“The impact of corporate social responsibility, budget surplus, and investment cash flow on capital expenditure budgeting of Indonesian city governments”

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THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY, BUDGET SURPLUS, AND INVESTMENT CASH FLOW ON CAPITAL EXPENDITURE BUDGETING OF INDONESIAN CITY GOVERNMENTS

Abstract

This study aims to examine the impact of corporate social responsibility, budget surplus, and investment cash flow on capital expenditure budgeting within city government clusters in Indonesia. The population includes city governments recorded in the Ministry of Home Affairs. The samples were taken from data on corporate social responsibility and budget surplus, as well as investment cash flow for the fiscal year 2023 and capital expenditure budget for 2024 in 81 city governments in Indonesia. Empirical findings indicate that corporate social responsibility negatively affects capital expenditure budgeting across all city government clusters. The impact of budget surplus varies. On the one side, budget surplus has a positive effect on capital expenditure budgeting in Cluster A (highest) and a negative impact on capital expenditure budgeting in Cluster C (lowest). Conversely, in Cluster B (middle), budget surplus does not affect capital expenditure budgeting. Similarly, investment cash flow positively affects capital expenditure budgeting in Cluster A and negatively affects capital expenditure budgeting in Cluster C. Meanwhile, in Cluster B, investment cash flow does not affect capital expenditure budgeting.

Keywords corporate social responsibility, budget surplus, investment cash flow, capital expenditure budgeting, city government cluster

JEL Classification H72, J18, M41, M48

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INTRODUCTION

The local government budget represents the public services the local government provides to the community. The local government's habit of limiting capital expenditures hurts the low quality of public services (Pope et al., 2024). Capital expenditure budgeting to finance health, education, social, and other public facilities has become crucial in local government budgeting policy, especially in Indonesia. The city government in Indonesia's capital expenditure budgeting is the leading case study to examine this phenomenon.

The implementation challenges of capital expenditure budgeting can be classified into several aspects based on their causes, such as corporate social responsibility (CSR), budget surplus, and investment cash flow. Regarding CSR, revenue from CSR is not always in line with the capital expenditure budget plan for providing public services to the community. Regarding budget surplus, its allocation is not always in line with the capital expenditure budget allocation to achieve the output and outcome targets of public services to the community. Related

to investment cash flow, it is not a parameter of financial performance in allocating capital expenditure budgets to improve public services. Investment cash flow information does not show the prospect of capital expenditure budget allocations that can increase the growth of public services in the future.

Variations in financial capabilities between regional governments give rise to different and unique capital expenditure budgeting phenomena. The variation in the city government's financial capacity has become crucial in local government budgeting policy. Implementing a capital expenditure budget that is not proportional and appropriate is still a common problem in city government budgeting.

1. LITERATURE REVIEW AND HYPOTHESES

Capital expenditure refers to the budgetary allocation for acquiring fixed assets and other assets that provide benefits over multiple accounting periods (Nurafni & Sembiring, 2024; Legislation of Republic Indonesia, 2020, 2010; Ministry of Home Affairs, 2020). The budgeting process for capital expenditure is crucial in ensuring that city governments can provide quality public services to their communities (Said et al., 2025; Khoo et al., 2024; Melo & Mota, 2020; Purwanto et al., 2022; Oriakhi, 2021). Therefore, the financial resources available directly influence its budgeting capabilities. Financial capacity refers to a government's ability to generate revenue, manage funds, and allocate them effectively for long-term investments, such as capital expenditures. In Indonesia, the financial capacity of city governments is classified according to Minister of Home Affairs Regulation No. 21 of 2007 (see Table 2). This classification highlights the differences in the city governments' ability to fund capital expenditures and manage their financial resources effectively. City governments with higher financial capacity are more likely to have the resources to invest in more extensive and more comprehensive physical facility projects. Conversely, city governments with lower financial capacity often face constraints in financing large capital expenditure projects and may have to prioritize essential services or smaller-scale investments (Legislation of Republic Indonesia, 2019; Ministry of Home Affairs, 2007; Black, 1998). The financial capacity of city governments also affects their ability to generate local revenue and directly impacts their capacity to fund such expenditures (Auzan et al., 2023; Chariri & Ghozali, 2022; Alam et al., 2021; Subani, 2015; Atmini, 2002).

