The Effect of Balance Funds and Regional Original Revenue on Regional Financial Performance through Capital Expenditure in Medan City

Gresia Septina Sitohang [1], Ainur Oktania[2], Dwi Silfani[3], Putri Kemala Dewi Lubis[4], Khairani Alawiyah Matondang[5]*

[1,2,3,4,5]Universitas Negeri Medan, Medan, Indonesia

ARTICLE INFORMATION

Received: December 2, 2025
Revised: August 18, 2026
Accepted: August 20, 2026
DOI : 10.57151/jeko.v5i2.1579

KEYWORDS

Balance Funds; Regional Original Revenue; Capital Expenditure; Financial Performance; Path Analysis.

CORRESPONDING AUTHOR

Name : Gresia Septina Sitohang

Address: Medan, Indonesia

E-mail: gresiaseptinasitohang@gmail.com

A B S T R A C T

Regional autonomy requires local governments to strengthen fiscal capacity through Regional Original Revenue (PAD) and effectively manage intergovernmental transfers to improve regional financial performance. This study aims to analyze the direct and indirect effects of Balance Funds and PAD on Regional Financial Performance through Capital Expenditure in Medan City. This explanatory quantitative study uses time-series data from the Medan City Government for the period 2007-2024. Path analysis was employed using EViews to estimate two structural models, while the Sobel Test was used to examine the indirect effects through Capital Expenditure. The results show that PAD has a positive and significant effect on Capital Expenditure and Regional Financial Performance. In contrast, Balance Funds have no significant effect on Capital Expenditure but have a negative and significant effect on Regional Financial Performance. Capital Expenditure has a positive and significant effect on Regional Financial Performance. However, the Sobel Test indicates that Capital Expenditure does not significantly mediate the relationship between either Balance Funds or PAD and Regional Financial Performance. These findings indicate that PAD has a significant direct relationship with Regional Financial Performance, while the role of Capital Expenditure as a transmission mechanism between fiscal resources and financial performance is not statistically supported. The findings highlight the importance of strengthening local revenue capacity and evaluating the effectiveness of intergovernmental transfer management in regional financial management.

INTRODUCTION

The implementation of regional autonomy in Indonesia, which was marked by the enactment of Law Number 23 of 2014 concerning Regional Government and renewal through Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD), requires the independence of local governments in managing their financial resources *accountably*. The fundamental purpose of fiscal decentralization is to give greater authority to the regions to explore potential revenues and allocate them for the improvement of public welfare and the achievement of optimal regional financial performance (Halim, 2016). In this context, regional financial performance is a crucial indicator to measure the ability of local governments to manage their finances economically, efficiently, and effectively. Good performance is not only reflected in how much income can be collected, but also how that income is transformed into productive spending that is beneficial to the community.

However, a phenomenon that often occurs in the practice of regional autonomy is the still high level of dependence of local governments on transfer funds from the central government, or known as the Balance Fund, even though efforts to increase Regional Original Revenue (PAD) continue to be carried out. This condition often gives rise to the phenomenon *Flypaper Effect*, where regional expenditure responses tend to be more sensitive to changes in transfer funds compared to changes in their own revenues (Kuncoro, 2013). Theoretically, the increase in PAD and the Balance Fund should be positively correlated with the improvement of regional financial performance. However, this relationship is not always direct and linear, so a mediation variable is needed that can explain the mechanism of converting funds into performance. A strategic variable that has a vital role in this mechanism is Capital Expenditure.

Capital Expenditure, as defined in Government Regulation Number 71 of 2010, is a budgetary expenditure for the acquisition of fixed assets and other assets that benefit more than one accounting period. The use of Capital Expenditure as an *intervening variable* in this study is based on the logical argument that funds that enter the regional treasury, both from PAD and the Balance Fund, will not be able to boost long-term financial performance if it is only allocated for employee expenditure or routine operational expenditure. Regional revenues must be transformed through capital expenditure allocations, such as infrastructure development and the provision of public facilities, to create *an economic multiplier effect*. Investment in public assets will ultimately strengthen the regional economic structure, increase independence, and improve financial performance in the future.

Medan City was selected as the research setting because it is the capital of North Sumatra Province and serves as one of the region's main economic and administrative centers. Its relatively large fiscal scale provides an appropriate setting for examining the interaction between locally generated revenue, intergovernmental transfers, capital expenditure, and regional financial performance. At the same time, the fiscal development of Medan City during 2007-2024 shows considerable changes in the composition of regional revenues and expenditures, including fluctuations in Balance Funds, PAD, and Capital Expenditure. These characteristics make Medan City a relevant case for examining whether increased fiscal resources are translated into improved regional financial performance and whether Capital Expenditure functions as an effective transmission mechanism. Data on fluctuations in PAD, Balance Fund, Capital Expenditure, and Regional Financial Performance during the observation period can be seen in the following graph:

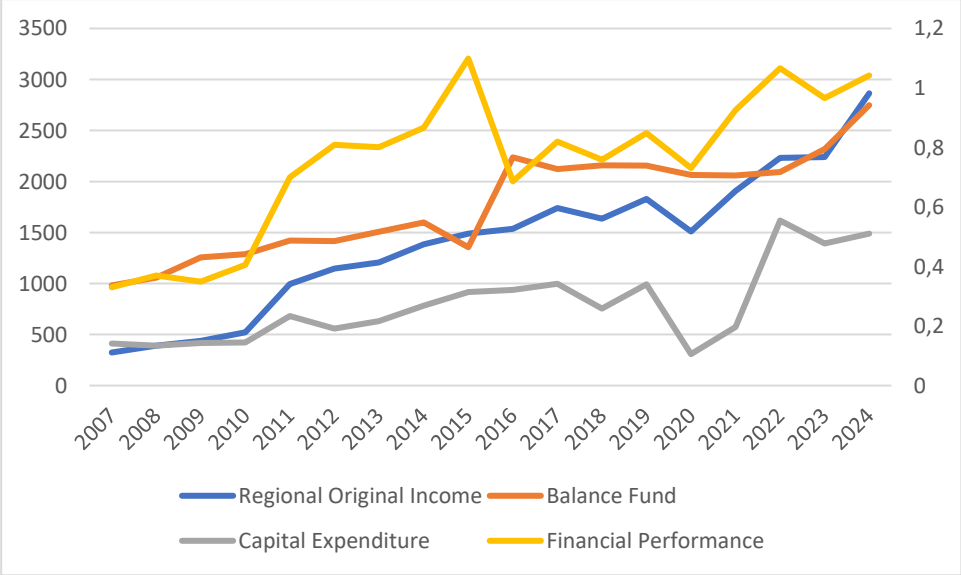


Figure 1. Graph of the Development of Regional Original Income, Capital Expenditure, Balance Fund and Regional Financial Performance in the City of Medan 2007-2024

Based on the graph above, there is a positive trend in exploring regional potential, where PAD has experienced a consistent increase from Rp 324.26 billion in 2007 to Rp 2,864.36 billion in 2024. This increase was in line with the increase in the Balance Fund from IDR 982.001 billion to IDR 2,748.28 billion in the same period. Although there has been a nominal increase in revenue, a more in-depth analysis of the chart shows that the increase in revenue does not always go straight with the stability of Regional Financial Performance, in fact there are some anomalies that indicate the need for the role of capital expenditure as a counterbalance.

