

# The Effect of Surplus Budget Financing, Special Allocation Fund, General Allocation Fund, Regional Revenue, and Characteristics of Local Government on Decision of Capital Expenditure (Survey in Local

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## 2 The Effect of Surplus Budget Financing, Special Allocation Fund, General Allocation Fund, Regional Revenue, and Characteristics of Local Government on Decision of Capital Expenditure (Survey in Local Government in Indonesia)

Mutiah, Ratna Mappanyuki

Department of Accounting, Mercubuana University, Indonesia  
tia56790@yahoo.com

### Abstract

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This research purpose to look impact of Surplus of Financing Budget (SFB), Special Allocation Fund (SAF), General Allocation Fund (GAF), Regional Revenue (RR) and Characteristics of Local Government (CLG) on the Decision of Capital Expenditure. Data used in this research 6 secondary data by using realization data of the budget in 2010 and 2011 sourced from examination report by Audit Board of the Republic of Indonesia in 2011-2012. The analytical method used multiple linear regression. The result showed that: (1) SFB (Surplus of Financing Budget) has a positive impact on the Decision of Capital Expenditure. (2) SAF (Special Allocation Fund) has a positive impact on the Decision of Capital Expenditure. (3) GAF (General Allocation Fund) has a positive impact on the Decision of Capital Expenditure. (4) RR (Regional Revenue) has positive impact on the Decision of Capital Expenditure. (5) CLG (Characteristics of Local Government) have not impact on the Decision of Capital Expenditure. This research is expected to develop a Public Sector Accounting Theory generated from the analysis of the role of income sources and the City Regions and proper allocation of the revenue sources of the expenditure allocation can be carried out accountable. Our particular budget managers at provincial, district and city, this research as a source of information to formulate policies in achieving accountability and quality improvement in budget management at province, district and city. For the Government, it can be used as reference for creating a good corporate governance in budget management as a form of accountability for public funds.

**Keywords:** Surplus of Financing Budget, Special Allocation Fund, General Allocation Fund, Regional Revenue, excess budget financing, government special fund, general fund, characteristics of local government, capital expenditure.

### 1. Introduction

Public service is the responsibility of local government, so it must be allocated sufficient funds in the budget to continue to improve the quality of public services. Capital expenditure is expected to improve the financial performance area, so budget expenditure area can be used effectively and efficiently.

Budget Revenue and State Spending (BRSS) should be prioritized for public service and local economic stimulus by the government as a spearhead as its implementation. Local governments are required to manage the budget in an efficient and effective in carrying out its duties related to increased productivity. So that every expenditure is aimed at improving the quality of public services and encourage local economic growth.

Surplus of Financing Budget (SFB), according to Government Regulation No. 58 of 2005 represents the excess of actual revenues and expenditures of the budget during the budget period. SFB ideal number should be determined as one of the basic evaluation of the implementation of programs / activities of local government city / county. Excess SFB targets sourced from overshooting the target reception area and efficiency is expected, while derived from the elimination of the program / development activities especially in an amount that is not fair very harmful to society

SFB use of the mechanism so far are the pros and cons. SFB use that are pro ie towards the allocation of capital expenditures. Cons that occurred in the allocation SFB against personnel expenses. Most SFB donated to direct expenditure in the form of capital expenditures that directly touches people's needs.

### 2. Literature Review

#### 2.1. Surplus of financing budgeting (SFB)

Surplus of financing budgeting (SFB) according to Regulation No. 13 of 2006 is the excess of actual revenues and expenditures budget for the budget period. SFB previous fiscal year includes revenue receipts overrun, overrun acceptance equalization funds, other income overrun area of legitimate revenue, overrun financing revenue, expenditure savings, liability to third parties until the end of the year unresolved, and the remaining funds of continuing activity. SFB is an indicator that describes the efficiency of government spending and SFB can only be formed if there is surplus in the budget and at the same time if positive Net Financing occurs, where the Revenue is greater than the Expenditure Expenses (NTT Research and Development Center, 2008).