CSR is increasingly recognized as a crucial policy for businesses to foster strong relationships with their stakeholders and ensure long-term sustainability (Bruna & Lahouel, 2021; Bruna & Nicolo, 2020). In the context of local governments, CSR plays a significant role by supporting regional development programs (West Java Province Government, 2024; Baatwah et al., 2022). One of CSR companies' most common contributions is providing local governments with physical facilities. These contributions are typically part of broader health, education, social, environmental, and poverty alleviation programs (Okonkwo et al., 2023; Temidayo et al., 2022; Legislation of Republic Indonesia, 2019; Arifuddin et al., 2017; Ranjan & Sharma, 2008). Specifically, CSR can be an alternative or supplementary source for local governments to provide or finance physical facility projects. Machmud (2015) provides empirical evidence that in Indonesia, CSR funds, particularly physical facilities, can significantly contribute to development efforts, reducing reliance on traditional funding sources for capital expenditure budgeting. In the broader context, a study by Škare and Golja (2014) on 25 countries from 2000 to 2008 found a clear link between corporate CSR initiatives and government fiscal policy, with CSR contributing to improved economic outcomes through local government budgeting efforts.

City governments require substantial funds to finance the development of physical facilities. The receipt of CSR, particularly in physical facilities, is an alternative source for financial capital expenditures, regardless of the city government's financial capacity. As the value of CSR contributions in physical forms increases, the need for capital expenditure budgeting is anticipated to decrease. This is because city governments may reduce their reliance on their capital expenditure budgets for physical facilities procurement, as CSR contributions can substitute or offset a portion of the planned expenditure in the regional budget.

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Budget surplus represents the unspent portion of the budget that is carried over to the next fiscal year and is a critical measure for stakeholders, as it reflects the government's ability to finance future expenditure budgets (Nurafni & Sembiring, 2024; Karyati et al., 2023; Mardiasmo, 2002). Budget surplus provides insight into the city government's capacity to fund future expenditures and plan investments for public services (Harun et al., 2020; Suhaedi, 2019; Devas, 1989). As city governments in this study are classified into three financial capacity clusters, these clusters differ in their financial profiles, which impact their capital expenditure budgeting abilities.

In Cluster A (highest), city governments with high financial capacity often focus on building and maintaining their physical facilities while capitalizing on their established financial capacity. In sum, a budget surplus is expected to positively affect the ability to budget capital expenditure. This is consistent with findings in the business sector, where Black (1998) shows that net income is positively related to an organization's financial capacity. In Cluster B (middle), which is considered to have a middle financial capacity, the city governments are perceived to be in a transitional phase, where investment opportunities are beginning to materialize, and the financial situation is improving. City governments can access moderate private sector investments, and local revenue is steadily increasing. As a result, they have a more remarkable ability to generate a budget surplus and a higher capacity to budget for capital expenditures. This aligns with the findings in the private sector, where the amount of net income is positively related to the financial capacity of an organization (Atmini, 2002). Therefore, city governments in Cluster B are expected to leverage their growing budget surplus to finance future capital expenditures. In Cluster C (lowest), city governments allocate significant resources to developing physical facilities. City governments have not yet generated substantial revenue, resulting in relatively small remaining budget surpluses. Consequently, the relationship between budget surplus and capital expenditure budgeting in Cluster C tends to be negative.

Investment cash flow reflects the level of capital expenditure undertaken by city governments, especially in physical facilities development (Wulaningrum et al., 2022; Rifqi et al., 2020). Negative investment cash flow often indicates that a city government is in the process of heavy investment, which may not yet yield immediate returns (Ohno et al., 2022; Rifqi et al., 2020; Baridwan, 1997). The impact of investment cash flow on capital expenditure budgeting may vary depending on the city government's financial capacity (Rifqi et al., 2020).