Inconsistencies in the relationships between variables were evident in several observation periods. In 2016, there was a significant jump in the Balance Fund to Rp 2,237.60 billion compared to the previous year which was only Rp 1,355.64 billion. However, ironically, the Regional Financial Performance in that year actually experienced a drastic decline from the index of 1.098 in 2015 to 0.686 in 2016. The decline in financial performance despite the increase in Balance Funds indicates that a higher volume of transfer funds does not necessarily translate into improved regional financial performance. This condition suggests that the relationship between fiscal resources and financial performance requires further empirical examination. The contrasting condition occurred due to the impact of the pandemic in 2020, where Capital Expenditure plummeted to the lowest point in the last decade, which was only Rp 308.28 billion due to the budget refocusing policy. The decline in Capital Expenditure coincided with a decrease in Regional Financial Performance to 0.731. This pattern suggests that the relationship between capital spending and financial performance warrants further empirical examination, particularly during periods of fiscal adjustment.

The post-pandemic recovery period, particularly in 2022, provides an important empirical illustration of the relationship between Capital Expenditure and Regional Financial Performance. The realization of Capital Expenditure increased substantially to Rp 1,617.54 billion, accompanied by an increase in Regional Financial Performance to 1.065. However, this descriptive pattern does not necessarily establish a causal mediation relationship between regional revenues and financial

performance. The extent to which Capital Expenditure transmits the influence of the Balance Fund and PAD on Regional Financial Performance therefore requires further empirical testing.

Although the 2022 data supports the premise that capital expenditure spurs performance, the inconsistencies that occurred in previous years, as well as the differences in research results (*Research gap*) is the basis for the urgency of this research. Some studies have found a positive effect of balance funds on financial performance, such as research Ramadan & Muslimin (2022) which proves that transfer funds are able to stimulate significant improvements in local government performance. However, contradictory results were found by Ardelia et al. (2022), which concludes that high balance funds and revenues are often not directly proportional to efficient financial performance, indicating fiscal dependence that undermines regional independence. On the other hand, although recent research by Novita & Arza (2024) has examined budget factors, the specific role of Capital Expenditure as a variable intervening has not been studied in depth, especially in the context of the dynamics of post-pandemic economic recovery in metropolitan cities such as Medan. Furthermore, the use of annual regional fiscal data requires careful empirical analysis because fiscal variables may exhibit persistent movements over time. Therefore, examining the relationships among the Balance Fund, PAD, Capital Expenditure, and Regional Financial Performance requires not only an assessment of the direct relationships between variables but also an examination of the indirect relationship through Capital Expenditure. This study therefore aims to analyze the effect of the Balance Fund and Regional Original Revenue on Regional Financial Performance, both directly and indirectly through Capital Expenditure, in the City of Medan during 2007-2024.

METHOD

This study employs a quantitative explanatory approach to examine the direct and indirect relationships among Balance Funds, Regional Original Revenue (PAD), Capital Expenditure, and Regional Financial Performance using path analysis. Medan City was selected as the research setting because it is the capital of North Sumatra Province and one of the province's main economic and administrative centers. Its fiscal scale and the availability of annual regional financial data provide a relevant setting for examining the relationship between regional fiscal resources, expenditure allocation, and financial performance. The study uses secondary data obtained from the Directorate General of Fiscal Balance (DJPK) and the Regional Government Financial Statements of Medan City for the period 2007-2024, resulting in 18 annual observations. The variables consist of Balance Funds as the first independent variable (X1), Regional Original Revenue (PAD) as the second independent variable (X2), Capital Expenditure as the intervening variable (Z), and Regional Financial Performance as the dependent variable (Y). The use of secondary data from local government financial reports and DJPK is consistent with previous empirical studies examining local government financial performance in Indonesia (Firmansyah et al., 2024; Mubarok et al., 2022)

The variables are operationalized based on the realization values reported in the regional financial statements. Balance Funds are defined as intergovernmental transfers provided by the central government to finance regional needs within the framework of fiscal decentralization. For the observation period, Balance Funds are measured as the total of Revenue Sharing Funds (DBH), General Allocation Funds (DAU), and Special Allocation Funds (DAK), expressed as: Balance Funds = DBH + DAU + DAK. Regional Original Revenue (PAD) refers to revenue generated by the regional government from its own sources, consisting of regional taxes, regional retributions, the results of separated regional wealth management, and other legitimate PAD, expressed as: PAD = Regional Taxes + Regional Retributions + Results of Separated Regional Wealth Management + Other Legitimate PAD. Capital Expenditure refers to expenditure allocated for the acquisition or construction of fixed assets that provide benefits for more than one accounting period. It is measured based on the realization of Capital Expenditure reported in the regional financial statements, including expenditure on land, equipment and machinery, buildings and structures, roads, irrigation and networks, and other fixed assets. These operational definitions are consistent with the measurement of regional fiscal variables applied in previous studies (Maghfiroh et al., 2024).

Regional Financial Performance is the dependent variable (Y) and represents the financial condition of the Medan City Government as reflected in the financial ratio used in the original research model. The indicator is calculated from the realization of regional revenues and expenditures reported in the Regional Government Financial Statements. The operational measurement is maintained consistently with the original estimation to ensure that the definition of the dependent variable corresponds to the reported regression results. Previous studies have demonstrated that regional

financial performance can be assessed using financial ratios derived from local government financial statements (Ratnasari & Meirini, 2022). The annual observations for all variables are compiled into a consistent time-series dataset and processed using EViews. Descriptive analysis is first conducted to identify the characteristics, trends, and variations of the variables during the observation period. Diagnostic tests include the Jarque-Bera normality test, variance inflation factor (VIF) for multicollinearity, the White test for heteroscedasticity, and the Durbin-Watson test for autocorrelation.

