Capital Expenditure as a Mediator of Regional Financial Independence: Empirical Evidence from East Java

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ABSTRACT

This study examines the role of capital expenditure as a mediating variable in the relationship between locally generated revenue (Pendapatan Asli Daerah or PAD), general allocation funds (Dana Perimbangan or DP), economic growth, and the financial independence of district and municipal governments in East Java Province. The analysis utilizes secondary data sourced from the East Java Provincial Budget Realization Report (Laporan Realisasi Anggaran or LRA), obtained from regional budget (APBD) documents, as well as economic growth data published by the Central Statistics Agency for the period 2018–2022. Path analysis is employed to assess the relationships among the variables, while the Sobel test is used to evaluate the mediating effect of capital expenditure. The results indicate that both PAD and economic growth exert a positive influence on capital expenditure and financial independence. In contrast, DP does not have a significant effect on either capital expenditure or financial independence. Furthermore, the Sobel test reveals that capital expenditure does not mediate the relationship between PAD, DP, and financial independence.

Keywords: Local Original Income; DP; Economic Growth; Financial Independence; Capital Expenditure.

Belanja Modal Sebagai Mediator Kemandirian Keuangan Daerah: Bukti Empiris dari Jawa Timur

ABSTRAK

Penelitian ini mengkaji peran belanja modal sebagai variabel mediasi dalam hubungan antara Pendapatan Asli Daerah (PAD), Dana Alokasi Umum (DP), pertumbuhan ekonomi, dan kemandirian keuangan pemerintah kabupaten/kota di Provinsi Jawa Timur. Analisis ini menggunakan data sekunder yang bersumber dari Laporan Realisasi Anggaran (LRA) Provinsi Jawa Timur, yang diperoleh dari dokumen anggaran pendapatan dan belanja daerah (APBD), serta data pertumbuhan ekonomi yang diterbitkan oleh Badan Pusat Statistik periode 2018–2022. Analisis jalur digunakan untuk menilai hubungan antar variabel, sedangkan uji Sobel digunakan untuk mengevaluasi efek mediasi belanja modal. Hasil penelitian menunjukkan bahwa PAD dan pertumbuhan ekonomi memberikan pengaruh positif terhadap belanja modal dan kemandirian keuangan. Sebaliknya, DP tidak memiliki pengaruh signifikan terhadap belanja modal maupun kemandirian keuangan. Lebih lanjut, uji Sobel menunjukkan bahwa belanja modal tidak memediasi hubungan antara PAD, DP, dan kemandirian keuangan.

Kata Kunci: *Pendapatan Asli Daerah; DP; Pertumbuhan Ekonomi; Kemandirian Finansial; Belanja Modal.*

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INTRODUCTION

Fiscal decentralization in Indonesia has granted local governments the authority to manage their financial resources independently, with the aim of enhancing regional development capacity and improving public service delivery. A key indicator of the success of fiscal decentralization is the degree of regional financial independence, which reflects the extent to which local governments can meet expenditure needs through internally generated revenues, without substantial reliance on central government transfers. In the context of East Java Province—characterized by significant economic and social complexity—regional financial independence remains a critical issue warranting further investigation.

Regional financial independence is primarily supported by two components: Regional Original Revenue (Pendapatan Asli Daerah, or PAD) and Balancing Funds (Dana Perimbangan, or DP). PAD captures the region's capacity to generate and manage internal financial resources, whereas DP comprises transfers from the central government intended to reduce fiscal disparities across regions. Empirical studies have generally found a positive association between PAD and financial independence. For instance, (Aulia & Sari, 2023) reported that PAD has a positive impact on financial performance, whereas capital expenditure (Belanja Modal, or BM) negatively affects it. Similarly, (Hutauruk, 2024) found that PAD significantly enhances the financial performance of district and municipal governments in North Sumatra for the 2020–2022 period, while BM exhibited a significant negative effect.