In Cluster A, city governments have high financial capacity. They focus on building and maintaining their physical facilities while capitalizing on their established financial capacity. At the same time, these governments have a more significant financial buffer and greater capacity to fund physical facilities projects through other sources for higher capital expenditure budgeting. City governments in Cluster B are in a growth phase with moderate financial capacity. Despite the moderate cash flow, they are expected to continue growing as they see returns on their investments and generate more significant revenues. This investment in growth creates an opportunity for higher capital expenditure budgeting (Ohno et al., 2022). City governments in Cluster C have low financial capacity, and investment cash flow tends to be negative. This reflects the heavy investment required for physical facilities development, which is expected to negatively affect capital expenditure budgeting in this cluster.

This paper aims to analyze the influence of CSR, budget surplus, and investment cash flow on capital expenditure budgeting across all levels of city government clusters in Indonesia.

Based on the previous explanation, the hypotheses include the following:

H1a: CSR in Cluster A negatively affects capital expenditure budgeting.

H1b: CSR in Cluster B negatively affects capital expenditure budgeting.

H1c: CSR in Cluster C negatively affects capital expenditure budgeting.

H2a: Budget surplus in Cluster A positively affects capital expenditure budgeting.

H2b: Budget surplus in Cluster B positively affects capital expenditure budgeting.

H2c: Budget surplus in Cluster C negatively affects capital expenditure budgeting.

H3a: Investment cash flow in Cluster A positively affects capital expenditure budgeting.

H3b: Investment cash flow in Cluster B positively affects capital expenditure budgeting.

H3c: Investment cash flow in Cluster C negatively affects capital expenditure budgeting.

2. METHODOLOGY

The dependent variable for all models is capital expenditure budgeting, listed in the regional budget for the fiscal year 2024, and the financial reporting date in 2023. The independent variable, budget surplus, was obtained from the remaining amount of the regional budget calculation (budget surplus) listed in the local government's budget realization report (LRA). Cash flow (investing) was obtained from the government cash flow statement at the time of the financial reporting date in 2023.

The population in this study was district governments registered with the Department of Home Affairs as of December 31, 2024. City governments consist of provincial governments, district governments, and city governments. Only one group, namely city governments, is targeted to avoid differences in characteristics between city and non-city governments. In addition, implications should provide additional information for stakeholders. A purposive sampling method was applied to achieve the research objectives, where the sample of district governments was based on predetermined criteria. The criteria are as follows:

a. The city government was established before December 31, 2023, because this study checks the information content of budget surplus and accounting published on December 31, 2023;

b. The city government gets CSR data from companies;

c. The city government is not under the guidance of the parent city government (assuming the new city government is split/separated from the parent local government);

d. City governments submitted financial reports as of December 31, 2023, and have complete data as stipulated in the Minister of Home Affairs Regulation Number 77 of 2020;

e. City governments are submitting the regional budget for the fiscal year 2024.

This study divides district governments into three clusters according to the Permendagri Number 21 of 2007 (Ministry of Home Affairs, 2007), namely Cluster A (highest), Cluster B (middle), and Cluster C (lowest). Cluster A, i.e., city governments with a financial capacity of more than Rp400,000,000,000.00 (four hundred billion rupiah), are grouped in the highest regional financial capacity. Cluster B, i.e., city governments with a financial capacity between Rp200,000,000,000.00 (two hundred billion rupiahs) up to Rp400,000,000,000.00 (four hundred billion rupiahs) are grouped in the middle regional financial capacity. Cluster C, i.e., city governments with financial capacity below Rp200,000,000,000.00 (two hundred billion rupiahs), are grouped in the lowest regional financial capacity. The list of names of city governments that became the research sample is presented in Appendix A.

This study uses secondary data obtained from 2023 city government financial report data, consisting of regional budget stipulations, budget realization reports (LRA), reports on changes in excess budget balances (LPSAL), operational reports, statements of changes in equity, balance sheets, cash flow statements, and notes to financial statements. Financial report data were obtained from the database of the Directorate General of Regional Financial Administration of the Ministry of Home Affairs.

The data analysis model used in this study is a multiple linear regression model. The research models are as follows:

Model I:

$$LNP_{i,t} = \alpha - \lambda 1 \cdot CSR_{i,t} + \lambda 2 \cdot BS_{i,t} + \lambda 3 \cdot CFIPS_{i,t} + e_{i,t}. \quad (1)$$

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It tests the effects of CSR, budget surplus (BS), and investment cash flow of city government (CFIPS) on capital expenditure budgeting in Cluster A.