In the implementation of Revenue and Expenditure (Budget), there may be circumstances that cause financing surplus budget and less residual budgetary financing. Excess Balance of Budget represents the accumulated surplus budget financing and less residual budget financing. Excess Balance of Budget is more similar to retained earnings on the private company. Balance budget surplus (BBS) is the accumulation of Surplus of Financing Budget (SFB) / less residual budget financing (LRBF) on previous fiscal year and the current fiscal year after closing, added/reduced with bookkeeping correction. SAL is obtained first by taking into account of the surplus / deficit and SFB / LRBF. Surplus / deficit is derived from the realization of Local Revenue and Grant then reduced with realization of Regional Expenditure for 1 (one) of the reporting period. SFB / LRBF obtained from the surplus / deficit and combined with the realization of net financing for one of the reporting period.

## 2.2. Special Allocation Fund (SAF)

According constitution of financial relations and regional governments (FRRG), Special Allocation Fund (SAF) will only fund three sectors, namely education, health and infrastructure. While the Local Government Bill establishes 13 basic services, such as education, health, environment, public works, food security, population administration and civil registration, population control and family planning, social, labor, housing, peace and public order and the protection of society, transportation and protection. In Indonesian State Budget 2013, SAF worth Rp. 31,69 trillion, including additional worth of Rp. 2 trillion coming from revenue optimization. SAF spending plan for education in Indonesian State Budget 2013 is the largest with value around Rp.11,09 trillion, followed by financing for road infrastructure Rp.5,37 trillion and health fund Rp.3,10 trillion Special Allocation Fund (SAF) education to about 20% of local governments that fail to meet the absorption targets of the funds transfer area.

Director General of Fiscal Balance, Marwanto estimates for the SAF absorption education this year only about 90% or lower than the absorption SAF 2011, which reached 98%. SAF's total absorption this year is estimated at 93%. Data from Director General of Treasury, Ministry of Finance stated that budget realization transfer area per December 20, 2012 has been Rp.453,9 trillion or 94.8% of the revised budget allocation in 2012.

## 2.3. General Allocation Fund (GAF)

Each local government will also get the General Allocation Fund (GAF) from the central government, the fund is adapted to the diverse circumstances of each local government. GAF's usage will be monitored by the central government, therefore, the greater the GAF, the supervision of the central government is also getting tougher so central government expected to make local government be more cautious in the implementation of its work program. Thus, the greater the GAF will make the better performance of local governments. GAF is sourced from the funds allocated by the Indonesian State Budget for the purpose to revenue equalization of inter-regional financial capability to fund the needs of the region in the context of decentralization.

According to Law No. 33 of 2004, the portion of the GAF is set at least 26% (twenty six percent) of the Internal Revenue Neto set out in the Budget. Meanwhile, the proportion of the distribution of the GAF for Provincial and District / Municipal determined in accordance with the balance of authority between the provincial and district / municipal. GAF is a "Block Grant" means its authority is delegated to the regions in accordance with the priorities and needs of the region to improve services to the community in the context of regional autonomy, in the context of decentralization.

## 2.4. Regional Revenue (RR)

Sources of financing for local governments in the implementation of regional autonomy as stipulated in Law No.34 of 2004 on Fiscal Balance between the Government. RR is always associated with the local government's authority to collect taxes (local) or other charges such as fees, while local revenues can also be derived from other sources such as, the results of the management of local companies even though the outcomes are relatively small. RR is a source of local revenue that must be continually driven growth. It aims to provide local revenue authority to local governments to fund the implementation of regional autonomy in accordance with the potential of the region as the embodiment of decentralization. RR can be used as an indicator in assessing the independence of a region in managing the financial area, the higher the ratio of RR compared with total revenues of the higher level of independence of a region.

## 2.5. Characteristics of Local Government

The size of local government citing from (Liestiani, 2008) quoted from Article 28, paragraph 2 of Law No. 33, in 2004, the size of the population reflects the amount of capital adequacy requirements for the provision of public services in each area. The more the population, the greater the demand for the amount of revenue that the government considering the functions performed by the government as a public servant. Ingram (1984) explained that the variable complexity of government (which is proxied by the number of inhabitants). The



number of residents give a boost to the local government to increase capital expenditure.