Path analysis is conducted through two structural equations. The first equation examines the effect of Balance Funds and PAD on Capital Expenditure, expressed as $Z = \alpha + \beta1X1 + \beta2X2 + \varepsilon1$, while the second equation examines the effects of Balance Funds, PAD, and Capital Expenditure on Regional Financial Performance, expressed as $Y = \alpha + \beta3X1 + \beta4X2 + \beta5Z + \varepsilon2$. Because the second structural model is estimated in logarithmic form, the transformed specification is applied consistently with the reported EViews results. Capital Expenditure is specified as an intervening variable between Balance Funds and PAD and Regional Financial Performance. The direct effects are assessed from the corresponding path coefficients, while the indirect effects are obtained by multiplying the coefficients along each mediation pathway: Indirect Effect X1 = $\beta1 \times \beta5$ and Indirect Effect X2 = $\beta2 \times \beta5$. The significance of the indirect effects is evaluated using the Sobel Test. The results are interpreted based on the regression coefficients, probability values, F-statistics, and coefficient of determination (R^2) to assess the direction, statistical significance, simultaneous significance, and explanatory power of the estimated relationships. The use of path analysis and mediation analysis is consistent with previous studies examining the relationship between regional fiscal variables and local government financial performance (Preacher & Hayes, 2004).

RESULTS & DISCUSSION

Classical Assumption Test Structural 1

Normality Test

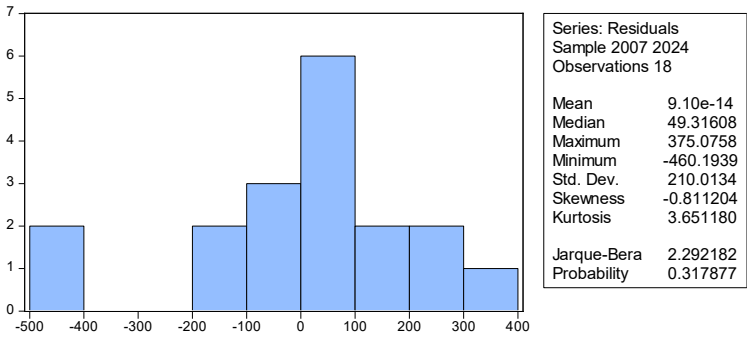


Figure 2. Normality Test Results

The results of the Jarque-Bera test showed a statistical value of 2.292182 with a probability of 0.317877, greater than 0.05. Thus, the residual is declared to be normally distributed and the model meets the normality assumptions required for regression analysis.

Autocorrelation Test

Table 1. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.618805	Prob. F(2,13)	0.2356
Obs*R-squared	3.589013	Prob. Chi-Square(2)	0.1662

Source: Processed Eviews, 2025

The Breusch-Godfrey test shows Prob. F = 0.2356 and Prob. Chi-Square = 0.1662, both exceeding 0.05. This indicates the absence of autocorrelation, so the residual is independent and the regression model can be considered stable.

Multicollinearity Test

Table 2. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIVID	Centered VIVID
C	66962.50	24.11307	NA
Balance Fund	0.074952	90.92836	6.473466
PAD	0.038875	34.32594	6.473466

Source: Processed Eviews, 2025

The Centered VIF value for the DP and PAD variables was 6.47 each, still below the tolerance limit of 10. These findings suggest that there is no serious multicollinearity, so independent variables can be used simultaneously without disturbing the stability of the model estimates.

Heteroscedasticity Test

Table 3. Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.803386	Prob. F(2,15)	0.4662
Obs*R-squared	1.741573	Prob. Chi-Square(2)	0.4186
Scaled explained SS	1.603203	Prob. Chi-Square(2)	0.4486

Source: Processed Eviews, 2025

The Breusch Pagan Godfrey results show probability values of 0.4662, 0.4186, and 0.4486, all of which are above 0.05. This means that the model is free of heteroscedasticity and residual variance so that the estimation of the coefficient remains efficient.

Classical Assumption Test Structural 2

Normality Test

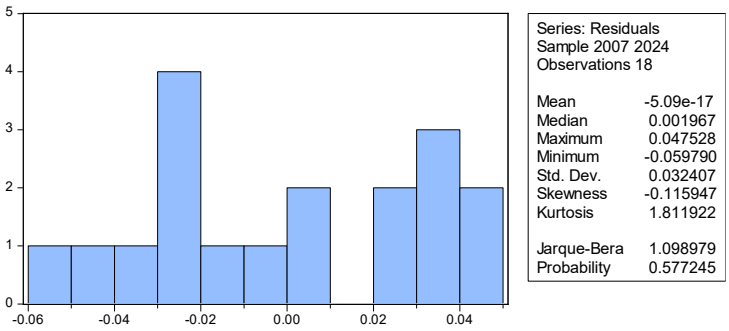


Figure 3. Normality Test Results

The results of the Jarque-Bera test showed a statistical value of 1.098979 with a probability of 0.577245, which is greater than 0.05. This indicates that the residual is normally distributed, so that the assumption of normality is fulfilled and the regression model is suitable for further inferential analysis.

Autocorrelation Test

Table 4. Autocorrelation Test Results

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	**1.103912**	**Prob. F(2,12)**	**0.3630**
Obs*R-squared	2.797110	Prob. Chi-Square(2)	0.2470

Source: Processed Eviews, 2025

The Breusch Godfrey test yields a Prob. F = 0.3630 and Prob. Chi-Square = 0.2470, both exceeding the significance limit of 0.05. Thus, the model is declared free of autocorrelation, which means that the residual is independent and does not show repeating patterns between observation periods.

Multicollinearity Test

Table 5. Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIVID	Centered VIVID
C	0.113163	1597.254	NA
LOG(Balance Fund)	0.004865	3804.522	5.772491
LOG(PAD)	0.001357	970.7586	7.503189
LOG(Capital Expenditure)	0.000743	453.9042	2.372511

Source: Processed Eviews, 2025

The Centered VIF value is 5.77 for the Balance Fund, 7.50 for Regional Original Revenue (PAD), and 2.37 for Capital Expenditure, respectively. All three values are below the threshold of 10, so it can be concluded that there is no serious multicollinearity and independent variables can be used simultaneously in the model.