Model II:

$$LN\ P_{i,t} = \alpha - \gamma 1 \cdot CSR_{i,t} + \gamma 2 \cdot BS_{i,t} + \gamma 3 \cdot CFIPS_{i,t} + e_{i,t}. \quad (2)$$

It tests the effects of CSR, BS, and CFIPS on capital expenditure budgeting in Cluster B.

Model III:

$$LN\ P_{i,t} = \alpha - \beta 1 \cdot CSR_{i,t} - \beta 2 \cdot BS_{i,t} - \beta 3 \cdot CFIPS_{i,t} + e_{i,t}. \quad (3)$$

It tests the effects of CSR, BS, and CFIPS on capital expenditure budgeting in Cluster C.

where $LN\ P_{i,t}$ = *LN* of capital expenditure budgeting of city government *i* in period *t*; $CSR_{i,t}$ = *CSR* of city government budget *i* in period *t*; $BS_{i,t}$ = budget surplus of city government budget *i* in period *t*; $CFIPS_{i,t}$ = Investing cash flow of city government *i* in period *t*; α = Constant coefficient; λ1, λ2, λ3 = Coefficient of independent variables in Cluster A; γ1, γ2, γ3 = Coefficient of independent variables in Cluster B; β1, β2, β3 = Coefficient of independent variables in Cluster C; $e_{i,t}$ = Disturbance variable of city government *i* in period *t*.

3. RESULTS

The samples were selected by purposive sampling, which is based on the predetermined criteria shown in Table 1.

The sample used in this study was taken from data on CSR and budget surplus, as well as investment cash flow for the 2023 fiscal year and capital expenditure budget for 2024 in 81 city governments in Indonesia, consisting of three clusters. Cluster A (highest) has 36 city governments, Cluster B (middle) has 28, and Cluster C (lowest) has 17 city governments (Table 2).

This paper uses one dependent variable, capital expenditure budgeting, and three independent variables, CSR, budget surplus (BS), and investment cash flow (CFIPS). Each of these variables is divided into three groups/clusters. The highest average CSR is in Cluster A: 9.8122; the lowest is in Cluster C: 7.3210. The highest average budget surplus is in Cluster B: 428.0031, and the lowest is in Cluster A: 333.6617. For CFIPS, the highest average is in Cluster A:–239.2791, and the lowest is in Cluster B:–451.145. Capital expenditure budgeting has the highest average in Cluster B: 6,905.2593, and the weakest in Cluster C: 2,428.00.

The results of the model feasibility test (goodness of fit) in this study are shown in Tables 3 and 4.

Table 1. Sample selection process

Criteria	Number
Total city governments registered by the Ministry of Home Affairs as of December 31, 2023 and 2024	98
City governments that did not receive CSR from companies in 2023 fiscal year	(9)
City governments that did not or have not submitted financial reports as of December 31, 2023, and are submitting regional budget for 2024 fiscal year to the Ministry of Home Affairs	(5)
City governments whose financial statements are not in accordance and/or incomplete according to the provisions of Permendagri Number 77/2020	(3)
City governments selected as samples	81

Table 2. Financial capacity clusters of the city government

Cluster	Financial Capacity (IDR)	Category	Number
A	> 400,000,000,000.00	Highest	36
B	200,000,000,000.00–400,000,000,000.00	Middle	28
C	< 200,000,000,000.00	Lowest	17

Table 3. Descriptive analysis

Variable	N	Minimum	Maximum	Mean	Std. Deviation
CSR-A	36	4.5265	15.5361	9.8122	4.5742
BS-A	36	–937.00	2,184.00	333.6617	518.71131
CFIPS-A	36	–1,208.37	32.12	–239.2791	290.08145
PBM-A	36	385.00	39,850.00	5,085.2778	7,131.83108
CSR-B	28	4.3216	16.4745	10.4519	4.3273
BS-B	28	–941.00	6,962.00	428.0031	1,260.15686
CFIPS-B	28	–5,544.88	12.71	–451.1450	1,088.51472
PBM-B	28	77.00	129,000.00	6,905.2593	21,113.08355
CSR-C	17	2.4678	12.3273	7.3210	2.4791
BS-C	17	–131.59	4,517.00	346.5641	919.98742
CFIPS-C	17	–4,279.86	447.02	–310.2659	918.07490
PBM-C	17	40.00	40,000.00	2,428.0000	6,422.34752