## 2.6. Capital Expenditure

Harianto (2007) showed that GAF has effect on capital expenditure and revenue. Similarly, capital expenditure and revenue have effect on income per capita. In line with Arianito Darwanto (2007) that confirms economic growth, GAF and RR have effect on capital expenditures. In addition, the original income and significant positive effect on income per capita changes. Similarly, Abdullah and Halim (2002) shows that the GAF effect on capital expenditures. Maimuna and Rusdi (2008) emphasized the GAF and RR affects the regional expenditure. On the other hand, a study conducted by BAPPENAS or National Development Planning Departemen (2003) showed that the growth of sensitive to RR (Regional revenues) should increase economic growth. This indicates that with the increase in revenue is expected to drive economic growth of a local government that is reflected in GDP (Gross Domestic Product).

Harianto (2007) claimed that GAF has positive and significant effect on the change in capital expenditures. Similarly, capital expenditure has positive and significant effect on the change in the original income. Abdullah and Halim (2003) stated that GAF has significant effect on capital expenditures. Adi (2005) claimed that development expenditure provides a positive and significant impact on the original income. Although the findings of these studies indicate that equalization transfers from the central government, and the RR have effect on capital expenditures and income per capita. From the methodological side, the influence of these variables is still questionable, meaning that the findings of these studies still need to be tested further to see the consistency of the research findings.

According to Law No. 32 2004 Article 167, paragraph 1, the regional expenditure is used to protect and improve the quality of people's lives. This is manifested in the form of improvement of basic services, such as education, provision of health care facilities, social facilities, decent public facilities, and develop a system of social security. The higher the expenditure, the better is the service and quality that the government should provides to the people. Capital expenditure is an expenditure budget that is used in order to obtain or increase fix assets and other assets that benefit more than one accounting period and exceeds the minimum limit capitalization of fix assets or other assets set by the government in which the asset is used for daily operational activities of a work unit and not for sale (PMK No. 91 / PMK.06 / 2007).

## 3. Conceptual Framework

### 3.1. Effect of The Financing Budget Surplus has Capital Expenditure Decision

Previous year financing budget surplus which is used to cover the financing revenue when the budget deficit is smaller than the actual revenue expenditures, to funding further activities at the expense of direct spending (spending on goods and services, capital expenditures, and personnel expenses) and other liabilities until the end of the fiscal year that have not been completed yet. Research conducted by Ardhini (2011) to strengthen it where SFB (Surplus of financial budget) has positive effect on capital expenditures.

### 3.2. Effect of The Special Allocation Fund to Capital Expenditure Decision

Special Allocation Fund (SAF) is a central government funding a variety adapted to the circumstances of each local government. SAF granting use will be monitored by the central government. Therefore, the greater the SAF, supervision of the central government is getting tougher so that it is expected to make local government more cautious in the implementation of its work program. Thus, the greater the SAF, the better is the performance of local government. SAF is one source of revenue for local governments.

Khusaini, (2006) states that by handing over some authority to local governments, public services are expected to be more efficient and will be able to encourage local economic growth and well-being of local communities. (Oates, 1993; Martinez and Macnab, 1997) asserts that fiscal decentralization can promote economic growth of a region. Furthermore, they assert that the expenditure on infrastructure to encourage economic development in a region varies, because the area know the characteristics of their respective regions.

### 3.3 Effect of The General Allocation Fund to Capital Expenditure Decision

Within a few years running, the proportion of the acceptance of GAF is still the highest if compared with other local revenues, including RR (Regional Revenue) (Adi, 2006, in Harianto and Adi, 2007). This means that the region is still dependent on central government transfers in financial management. Research conducted by Harianto and Adi (2007), Darwanto and Yustikasari (2007), and Solikin (2007) and Putro (2011) shows that the GAF is very influential on Capital Expenditure. RR variables affect the Capital Budget this is due to the transfer of GAF from the central government to local governments allocate earnings to finance capital expenditures (Putro, 2011). However Moisio (2002 in Abdullah and Halim, 2006) states that people will be more frugal in spending the income that is the result of his own effort given income than other parties (such as the grant or transfer).

### 3.4 Effect of Regional Revenue (RR) to Capital Expenditure Decision

Regional autonomy and fiscal decentralization of local government are expected to have greater independence in the regional financial. Therefore, the role of RR is crucial in financial performance. With the potential of each region is expected to be used to increase the RR itself, can be used to finance its obligations in running the government, including in improving the region's infrastructure.