Heteroscedasticity Test

Table 6. Heteroscedasticity Test Results

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.565744	Prob. F(3,14)	0.6465
Obs*R-squared	1.946214	Prob. Chi-Square(3)	0.5836
Scaled explained SS	0.477954	Prob. Chi-Square(3)	0.9237

Source: Processed Eviews, 2025

The Breusch-Pagan-Godfrey results show probability values of 0.6465, 0.5836, and 0.9237, all of which are greater than 0.05. These findings indicate that there is no heteroscedasticity, so the residual variance is constant and the model meets the homoscedasticity assumption.

Analysis of Regression Results
Structural Model 1 (x1 and x2 against z)

Table 7. Regression Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	404.2740	258.7711	1.562284	0.1391
Balance Fund	-0.316503	0.273774	-1.156074	0.2657
PAD	0.672701	0.197167	3.411836	0.0039
R-squared	0.711814	Mean dependent var		793.2799
Adjusted R-squared	0.673389	S.D. dependent var		391.2104
S.E. of regression	223.5763	Akaike info criterion		13.80839
Sum squared resid	749795.6	Schwarz criterion		13.95679
Log likelihood	-121.2756	Hannan-Quinn crister.		13.82886
F-statistic	18.52485	Durbin-Watson stat		1.595348
Prob(F-statistic)	0.000089			

Source: Processed Eviews, 2025

Based on the regression estimation results of Balance Funds and Regional Original Revenue (PAD) on Capital Expenditure in the Medan City Government, the following results were obtained:

1. The constant coefficient of 404.2740 indicates the estimated value of Capital Expenditure when Balance Funds and PAD are held at zero. This value represents the intercept of the regression equation and does not necessarily describe an actual fiscal condition.
2. The Balance Fund coefficient is -0.316503 with a probability value of 0.2657. The negative coefficient indicates an inverse relationship between Balance Funds and Capital Expenditure. Ceteris paribus, an increase of 1 billion rupiah in Balance Funds is associated with a decrease of approximately 0.316503 billion rupiah in Capital Expenditure. However, because the probability value of 0.2657 is greater than the 5% significance level, the effect is statistically insignificant. Therefore, the results do not provide sufficient evidence that changes in Balance Funds significantly affect Capital Expenditure during the observation period.
3. The F-statistic of 18.52485 with a probability value of 0.000089 indicates that Balance Funds and PAD jointly have a statistically significant effect on Capital Expenditure at the 5% significance level.

Structural Model 2 (x1, x2 and z against y)

Table 8. Regression Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.173091	0.336397	3.487217	0.0036
LOG(Balance Fund)	-0.687462	0.069752	-9.855756	0.0000
LOG(PAD)	0.607094	0.036840	16.47921	0.0000
LOG(Capital Expenditure)	0.059259	0.027249	2.174717	0.0473
R-squared	0.982588	Mean dependent var		0.754051
Adjusted R-squared	0.978857	S.D. dependent var		0.245594
S.E. of regression	0.035711	Akaike info criterion		-3.633586
Sum squared resid	0.017854	Schwarz criterion		-3.435726
Log likelihood	36.70228	Hannan-Quinn crister.		-3.606304
F-statistic	263.3476	Durbin-Watson stat		1.276663
Prob(F-statistic)	0.000000			

Source: Processed Eviews, 2025

Based on the results of the estimated regression between the Balance Fund (DP), Regional Original Revenue (PAD) and Capital Expenditure on Regional Financial Performance in the City of Medan, it was obtained:

1. The constant coefficient of 1.173091 represents the intercept of the logarithmic regression equation. It indicates the estimated value of the dependent variable when the logarithmic values of the explanatory variables are zero. The constant primarily functions as a component of the regression equation and does not necessarily have a direct economic interpretation.
2. The coefficient of LOG(Balance Funds) is -0.687462 with a probability value of 0.0000. Because both the independent and dependent variables are expressed in logarithmic form, the coefficient represents an elasticity. A 1% increase in Balance Funds is associated with an approximately 0.687% decrease in Regional Financial Performance, ceteris paribus. The probability value below the 5% significance level indicates that this negative effect is statistically significant.
3. The coefficient of LOG(PAD) is 0.607094 with a probability value of 0.0000. The coefficient indicates that a 1% increase in PAD is associated with an approximately 0.607% increase in Regional Financial Performance, ceteris paribus. Since the probability value is below the 5% significance level, the positive effect of PAD on Regional Financial Performance is statistically significant.
4. The coefficient of LOG(Capital Expenditure) is 0.059259 with a probability value of 0.0473. The coefficient indicates that a 1% increase in Capital Expenditure is associated with an approximately 0.059% increase in Regional Financial Performance, ceteris paribus. Although the coefficient is smaller than the coefficients of Balance Funds and PAD, the probability value below 0.05 indicates that the positive effect is statistically significant.
5. The F-statistic of 263.3476 with a probability value of 0.000000 indicates that Balance Funds, PAD, and Capital Expenditure jointly have a statistically significant effect on Regional Financial Performance. The R-squared value of 0.982588 indicates that the three explanatory variables jointly explain 98.26% of the variation in Regional Financial Performance, while the remaining 1.74% is explained by factors outside the model.

Coefficient of Determination

Structural Model 1

The R-squared value of 0.711814 indicates that Balance Funds and Regional Original Revenue jointly explain 71.18% of the variation in Capital Expenditure in the Medan City Government during the observation period. The remaining 28.82% is associated with other factors that are not included in the model. Meanwhile, the Adjusted R-squared value of 0.673389 indicates that, after accounting for the number of explanatory variables included in the model, approximately 67.33% of the variation in Capital Expenditure is accounted for by the model. The difference between the R-squared and Adjusted R-squared values indicates that the explanatory power of the model remains substantial after adjustment for the number of predictors. According to the EViews documentation, R-squared measures the proportion of variation in the dependent variable explained by the explanatory variables within the sample, while Adjusted R-squared takes the number of regressors into account (EViews, 2025). Therefore, the results indicate that Balance Funds and Regional Original Revenue provide substantial explanatory information regarding variations in Capital Expenditure, although other fiscal, economic, and policy-related factors outside the model may also contribute to changes in regional capital expenditure.

Structural Model 2

The R-squared value of 0.982588 indicates that Balance Funds, Regional Original Revenue, and Capital Expenditure jointly explain 98.26% of the variation in Regional Financial Performance. The remaining 1.74% is attributable to factors not included in the model. The Adjusted R-squared value of 0.978857 indicates that, after accounting for the number of explanatory variables in the model, 97.89% of the variation in Regional Financial Performance is accounted for by the regression model. The relatively small difference between the R-squared and Adjusted R-squared values indicates that the explanatory proportion remains high after adjustment for the number of predictors. However, the high R-squared value should be interpreted as the explanatory capacity of the model rather than as evidence that each individual independent variable has a statistically significant effect. The statistical significance of the individual relationships must instead be assessed using the corresponding coefficient tests, while the joint significance of the explanatory variables should be evaluated using the F-test.