Note: CSR-A = corporate social responsibility in cluster A, BS-A= budget surplus in cluster A, CFIPS-A = investment cash flow in cluster A, PBM-A= capital expenditure in cluster A, CSR-B = corporate social responsibility in cluster B, BS-B= budget surplus in cluster B, CFIPS-B = investment cash flow in cluster B, PBM-B= capital expenditure in cluster B, CSR-C = corporate social responsibility in cluster C, BS-C= budget surplus in cluster C, CFIPS-C = investment cash flow in cluster C, PBM-C= capital expenditure in cluster C.

Table 4. Model summary

Parameter	Cluster A	Cluster B	Cluster C
R	0.791	0.705	0.822
R Square	0.626	0.498	0.675
Adj. R Square	0.589	0.436	0.627

Table 4 shows that the *R*-value in the three models is relatively high, between 0.705 (Cluster B) and 0.822 (Cluster C). This indicates that the independent variables correlate highly with the dependent variable. The coefficient of determination is between 0.498 (Cluster B) and 0.675 (Cluster C). This value illustrates how capable the independent variables are in explaining the variance of the dependent variable. Table 5 shows the partial test analysis in Cluster A.

Table 5. Partial test of Cluster A

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	6.081	.721	–	8.499	.000
CSR-A	–.0069	.000	–.649	6.584	.000
BS-A	.0019	.000	.651	6.679	.000
CFIPS-A	.0008	.000	2.198	2.088	.041

Note: CSR-A= corporate social responsibility in cluster A, BS-A= budget surplus in cluster A, CFIPS-A= investment cash flow in cluster A.

Table 5 shows that the CSR, BS, and CFIPS variables have a significance level below 0.05. The cluster's CSR, BS, and CFIPS variables partially influence capital expenditure budgeting. The calculated significance value of CSR is 0.000, which states that CSR in Cluster A affects capital expenditure budgeting. *H1a* is accepted. The calculated significance value of the budget surplus is 0.000, which states that the budget surplus in Cluster A affects capital expenditure budgeting. *H2a* is accepted. The calculated significance value of CFIPS is 0.041, which states that CFIPS in Cluster A affects capital expenditure budgeting. *H3a* is accepted.

The results of the partial test analysis in Cluster B are presented in Table 6.

Table 6. Partial test of Cluster B

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta	–	–
(Constant)	6.431	.201	–	31.911	.000
CSR-B	–.0003	.000	–.14	3.469	.001
BS-B	–.0004	.000	–.36	–1.089	.279
CFIPS-B	–.0008	.000	–.404	–1.499	.139

Note: CSR-B= corporate social responsibility in cluster B, BS-B= budget surplus in cluster B, CFIPS-B= investment cash flow in cluster B.

Table 6 shows that two independent variables, except the CSR variable, have a significance level higher than 0.05. This means no variables in Cluster B that partially influence capital expendi-

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ture budgeting, except the CSR variable. The calculated significance value of CSR is 0.001, which states that CSR in Cluster B affects capital expenditure budgeting. *H1b* is accepted. The calculated significance value of the budget surplus is 0.279, which means that the budget surplus in Cluster B does not affect capital expenditure budgeting. *H2b* is rejected. The calculated significance value of CFIPS is 0.139, which states that CFIPS in Cluster B does not affect capital expenditure budgeting. *H3b* is rejected.

The results of the partial test analysis on Cluster C are shown in Table 7.

Table 7. Partial test of Cluster C

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	5.612	.139	–	38.893	.000
CSR-C	–.0007	.000	.591	3.465	.001
BS-C	–.0009	.000	.582	3.371	.001
CFIPS-C	–.0008	.000	.500	3.169	.003

Note: CSR-C= corporate social responsibility in cluster C, BS-C= budget surplus in cluster C, CFIPS-C= investment cash flow in cluster C.