Research conducted by Harianto and Adi (2007), Darwanto and Yustikasari (2007), Solikin (2007) and Putro (2011) provide empirical evidence that RR affects local government in the allocation of capital expenditure next year. The increase in investments expenditure (capex) is expected to increase quality of public services, that in turn will be able to increase the level of contribution to the development of the public which is reflected in the increase in RR (Mardiasmo, 2002b).

### 3.5 Influence on characteristics of local government to capital expenditure

Liestiani 2008 quoted from Article 28 paragraph 2 of Law No. 33 of 2004, the population size reflects the magnitude of capital adequacy requirements for the provision of public services in each region. Characteristics of local government can be measured by the large number of residents. The more the population is, the greater the demand for the amount of income that will be asked by the government itself in view of the functions of government as public servant.

### 4. Hypothesis

- H1: SFB (Surplus of financing budget) has positive impact on the decision of capital expenditure  
H2: SAF (special allocation fund) has positive impact on the decision of capital expenditure  
H3: GAF (General allocation fund) has positive impact on the decision of capital expenditure  
H4: RR (Regional Revenue) has positive impact on the decision of capital expenditure  
H5: CLG (Characteristics of local government) have positive impact on the decision of capital expenditure

### 5. Data Analysis Results Discussion and Research

#### Description of Object Analysis and Research Unit

Hypothesis testing is done by using multiple regression analysis model aims to predict the strength of the influence of the independent variables on the dependent variable (have now, 1992). The regression equation is:

$$Y = \alpha + \beta_1 \text{SFB} + \beta_2 \text{SAF} + \beta_3 \text{GAF} + \beta_4 \text{RR} + \beta_5 \text{CRG} + e$$

SFB = Surplus of Financial budget

SAF = Special allocation Fund

GAF = General Allocation Fund

RR = Regional Revenue

CRG = Characteristic Regional Government

#### Results Discussion

The regression model from SPSS of this study can be explained in the following table:

**Tabel 4.1.**

**Result of Data Analysing (years 2010 and 2011)**

Partial Analysing							
Depent Variabel	constant	Regression Koefisien	Value $t_{statistik}$	Correlation r	Sig	Description	
SFB	76.239	0,745	11,703	0,656	0,000**	Signifikan	
SAF		1,092	3,457	0,061	0,001**	Signifikan	
GAF		-0,126	2,367	0,084	0,018**	Signifikan	
RR		0,570	7,944	0,566	0,000**	Signifikan	
CLG		-0,029	1,750	0,262	0,081*	Signifikan	
Analisis Regresi Berganda			$R$	=	0,709	$T_{tabel}$	1,66
			$R^2$	=	0,503	$F_{tabel}$	2,31
			$F_{statistik}$	=	95,93	Sig/p	0,000

Note: \*\* Significant at the 5%, \* Significant at 10%.

Source: data were processed using SPSS



**Tabel 4.2.**  
**Result for Research Data Analysing Tahun 2011**

Partial Analysing						
Variabel Bebas	Konstanta	Koefisien Regresi	Nilai $t_{statistik}$	Korelasi $r$	Sig	Keterangan
SFB	101.840	0,863	21,626	0,759	0,000**	Signifikan
SAF		1,133	4,874	0,082	0,000**	Signifikan
GAF		-0,171	3,138	0,124	0,002**	Signifikan
RR		0,280	6,710	0,466	0,000**	Signifikan
CLG		0,031	1,630	0,340	0,10*	Signifikan
Multiple regression analysis			R = 0,802	T <sub>tabel</sub>	1,66	
			R <sup>2</sup> = 0,643	F <sub>tabel</sub>	2,31	
			F <sub>statistik</sub> = 174,74	Sig/p	0,000	

Note: \*\* Significant at the 5%, \* Significant at 10%.

Source: data were processed using SPSS

**Table 4.3.**  
**Result for Research Equation Model**

Research Models	Constants	SFB	SAF	GAF	RR	CLG
Model 1: Data 2010 Capital Expenditure	76.239	0,745 11,703**	1,092 3,457**	-0,126 2,367**	0,570 7,944**	-0,029 1,750*
Model 2: Data 2011 Capital Expenditure	101,840	0,863 21,626**	1,133 4,874**	-0,171 3,138**	0,280 6,710**	0,031 1,630*
Model 3: Data 2010 & 2011 Capital Expenditure	71.324	0,868 26,085**	1,100 5,834	-0,083 2,261**	0,386 10,955**	-0,021 1,723*

Note: \*\* Significant at the 5%, \* Significant at 10%.