Balance to Capital Expenditure Fund

The results of the partial t-test show that the Balance Fund variable has a t-count value of -1.156074, which is smaller than the t-table of 1.75305, as well as a probability value of 0.2657 which is greater than the significance level of 0.05. This condition indicates that the Balance Fund does not have a significant effect on Capital Expenditure in the City of Medan. In other words, the amount of transfer funds received by the regions through the Balance Fund mechanism has not been proven to be able to increase the allocation of capital expenditure directly in the research period.

The results of the study regarding the insignificance of the Balance Fund on capital expenditure are in line with the findings Sari *et al.,* (2024) which shows that the Balance Fund does not have a strong partial influence on capital expenditure when tested separately, although the simultaneous results of the F-Test show a collective influence with PAD. In the study, the Balance Fund only acts as a contributing component when combined with other funding sources, but is unable to provide a strong boost when it stands alone. This condition shows that the amount of transfers from the central government does not necessarily increase the allocation of capital expenditures, because most of the funds are used for routine and mandatory expenditures so that they are not entirely directed to long-term physical development.

These findings can also be seen from the results of the research Pane *et al.,* (2021) which shows that PAD and the Balance Fund only affect capital expenditure when tested simultaneously in district/city governments in North Sumatra. In other words, the Balance Fund only saw its role when combined with PAD, similar to the pattern that emerged in current research. Conversely, when analyzed separately, the Balance Fund's contribution to capital expenditure appears to be weakening, so its influence does not always show up in partial testing. The same tendency was also found by Zulkarnain & Haryati (2023) which states that the Revenue Sharing Fund as part of the Balance Fund does not have a significant effect on the capital expenditure of local governments in Maluku Province. These results show that in some regions, the components of the Balance Fund such as DAU, DAK, and DBH are not always relevant as a source of capital expenditure funding. This is due to the structure of the use of the Balance Fund which is more directed towards financing basic regional needs. When associated with the results of this study, this pattern reinforces the suspicion that the Balance Funds in various regions are often not used optimally for development expenditure so that they do not form a strong partial relationship with capital expenditure.

Regional Original Revenue on Capital Expenditure

The Regional Original Revenue variable shows a t-calculated value of 3.411836, which is larger than the t-table of 1.75305, as well as a probability value of 0.0039 which is much smaller than 0.05. This finding confirms that PAD has a positive and significant effect on Capital Expenditure**.** This means that the increase in PAD is proven to be followed by an increase in the allocation of capital expenditure used by local governments for public investment. In this case, PAD is one of the regional fiscal resources that most determines the government's ability to finance physical development through capital expenditure.

The findings that PAD has a positive and significant effect on capital expenditure are in line with the results of the study Rahmalia & Sari (2024) who obtained a positive coefficient of 0.365 with a significance level of 0.009. These results show that the increase in PAD provides wider fiscal space for local governments to increase capital expenditure allocation, especially in the infrastructure sector. PAD is considered a more flexible source of funding because it is not limited by rules of use such as

central transfers, so that the funds can be directed directly to strengthen regional investment. Sari *et al.,* (2024) also shows that PAD continues to make a real contribution when tested with the Balance Fund, so that PAD's role as an indicator of fiscal independence further affirms its position as a determinant of public investment capacity.

The findings of this study are also strengthened by the research Soesilo & Asyik (2021) which shows that PAD has a significant influence on capital expenditure with a significance value of 0.002. The study confirms that the greater the original revenue that the regions have managed to collect, the greater the ability of the regions to increase long-term asset development. These results are in line with the findings of Rahmalia & Sari as they both show that increasing PAD directly expands the ability of regions to finance capital expenditure when managed and utilized appropriately. In addition, the research Himawan *et al.,* (2024) also stated that there is a positive and significant relationship between PAD and capital expenditure at the national level. The findings show that the pattern of positive relationships between PAD and capital expenditure does not only occur at the provincial or district level, but also applies more broadly to many regions in Indonesia. This pattern emphasizes that PAD is the main instrument that determines the ability of regions to strengthen investment spending capacity.

On the other hand, research Asmawiah & Sulistiyo (2022) gives different results because it shows that PAD has a positive but insignificant effect on district/city capital expenditure in West Java in 2020. Although there is a consistent direction of the relationship, namely an increase in PAD followed by an increase in capital expenditure, the result is not statistically significant. This difference can arise due to variations in the budget structure of each region, fiscal priorities in the pandemic year, or a relatively small portion of PAD compared to development financing needs. However, these results do not negate a general pattern found by various other studies, but rather show that the influence of PAD on capital expenditure can vary depending on fiscal conditions and regional budget strategies.

Balance Fund for Regional Financial Performance

The test results showed that the Balance Fund had a t-calculated value of -9.855756, which is much larger in absolute terms than the t-table of 2.14479, as well as a probability value of 0.0000 which is smaller than the significance level of 0.05. This confirms that the Balance Fund in logarithmic form has a negative and significant effect on Regional Financial Performance. This negative influence shows that the greater the region's dependence on central transfers, the lower the level of independence and quality of fiscal performance. This finding reflects that the Balance Fund not only does not strengthen fiscal performance, but actually reduces the quality of financial performance elasticly.

The results of the study on the influence of the Balance Fund on regional fiscal performance are supported by a number of previous studies that show the direction of negative relationships, in line with the findings of this study. Ardelia *et al.,* (2022) found that the Balance Fund has a coefficient of -0.034, which means that an increase in transfer funds is followed by a decrease in the ability of the region to improve the quality of financial performance when other variables are in stable conditions. The findings are in line with research Putri & Amanah (2020) which shows that the high Balance Fund is related to the low ratio of independence, so that the regions seem to be increasingly dependent on the central government in routine financing and development. This pattern illustrates that the flow of transfer funds does not necessarily improve the quality of fiscal management, especially when regions do not have sufficient capacity to expand their own sources of revenue.

Additional support comes from research Adinata & Efendi (2022) local governments in East Java. The research states that the larger the Balance Fund received by the district/city government, the more visible the regional fiscal dependence so that financial performance decreases. These results show that the high transfer funds do not reflect fiscal success, but indicate the weak ability of the regions to meet budget needs independently. This reinforces the picture that large transfers do not necessarily improve fiscal quality, especially if regions rely solely on aid without efforts to strengthen local revenue bases.

