal policies aimed at strengthening regional revenue, optimizing the utilization of fiscal transfers, and managing budget surpluses more effectively to support capital investment.

This study is subject to several limitations. First, the analysis focuses only on local tax revenue, the special allocation fund, and budget surplus, while other factors that may influence capital expenditure were not included in the model. This is reflected in the adjusted coefficient of determination, which indicates that 52.26% of the variation in capital expenditure is explained by the variables examined, whereas the remaining 47.74% is attributable to other factors. Second, the study is limited to regencies and municipalities in South Sulawesi Province over the 2020–2024 period, which may restrict the generalizability of the findings. Therefore, future research is encouraged to incorporate additional explanatory variables, extend the observation period, and include broader regional coverage to provide a more comprehensive understanding of the determinants of capital expenditure.

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