Source: data were processed using SPSS

The research model in table 1.1 can be explained as follows:

**First Model:**

$$\text{Capital Expenditure} = 76.239 + 0,745\text{SFB} + 1,092\text{SAF} - 0,126\text{GAF} + 0,57\text{RR} - 0,029\text{CLG} + e$$

Constant value of 76.239 can be interpreted if no SFB, SAF, GAF, RR, and the characteristics of the local government's then capital expenditure decision will be amounted at 76.239. In the first study of the regression model, the Special Allocation Fund (SAF) has a regression coefficient values that were very large when compared with other regression coefficients with its regression coefficient of 1.092.

This means that the SAF has the greatest influence on Capital Expenditure Decision, and if the SAF increased by 1, the Capital Expenditure Decisions will increase by 1,092, and vice versa, if the SAF decreased by 1, the Decision of Capital Expenditure will fall by 1.092.

Previous year SFB which is the acceptance of funding is used to cover the budget deficit when the realization of income is smaller than the actual expenditure, to fund the implementation of the follow-up activities at the expense of direct expenditure (expenditure on goods and services, capital expenditures, and personnel expenses) and other liabilities. Research conducted by Ardhini (2011) that strengthen the fact where SFB has positive effect on capital expenditures.

The results of this study support the hypothesis that SFB positive effect on capital expenditure decisions. Khusaini, (2006) asserts that by handing over some authority to local governments, the central government hopes the public service more efficient and will encourage regional economic growth and well-being of local communities.

(Oates, 1993; Martinez and Macnab, 1997) confirms that fiscal decentralization can promote economic growth of a region. Furthermore, they assert that the expenditure on infrastructure is to encourage economic growth in a specific region, because each region can identify the characteristics of their respective regions. The results of this analysis are in accordance with the hypothesis that SAF positive effect on Capital Expenditure Decisions.

Research conducted by Harianto and Adi (2007), Darwanto and Yustikasari (2007), and Solikin (2007) and Putro (2011) shows that the GAF is very influential on Capital Expenditure. GAF has an influence on the

Capital Expenditure Budget, this is because of the GAF transfers from the central government, that the local government may allocate their earnings to finance capital expenditures (Putro, 2011). However Moisio (2002 in Abdullah and Halim, 2006) states that people will be more thrifty in spending their income if their income comes from their own effort, compared to other income from another party (such as the grant or transfer).

Therefore, the results of this study support the hypothesis that the GAF has positive effect to Capital Expenditure Decision. The results of this study are not in line with the results of the study from Liestiani 2008, and quoted from Article 28 paragraph 2 of Law No. 33 of 2004, that the population reflects the large amount of capital adequacy requirements for the provision of public services in each region. Characteristics of local government can be measured by the large number of residents. The more the population is, the greater the demand for the amount of income that will be asked by the government itself in view of the functions of government as public servant. The variable that gives the smallest effect on capital spending decisions are characteristic of local government with regression coefficient value, -0.029.

#### Second Model:

$$\text{Capital Expenditure} = 101.840 + 1.133\text{SAF} + 0.863\text{SFB} - 0.17\text{GAF} + 0.28\text{RR} - 0.031\text{CLG} + e$$

Constant value of 101.840 can be interpreted if no SFB, SAF, GAF, RR, and the characteristics of the local government's then capital expenditure decision will be amounted at 101.840. In this second study of the regression model, the SAF also has a high regression coefficient values when compared with other regression coefficients with regression coefficient of 1.133. This means that the SAF has the greatest influence on Capital Expenditure Decision, because if the Special Allocation Fund increased by 1, the Capital Expenditure Decision will increase by 1.133, and vice versa if SAF decreased by 1, Capital Expenditure Decision will decrease by 1.133. The variable that gives the smallest effect on capital expenditure decision on this research model, this is characteristic of local government with regression coefficient of 0.031.