Table 7 shows that the CSR, BS, and CFIPS variables have a significance level below 0.05. This means that the three variables partially and significantly influence capital expenditure budgeting. The calculated significance value of CSR is 0.001, which states that CSR in Cluster C affects capital expenditure budgeting. *H1c* is accepted. The calculated significance value of the budget surplus is 0.001, which states that the budget surplus in Cluster C affects capital expenditure budgeting. *H2c* is accepted. The calculated significance value of CFIPS is 0.003, which states that CFIPS in Cluster C affects capital expenditure budgeting. *H3c* is accepted.

Multiple linear regression analysis tests the effect of several independent variables on one dependent variable. The equation is prepared based on the unstandardized coefficient value in the partial tests. Based on this equation, the multiple regression equation can be arranged as follows:

Cluster A:

$$Y = 6.081 - 0.0069X1 + 0.0019X2 + 0.0008X3 + 0.721, \quad (4)$$

Cluster B:

$$Y = 6.431 - 0.0003X1 - 0.0004X2 - 0.0008X3 + 0.201, \quad (5)$$

Cluster C:

$$Y = 5.612 - 0.0007X1 - 0.009X2 - 0.0008X3 + 0.139, \quad (6)$$

where Y = Ln Capital Expenditure Budgeting; $X1$ = *CSR*; $X2$ = Budget Surplus; $X3$ = *CFIPS*; e = residual.

A summary of the results of hypotheses testing is in Table 8.

Table 8. Summary of hypotheses tests

Variables	Cluster A	Cluster B	Cluster C
CSR	Accepted	Accepted	Accepted
BS	Accepted	Rejected	Accepted
CFIPS	Accepted	Rejected	Accepted

Note: CSR= corporate social responsibility, BS= budget surplus, CFIPS= investment cash flow.

4. DISCUSSION

This study's findings indicate that CSR negatively affects capital expenditure budgeting across all city government clusters. City governments that receive CSR contributions from external parties, particularly in physical facilities and infrastructure, tend to reduce their capital expenditure allocations in the regional budget. The higher the value of CSR receipts in this form, the lower the capital expenditure budget allocated by the city government. This finding aligns with Machmud (2015), who demonstrated that CSR contributions in physical form serve as alternative financing sources for regional development.

For city governments, CSR strategically supports regional development initiatives (Putri et al., 2024; Škare & Golja, 2014). Companies provide CSR as part of their social responsibility toward communities, the environment, and local governments

(West Java Province Government, 2024; Putri et al., 2024). These contributions help address various social issues, including environmental sustainability, poverty alleviation, unemployment, and education (Machmud, 2015). In many cases, CSR materialized through physical infrastructure and facilities, integrated with broader social and environmental programs. As a result, city governments often treat these CSR-funded facilities as substitutes for their capital expenditure, reducing the need for direct budgetary allocations.

Across all financial capacity clusters – Cluster A (highest), Cluster B (middle), and Cluster C (lowest) – city government requires significant funding to support physical facilities development. However, CSR contributions influence capital expenditure budgeting differently within each cluster. Regardless of financial capacity, receiving CSR-funded physical facilities reduces the need for the city government to allocate its resources for capital expenditures. Therefore, CSR is a complementary funding mechanism leading to lower city government capital expenditure across all clusters.

Continuing the discussion, the findings indicate that the relationship between budget surplus and capital expenditure budgeting varies across financial capacity clusters. In Cluster A and Cluster B, the budget surplus is expected to affect capital expenditure budgeting positively. However, while this relationship is supported in Cluster A, it is not significant in Cluster B. Conversely, in Cluster C, budget surplus negatively affects capital expenditure budgeting. These findings are consistent with Putri et al. (2024), who demonstrated that budget surplus influences capital expenditure budgeting, and Ekawati (2005), who found that financial surpluses significantly impact capital expenditure allocation in various entities.

In Cluster A, city governments operate at peak financial capacity, with significant budget surplus balances primarily sourced from financing revenues. These surpluses provide a critical funding source for capital expenditure, enabling investments in public infrastructure, machinery, and other essential services. City governments in this cluster efficiently allocate surplus funds to support long-term development, aligning with previous studies that emphasize the role of excess financial resources in sustaining capital investment (Alfayed et al., 2025; Putri et al., 2024; Legislation of Republic Indonesia, 2019).