Research Digdowiseiso *et al.,* (2022) also gives similar results. The Balance Fund has a t-count of -24.729 which shows a negative and significant influence on the financial performance of the region. The very large coefficient value shows that the increase in the allocation of the Balance Fund in many regions is not accompanied by an increase in fiscal performance, but a much sharper decrease. These findings underscore that reliance on transfer funds tends to reduce local governments' incentives to develop fiscal capacity independently, resulting in lower financial performance than regions that rely heavily on financing from original revenues. Although there are studies that have obtained different results, such as Padang (2023) or research Putri & Priyadi (2021) Finding a positive relationship, a body

of empirical evidence pointing to the direction of a negative relationship still provides a solid foundation. High fiscal dependence, especially without increasing the ability to explore local sources of revenue, can reduce the ability of regions to maintain the quality of financial management. Thus, the findings of this study are in the outline of an empirical pattern that has been proven many times before.

Regional Original Revenue to Regional Financial Performance

The PAD variable shows a t-count value of 16.47921, which is much larger than the t-table of 1.76131, and has a probability value of 0.0000 which is well below the significance limit of 0.05. These results indicate that PAD has a positive and significant effect on Regional Financial Performance**.** This finding illustrates that the ability of regions to generate real income is a factor that greatly determines the quality of regional financial management. Regions that are able to increase PAD tend to have better fiscal flexibility, higher levels of independence, and more effective spending ability to support development.

The findings of this study are in line with a number of previous studies that show that Regional Original Revenue (PAD) has an important role in determining the financial performance of local governments. Research conducted by Aridiyanti (2019) in district/city governments in West Java in 2013-2017 found that PAD has a significant effect on regional financial performance, which indicates that increasing internal fiscal capacity is able to improve the government's ability to manage finances more independently and efficiently. These results are reinforced by the study Padang (2023) in districts/cities in North Sumatra Province, which also shows that PAD has a positive and significant effect on the financial performance of local governments. Thus, the larger the PAD obtained by a region, the better the region's ability to maintain the stability and effectiveness of its financial management. Other empirical support is provided by the research Ardelia *et al.,* (2022), which found that PAD has a positive coefficient on the financial performance of local governments in the former Pekalongan Residency area. The study confirms that most of the variation in local governments' financial performance is determined by the amount of original revenue that can be extracted independently. The similarity of these findings corroborates the results of the study that PAD is a very significant determinant variable in improving regional financial performance, especially because PAD provides wider fiscal space and increases regional independence in carrying out public service and development functions.

Capital Expenditure on Regional Financial Performance

The results of the t-test on the Capital Expenditure variable show a t-calculated value of 2.174717, which is greater than the t-table of 1.76131, with a probability value of 0.0473 which is still below the significance level of 0.05. These findings show that Capital Expenditure has a positive and significant effect on Regional Financial Performance. Although the effect is relatively small compared to PAD, capital expenditure still has a significant role in improving performance, because government investment in the form of infrastructure, public facilities, and regional assets can improve the efficiency of public services and regional economic capacity.

The results of the research on the influence of capital expenditure on regional financial performance are supported by previous empirical findings, one of which is research Ardelia *et al.,* (2022) which shows a positive coefficient of 0.006. This value illustrates that the increase in capital expenditure allocation is in line with the improvement of regional financial performance, as long as other variables are in a fixed condition. Although its contribution is not as large as the role of local revenue, capital expenditure still has a real impact on improving the quality of fiscal management through strengthening productive assets, public service facilities, and government facilities.

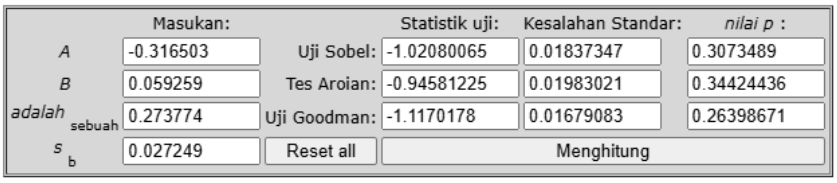
These findings are reinforced by research conducted Suandani & Astawa (2021) to the regency/city government in Bali Province. The results of the statistical test show that capital expenditure has a significance value of 0.034, so it affects the financial performance of the region. The positive coefficient indicates that the increase in capital expenditure has contributed to the increase in financial performance. This pattern of one-way relationship shows that regional investment in the form of physical development is able to provide results that are reflected in a better financial management ratio.

In addition, the research Niswani *et al.,* (2022) in local governments in Aceh Province also showed that capital expenditure has a positive influence on financial performance with a regression coefficient of 8.734549. The large value of the coefficient confirms that an increase in capital expenditure can provide a surge in improving regional financial performance. These results give an idea

that regions with a higher portion of capital expenditure generally show better ability to manage assets, improve public services, and improve fiscal structure.

If the results of this study are compared with these findings, it appears that the direction of the positive relationship between capital expenditure and financial performance is a consistent pattern in various regions. The degree of influence can vary, but the overall empirical evidence suggests that local government investment through capital expenditure has a crucial role in strengthening fiscal performance in a sustainable manner.

Balance Fund for Regional Financial Performance Through Capital Expenditure

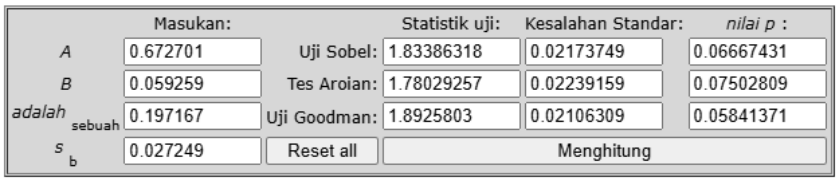


	Masukan:		Statistik uji:	Kesalahan Standar:	*nilai p* :
A	-0.316503	Uji Sobel:	-1.02080065	0.01837347	0.3073489
B	0.059259	Tes Aroian:	-0.94581225	0.01983021	0.34424436
adalah sebuah	0.273774	Uji Goodman:	-1.1170178	0.01679083	0.26398671
s_b	0.027249	Reset all	Menghitung		

Figure 4. Sobel Test Results 2

The Sobel test results show that the indirect effect of Balance Funds on Regional Financial Performance through Capital Expenditure has a Sobel test statistic of -1.02080065 and a probability value of 0.3073489. Since the absolute value of the Sobel statistic is smaller than the critical value of 1.96 and the probability value is greater than the 5% significance level, the indirect effect is statistically insignificant. Therefore, Capital Expenditure does not significantly mediate the relationship between Balance Funds and Regional Financial Performance. This finding indicates that the effect of Balance Funds on Regional Financial Performance is not transmitted significantly through Capital Expenditure during the observation period. The result is also consistent with the first structural model, in which Balance Funds do not have a statistically significant effect on Capital Expenditure. However, the insignificant mediation effect should be interpreted as the absence of a statistically significant indirect effect rather than as evidence regarding how Balance Funds are allocated among other categories of regional expenditure.

