

## **ABSTRACT**

The Problems that encountered in the province of Central Java currently associated with high rates of poverty and service delivery in education and health are still low. Though the primary mission of the implementation of regional autonomy is to improve the welfare of the community through the fulfillment of basic needs. Among the most basic and major effect on the quality of human resource development is an investment in education and health sectors.

The purpose of this study was to analyze the effect of public spending in education and health to poverty reduction in Central Java Propinvi through the organization of public services by local governments as a consequence of the implementation of regional autonomy. To analyze the influence of the performance of public service as an intervening variable used path analysis and the Sobel test.

The study result that the performance of public services does not act as intervening variables, in terms of the relationship between public sector expenditure by poverty reduction. In addition, public sector expenditure not directly influence the performance of public services. But public sector expenditure, together with the performance of public services significantly affect poverty reductin. Therefore, in an effort to reduce poverty, local governments need to do the targeting of public service performance achievements of the expenditure that is allocated in the government budget (APBD), especially on spending in order to provide basic capacity of education and health, especially for the poor.

**Keywords:** Performance Public Service Index, public sector government expenditure for educational and healthy, poor citizen percentage.