Although a positive relationship between budget surplus and capital expenditure budgeting is theoretically expected in Cluster B, this study finds no significant effect. This aligns with the trade-off theory (Beckhart & Keynes, 1936), which suggests that entities, including city governments, must balance the benefits of investing surplus funds with maintaining liquidity. City government in Cluster B may retain budget surplus to manage potential transaction costs and financial uncertainties rather than allocate it toward capital expenditures (Husna & Haryanto, 2019). By holding a portion of their surplus as a buffer, these city governments may prioritize financial stability over immediate physical facilities or infrastructure investment, which explains the lack of significant influence on capital expenditure budgeting (Putri et al., 2024; Ningsih et al., 2024).

In contrast, Cluster C exhibits a negative relationship between budget surplus and capital expenditure budgeting. City governments in this cluster face financial constraints and actively seek private sector investments and alternative revenue sources; however, their limited fiscal capacity results in relatively small budget surplus balances. Rather than allocating available surpluses toward capital expenditures, these city governments may prioritize operational expenses or debt management. As a result, a higher budget surplus does not translate into increased capital expenditure but reflects financial pressures that limit direct investment in physical facilities.

These findings highlight distinct budget allocation behaviors among city governments based on financial capacity. While budget surplus positively influences capital expenditure budgeting in Cluster A, its effect is insignificant in Cluster B and exhibits a negative relationship in Cluster C. These variations underscore the importance of financial management strategies tailored to each city government's fiscal conditions.

Finally, the findings of this study indicate that the relationship between investment cash flow and capital expenditure budgeting varies across finan-

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cial capacity clusters. In Cluster A and Cluster B, investment cash flow is expected to affect capital expenditure budgeting positively. However, while this relationship is supported in Cluster A, it is not significant in Cluster B. Conversely, in Cluster C, investment cash flow negatively affects capital expenditure budgeting. These findings are consistent with Black (1998), who found that investment cash flow is negatively related to financial capability.

In Cluster A, the city government requires substantial funds to finance physical facilities spending, and favorable investment cash flow provides the necessary financial resources for capital expenditure allocation. City governments in this cluster efficiently manage investment returns, channeling these funds into capital projects such as public infrastructure, facilities, and long-term development programs. The positive relationship observed here aligns with prior research (Alfayed et al., 2025; Putri et al., 2024; Legislation of Republic Indonesia, 2019) emphasizing the role of financial resources in sustaining capital investment.

Although a positive relationship between investment cash flow and capital expenditure budgeting is theoretically expected in Cluster B, the results indicate no significant effect. Data showed that city governments in this cluster tend to have negative investment cash flow, meaning that previous investment activities have not yet yielded significant financial returns. This suggests that rather than using investment cash flow to finance capital expenditures, city governments allocate funds to other budgetary items, limiting their ability to direct investment-generated resources toward physical facilities development. Additionally, because these city governments may still be earning returns from past investments, the need for additional capital investments may be lower, explaining the absence of a significant effect.

In contrast, Cluster C exhibits a negative relationship between investment cash flow and capital expenditure budgeting. City governments in this cluster face more significant financial constraints, and investment cash flow often reflects a reliance on external funding sources rather than internally generated revenue. As a result, rather than using investment cash flow to expand capital expenditures, these governments may allocate funds toward debt obligations or operational costs. The inverse relationship suggests that higher investment cash flow in these city governments does not necessarily translate into increased capital expenditure but may signal a shift in financial priorities.

Accordingly, the findings highlight distinct investment behaviors among city governments based on financial capacity. While investment cash flow positively influences capital expenditure budgeting in Cluster A, its effect is insignificant in Cluster B and exhibits a negative relationship in Cluster C. These variations underscore the importance of understanding financial allocation strategies within different city government contexts.

CONCLUSION

This study examines the influence of CSR, budget surplus, and investment cash flow on capital expenditure budgeting in city governments in Indonesia, considering financial capacity clusters (highest, middle, and lowest). The paper aims to provide empirical insights into how different financial conditions shape city government budgeting decisions and resource allocation strategies.