Regional Original Revenue (PAD) on Regional Financial Performance Through Capital Expenditure



	Masukan:		Statistik uji:	Kesalahan Standar:	*nilai p* :
A	0.672701	Uji Sobel:	1.83386318	0.02173749	0.06667431
B	0.059259	Tes Aroian:	1.78029257	0.02239159	0.07502809
adalah sebuah	0.197167	Uji Goodman:	1.8925803	0.02106309	0.05841371
s_b	0.027249	Reset all	Menghitung		

Figure 5. Sobel Test Results 2

The Sobel test results for the relationship between Regional Original Revenue (PAD) and Regional Financial Performance through Capital Expenditure show a Sobel test statistic of 1.83386318 and a probability value of approximately 0.0667. The probability value is greater than the 5% significance level, indicating that the indirect effect of PAD on Regional Financial Performance through Capital Expenditure is statistically insignificant. Therefore, Capital Expenditure does not significantly mediate the relationship between PAD and Regional Financial Performance. This finding indicates that although PAD has a positive and significant direct effect on Regional Financial Performance, the effect is not significantly transmitted through Capital Expenditure. Thus, the results provide evidence of a significant direct relationship between PAD and Regional Financial Performance, but do not provide evidence of a significant indirect relationship through Capital Expenditure.

CONCLUSION

The results of the study indicate that Regional Original Revenue (PAD) plays an important role in explaining variations in Capital Expenditure and Regional Financial Performance in the Medan City Government. PAD has a positive and significant effect on Capital Expenditure and Regional Financial Performance, indicating that greater locally generated revenue is associated with greater allocation for capital expenditure and better regional financial performance. These findings highlight the importance

of strengthening regional revenue-generating capacity and improving the management of locally generated revenue as part of regional fiscal management.

The Balance Fund produces a different pattern of results. The Balance Fund does not have a significant effect on Capital Expenditure, indicating that variations in transfer funds do not significantly explain changes in regional capital expenditure during the observation period. However, the Balance Fund has a significant negative effect on Regional Financial Performance in the logarithmic model. This finding suggests that greater reliance on intergovernmental transfers is associated with lower regional financial performance, although the result should be interpreted within the fiscal and institutional conditions of the Medan City Government during the observation period. Therefore, the finding does not necessarily imply that Balance Funds are primarily allocated to routine expenditure, as the composition and utilization of regional expenditure require separate analysis.

Capital Expenditure has a positive and significant effect on Regional Financial Performance. This result indicates that greater realization of capital expenditure is associated with improved regional financial performance. In relation to the mediation analysis, Capital Expenditure serves as an intervening variable in the relationship between the fiscal variables and Regional Financial Performance to the extent supported by the indirect-effect and Sobel Test results. Overall, the findings emphasize the importance of strengthening Regional Original Revenue and improving the effectiveness of regional expenditure management in supporting better regional financial performance. The results also indicate that the contribution of intergovernmental transfers to regional financial performance should be considered together with how these funds are managed and translated into productive regional expenditure.

This study has several limitations that should be considered when interpreting the findings. First, the study uses annual time-series data covering 2007-2024, resulting in a relatively limited number of observations. Although several diagnostic tests were conducted before the regression analysis, stationarity testing was not included in the original estimation procedure. Therefore, the possibility of non-stationarity and spurious regression cannot be completely ruled out, particularly given the relatively high coefficient of determination obtained in the second structural model. Second, the mediation analysis was conducted using the Sobel test, which evaluates the statistical significance of the indirect effect based on the estimated path coefficients and their standard errors. Future studies may employ more comprehensive time-series procedures and alternative mediation approaches to further validate the relationships identified in this study.

REFERENCES

Adinata, M. P., & Efendi, D. (2022). Perimbangan Terhadap Kinerja Keuangan Pemerintah Daerah Jawa Timur. *Jurnal Ilmu Dan Riset Akuntansi*, *11*(2), 14.

Ardelia, I. N., Wulandari, H. K., Ernitawati, Y., & Dumadi. (2022). Modal , Dana Perimbangan Terhadap Kinerja Keuangan Pemerintah Daerah (Studi Empiris Kabupaten dan Kota Se-Eks Karesidenan Pekalongan Periode 2016-2020). *JAA*, *7*(1), 60-81. https://doi.org/10.29303/jaa.v7i1.165

Ardelia, I. N., Wulandari, H. K., Erniwati, Y., & Dumadi. (2022). Pengaruh Pendapatan Asli Daerah, Belanja Modal, Dana Perimbangan Terhadap Kinerja Keuangan Pemerintah Daerah (Studi Empiris Kabupaten dan Kota Se-Eks Karesidenan Pekalongan Periode 2016-2020). *Jurnal Aplikasi Akuntansi*, *7*(1), 60-81. https://doi.org/10.29303/jaa.v7i1.165

Aridiyanti, A. (2019). Pengaruh Pendapatan Asli Daerah terhadap Kinerja Keuangan Pemerintah Daerah Kabupaten dan Kota Di Jawa Barat 2013-2017. *Jurnal Akuntansi & Ekonomi FE UN PGRI Kediri*, *4*(3), 32-41.

Asmawiah, S. H., & Sulistiyo, H. (2022). Pengaruh Pendapatan Asli Daerah terhadap Belanja Modal di Kabupaten / Kota Provinsi Jawa Barat pada Tahun 2020. *Jurnal Pendidikan Tambusai*, *6*(1), 4150-4157.

Digdowiseiso, K., Subiyanto, B., & Cahyanto, R. D. (2022). Pengaruh Pendapatan Asli Daerah, Dana Perimbangan, Dan Belanja Modal Terhadap Kinerja Keuangan Pemerintah Daerah. *Fair Value : Jurnal Ilmiah Akuntansi Dan Keuangan*, *4*(6), 2572-2580.