#### Third Model

$$\text{Capital Expenditure} = 71.324 + 0.868\text{SFB} + 1.1\text{SAF} - 0.083\text{GAF} + 0.386\text{RR} - 0.021\text{CLG} + e$$

Constant value of 71.324 can be interpreted if no SFB, SAF, GAF, RR, and the characteristics of the local government's then capital expenditure decision will be amounted at 71.324. In this third study of the regression model, the SAF also has a high regression coefficient values when compared with other regression coefficients with regression coefficient of 1.133. This means that the SAF has the greatest influence on Capital Expenditure Decision, because if the Special Allocation Fund increased by 1, the Capital Expenditure Decision will increase by 1.100, and vice versa if SAF decreased by 1, Capital Expenditure Decision will decrease by 1.100. The variable that gives the smallest effect on capital expenditure decision on this research model, this is characteristic of local government with regression coefficient of 0.021. Based on testing with using two models, we can conclude that the variables that have the smallest effect is characteristic of local government proxied by the population.

#### Coefficient of determination ( $R^2$ )

The coefficient of determination ( $R^2$ ) is part of the total variation in the dependent variable explained by variation in the independent variable. Table 1.2 will describe the results of the analysis of the coefficient of determination of the variables of the study.

Based on the coefficient of determination in the table, the value of  $R^2$  for Model 1 is 0.503, the value indicates that the variation of Expenditure Decision in 2010 can be explained by the SFB, SAF, GAF, RR, and CLG for 50.3%, while the remaining is equal to 49.7% and influenced by other variables that are not included in this research model. This means that the regression model for the 2010 data in this study is quite good, being able to explain the phenomenon of Capital Expenditure Decision variable by 50.3%.

Table 4.4

R Square

Research Model	Correlation Value	$R^2$ Value
Model 1	0.709	0.503
Model 2	0.802	0.643
Model 3	0.762	0.580

Source: data were processed using SPSS

The  $R^2$  for the second model is 0.643, the value indicates that the variation of Expenditure Decision in 2011 can be explained by the SFB, SAF, GAF, and RR, CLG for 64.3% while the remaining 35.7% is influenced by other variables that are not included in this research model. This means that the regression model to the data for 2011 data in this study indicate that the second model is also able to explain the phenomenon of Capital Expenditure Decision variable by 64.3%.

$R^2$  values for the third model is 0.580, and the value indicates that the variation of Expenditure Decisions in 2010 and 2011 can be explained by SFB, SAF, GAF, CLG and RR for 58% while the remaining 42% is influenced by other variables that are not included in this research model. This means that the regression



model for the combined data of 2010 and 2011 in this study indicates that the model is able to explain the phenomenon of Decision variable Capex by 58%. Out of the three models that have been mentioned, the best regression model is the second model, with its highest value of  $R^2$ .

## Conclusions

1. Effect Surplus of Financial Budget (SFB) against Capital Cost Decision is consistent with the results of search conducted by Ardhini (2011) to support a finding that SFB (Surplus of Financial Budget) have a positive effect on capital expenditures. The results of this study support the hypothesis that SFB positive effect on Capital Expenditure Decisions.
2. Khusaini, (2006) asserts that by handing over some authority to local governments, the central government hopes the public service more efficient and will encourage regional economic growth and well-being of local communities. (Oates, 1993; Martinesz and Macnab, 1997) confirms that fiscal decentralization can promote economic growth of a region. Furthermore, they assert that the expenditure on infrastructure is to encourage economic growth in a specific region, because each region can identify the characteristics of their respective regions. The results of this analysis are in accordance with the hypothesis that SAF (Special Allocation Fund) positive effect on Capital Expenditure Decisions.
3. The results are consistent with the results of research conducted by Harianto and Adi (2007), Darwanto and Yustikasari (2007), and Solikin (2007) and Putro (2011) which shows that the General Allocation Fund (GAF) is influential on Capital Expenditure. GAF has an influence on the Capital Expenditure Budget, this is because of the GAF transfers from the central government, that the local government may allocate their earnings to finance capital expenditures (Putro, 2011).
4. The results of this study are not in line with the results of the study from Liestiani 2008, and quoted from Article 28 paragraph 2 of Law No. 33 of 2004, that the population reflects the large amount of capital adequacy requirements for the provision of public services in each region. Characteristics of local government can be measured by the large number of residents. The more the population is, the greater the demand for the amount of income that will be asked by the government itself in view of the functions of government as society service
5. Concluded that the variable size of the local government by proxy of the total population, the amount of income of the population and total local revenues compared to total expenditures proved not significantly affect Capital Expenditure

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