The findings reveal that CSR, budget surplus, and investment cash flow significantly impact capital expenditure budgeting across city governments. Specifically, CSR negatively affects capital expenditure budgeting across all financial clusters, suggesting that CSR receipts in physical facilities and infrastructure substitute city government capital expenditures. Meanwhile, the budget surplus has a positive effect in Cluster A (highest) and a negative effect in Cluster C (lowest), but its impact is not significant in Cluster B (middle). This indicates that city governments with strong financial capacity use budget surpluses to enhance physical facilities or infrastructure investments, while those in weaker financial positions may prioritize other expenditures. Similarly, investment cash flow positively affects capital expenditure budgeting in Cluster A but negatively affects Cluster C, with no significant impact in Cluster

B. These findings highlight that investment cash flow contributes to capital expenditure in a financially robust city government. In contrast, weaker city governments may allocate investment cash flow toward other financial obligations instead of capital development.

The study contributes to the literature by demonstrating that financial clusters are crucial in shaping budget allocation strategies. It provides empirical evidence that the relevance of cash flow information varies depending on a city government's financial position. Specifically, investment cash flows hold greater relevance for city governments in the lowest financial cluster. From a practical perspective, these findings offer valuable insights for local government officials in optimizing funding sources to allocate capital expenditure budgets effectively. Understanding the differentiated impact of CSR, budget surplus, and investment cash flow can help policymakers enhance budgeting strategies and improve public service delivery. Moreover, these results emphasize the importance of tailoring budgetary policies to align with city government financial conditions.

Future research should expand the scope of analysis by examining provincial and district governments over a longer time horizon to capture broader financial dynamics. Additionally, further studies could explore the role of operating cash flow in capital expenditure budgeting to provide a more comprehensive understanding of financial management in city governments.

AUTHOR CONTRIBUTIONS

Conceptualization: Haryanto, Faisal, Agung Juliarto, Wahyu Meiranto.
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Writing – review & editing: Haryanto, Faisal, Agung Juliarto, Wahyu Meiranto.

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APPENDIX A

Table A1. Sample list of city governments in Indonesia

No.	City Government	No.	City Government
1	Kota Banda Aceh	42	Kota Surakarta
2	Kota Langsa	43	Kota Tegal
3	Kota Lhokseumawe	44	Kota Batu
4	Kota Sabang	45	Kota Blitar
5	Kota Subulussalam	46	Kota Malang
6	Kota Binjai	47	Kota Mojokerto
7	Kota Gunungsitoli	48	Kota Pasuruan
8	Kota Medan	49	Kota Probolinggo
9	Kota Bukittinggi	50	Kota Surabaya
10	Kota Padang	51	Kota Yogyakarta
11	Kota Pariaman	52	Kota Denpasar
12	Kota Payakumbuh	53	Kota Bima
13	Kota Solok	54	Kota Mataram
14	Kota Lubuklinggau	55	Kota Kupang
15	Kota Pagar Alam	56	Kota Pontianak
16	Kota Palembang	57	Kota Singkawang
17	Kota Prabumulih	58	Kota Banjarbaru
18	Kota Dumai	59	Kota Banjarmasin
19	Kota Pekanbaru	60	Kota Palangka Raya
20	Kota Batam	61	Kota Balikpapan
21	Kota Tanjung Pinang	62	Kota Bontang
22	Kota Jambi	63	Kota Samarinda
23	Kota Sungai Penuh	64	Kota Tarakan
24	Kota Bengkulu	65	Kota Gorontalo
25	Kota Pangkal Pinang	66	Kota Makassar
26	Kota Bandar Lampung	67	Kota Palopo
27	Kota Metro	68	Kota Parepare
28	Kota Cilegon	69	Kota Bau-Bau
29	Kota Serang	70	Kota Kendari
30	Kota Tangerang	71	Kota Palu
31	Kota Tangerang Selatan	72	Kota Bitung
32	Kota Bandung	73	Kota Kotamobagu
33	Kota Banjar	74	Kota Manado
34	Kota Bekasi	75	Kota Tomohon
35	Kota Bogor	76	Kota Mamuju
36	Kota Cimahi	77	Kota Ambon
37	Kota Depok	78	Kota Tual
38	Kota Magelang	79	Kota Ternate
39	Kota Pekalongan	80	Kota Tidore Kepulauan
40	Kota Salatiga	81	Kota Jayapura
41	Kota Semarang		

Note: Kota = City Government.