Firmansyah, A., Arfiansyah, Z., & Huda, A. M. (2024). The Characteristics and Financial Performance of Local Governments in Indonesia : The Moderating Role of Financial Health Level. *Accounting Analysis Journal*, *13*(2), 85-94. https://doi.org/10.15294/aaj.v13i2.1894

Halim, A. (2016). *Manajemen Keuangan Daerah*. UPP AMP YKPN.

Himawan, H. S., Mubarok, A., Wahyuni, E., Fakultas, E. E. S., & Sukmawati, E. (2024). Pengaruh

Pendapatan Asli Daerah Terhadap Belanja Modal di Indonesia. *Balance: Media Informasi Akuntansi Dan Keuangan*, *16*(1), 9-13.

Kuncoro, M. (2013). *Perencanaan Pembangunan Daerah: Teori dan Aplikasi*. Salemba Empat.

Maghfiroh, T., Warno, & Muheramtohadi, S. (2024). The impact of regional original income and balance funds on local government financial performance : an Islamic perspective in Central Java , Indonesia. *Journal of Islamic Economics, Management, and Business (JIEMB)*, *6*(1), 105-134. https://doi.org/10.21580/jiemb.2024.6.1.23430

Mubarok, M. H., Nasution, A. A., Kesuma, S. A., & Pengestu, W. (2022). Local government financial performance : the effects of capital expenditure and intergovernmental revenue (The case of South Sumatra Province , Indonesia). *Jurnal Perspektif Pembiayaan Dan Pembangunan Daerah*, *9*(6), 503-512. https://doi.org/10.22437/ppd.v9i6.11364

Niswani, N., Firdaus, R., Nurhasanah, & Ikgyanuddin. (2022). Pengaruh Belanja Modal , Dana Perimbangan Dan Pendapatan Asli Daerah Terhadap Kinerja Keuangan Daerah Kabupaten / Kota Provinsi Aceh Tahun 2016-2020. *Jurnal Akuntansi Malikussaleh*, *1*(1), 64-78. https://doi.org/https://doi.org/10.29103/jam.v1i1.6367 Pengaruh

Novita, R., & Arza, F. I. (2024). Pengaruh Pendapatan Asli Daerah, Dana Perimbangan dan Belanja Modal terhadap Kinerja Keuangan Pemerintah Kabupaten/Kota di Pulau Sumatera Tahun 2021. *Jurnal Eksplorasi Akuntansi (JEA)*, *6*(1), 430-443.

Padang, N. N. (2023). Pengaruh Pendapatan Asli Daerah (Pad) Dan Dana Perimbangan Terhadap Kinerja Keuangan Pemerintah Daerah. *Jurnal Ilmiah Akuntansi (JIMAT)*, *2*(2), 163-176.

Pane, Y., Simarmata, A. M., Rezeki, S., Rinaldi, M., & Panggabean, F. Y. (2021). Analisis Pendapatan Asli Daerah Dan Dana Perimbangan Terhadap Belanja Modal Pada Pemerintah Kabupaten/Kota Di Sumatera Utara. *Jurnal Ilmiah Dinamika Sosial*, *5*(2), 212-225.

Preacher, K. J., & Hayes, A. F. (2004). SPSS and SAS procedures for estimating indirect effects in simple mediation models. *Behavior Research Methods, Instruments, & Computers*, *36*(4), 717-731. https://link.springer.com/article/10.3758/BF03206553

Putri, R. A. R., & Amanah, L. (2020). Pengaruh Ukuran Pemerintah Daerah, Pendapatan Asli Daerah, Dan Dana Perimbangan Terhadap Kinerja Keuangan Pemerintah Daerah. *Jurnal Ilmu Dan Riset Akuntansi*, *9*(8), 20.

Putri, S. T., & Priyadi, M. P. (2021). Pengaruh Leverage, Dana Perimbangan, Dan Belanja Modal Terhadap Kinerja Keuangan Pemerintah Daerah. *Jurnal Ilmu Dan Riset Akuntansi*, *10*(9), 16.

Rahmalia, N. Z., & Sari, S. P. (2024). Kesiapan Ibu Kota Nusantara (Ikn): Tinjauan Pengaruh Pendapatan Asli Daerah Dan Dana Perimbangan Terhadap Belanja Modal Pada Pemerintah Provinsi Kalimantan Timur. *JAP (Jurnal Akuntansi Dan Pajak)*, *24*(02), 1-8. http://jurnal.stie-aas.ac.id/index.php/jap Jurnal

Ramadani, A. F., & Muslimin. (2022). Pendapatan Asli Daerah Dan Dana Perimbangan Terhadap Kinerja Keuangan Pemerintah Daerah. *Journal of Management and Bussines (JOMB)*, *4*(1), 362-372.

Ratnasari, D., & Meirini, D. (2022). PAD, Dana Perimbangan, Belanja Modal, SILPA dan Kinerja Keuangan Pemerintah Daerah di Jawa Timur. *Jurnal Akuntansi*, *32*(5), 20. https://doi.org/10.24843/EJA.2022.v32.i05.p06

Sari, N. N., Arodhiskara, Y., & Jumriani. (2024). Pengaruh Pendapatan Asli Daerah Dan Dana Perimbangan Terhadap Belanja Modal Pada Pemerintah Kabupaten Barru. *Journal AK-99*, *4*(2), 287-294.

Soesilo, A. F., & Asyik, N. F. (2021). Pengaruh pendapatan asli daerah, bantuan provinsi, dana alokasi khusus terhadap belanja modal dengan pertumbuhan ekonomi sebagai pemoderasi. *Jurnal Ilmu Dan Riset Akuntansi*, *10*(4), 21.

Suandani, K. P., & Astawa, G. P. B. (2021). Pengaruh Opini Audit , Belanja Modal , Pendapatan Asli Daerah , Dan Dana Perimbangan Terhadap Kinerja Keuangan Pemerintah Kabupaten / Kota Di Provinsi Bali Tahun 2015-2019. *JIMAT (Jurnal Ilmiah Mahasiswa Akuntansi) Universitas Pendidikan Ganesha*, *12*(03), 728-739.

Zulkarnain, Z. I., & Haryati, T. (2023). Pengaruh Pendapatan Asli Daerah Dan Dana Perimbangan Terhadap Belanja Modal Pemerintah Daerah (Studi Empiris pada Kabupaten/Kota Provinsi Maluku Tahun 2017-2021). *Jurnal Riset Akuntansi Aksioma Vol.*, *22*(1), 27-37. https://doi.org/10.29303/aksioma.v22i1.204