Balancing Funds (DP), while essential for supporting regions with limited PAD, may inadvertently undermine incentives for fiscal autonomy when overly relied upon. Research by (Niswani dkk., 2022) indicated that both DP and PAD had no significant effect on regional financial performance. In contrast, (Ketut & Anggreni, 2019) found that DP had a negative, albeit statistically insignificant, effect on the financial performance of Badung Regency. These findings suggest inconsistencies in the influence of central transfers on regional fiscal capacity, necessitating further empirical scrutiny.

Capital expenditure (BM) plays a strategic role in enhancing the relationship between PAD, DP, and regional financial performance (Kinerja Keuangan, or KK). Investments in infrastructure—spanning economic, education, and health sectors—can boost regional productivity and expand the local tax base. (Dwigantara & Handayani, 2020) found that BM positively affects PAD, which in turn contributes to improved financial performance. Supporting this, (Niswani dkk., 2022) concluded that capital expenditure significantly enhances financial performance in regencies and municipalities within Aceh Province. The findings underscore the importance of public service provision quality in strengthening fiscal performance.

Despite these insights, a critical gap in the literature lies in the limited examination of capital expenditure as a mediating variable in the relationship between PAD, DP, economic growth (Pertumbuhan Ekonomi, or PE), and regional financial performance. Most existing studies focus on direct relationships, without fully exploring mediation mechanisms that might clarify the indirect effects among these variables. This study seeks to address that gap by analyzing the role of capital expenditure in mediating the effects of PAD, DP, and PE on financial performance in East Java's local governments.

(ALMAS, 2022;) demonstrated that both PAD and BM positively influence regional financial independence, although the effect of DP appears inconsistent. This reinforces the importance of PAD as an indicator of a region's internal financial management capacity and highlights DP's intended function in promoting interregional equity. (Prastiwi & Aji, 2020) further emphasized the role of PAD and BM in enhancing fiscal performance, particularly through infrastructure development, which can broaden the tax base and sustain long-term revenue growth.

Nonetheless, few studies have specifically examined how BM mediates the influence of PAD, DP, and PE on financial performance. According to (Nurliza Arpani & Halmawati, 2020), capital expenditure that is strategically directed can produce a cascading effect, increasing both PAD and overall financial capacity. While prior studies have documented the individual impacts of PAD, DP, and PE on financial performance, they have not adequately explored the integrative role of BM as a potential linkage that either strengthens or moderates these relationships.

PAD remains the most direct indicator of a local government's fiscal capacity to support development expenditures without relying on external funding sources such as DP. An increase in PAD allows local governments to allocate more resources toward physical infrastructure investments, such as transportation and public service facilities. This is consistent with findings by (Putri dkk., 2024), who reported that BM does not significantly affect the financial performance of East Java's regional governments, potentially due to ineffective investment allocation. Nevertheless, PAD continues to exert a notable influence on government financial performance.

H_1: PAD has a positive effect on capital expenditure in district and municipal governments in East Java Province.

Balancing Funds (Dana Perimbangan, or DP), comprising the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH), are designed to address fiscal disparities across regions. These funds serve as external financial support to help regional governments meet programmatic needs, particularly in the face of budget deficits. However, research by (Nurliza Arpani & Halmawati, 2020) indicates that regional financial independence tends to improve when a region's own-source revenue (PAD) exceeds its reliance on DP transfers.

Contrasting findings in the literature suggest that DP may negatively influence regional financial performance. Several studies report that increased DP transfers can foster fiscal dependency, diminishing local governments' incentives to optimize their own revenue sources. (Heryanti dkk., 2019) argue that greater DP allocations correlate with reduced fiscal independence, as local governments become increasingly reliant on central government funding.

H_2: Balancing Funds (DP) have a positive effect on capital expenditure (BM) of district/city governments in East Java Province.

The relationship between economic growth (Pertumbuhan Ekonomi, or PE) and capital expenditure is also widely examined. (Ayem & Pratama, 2018) found that higher economic growth leads to increased capital expenditure due to expanded fiscal capacity. In contrast, (Marseno & Mulyani, 2020)reported that PE had no significant effect on capital expenditure, even though capital investment contributes to infrastructure development—an essential driver of long-term regional growth. (Heryanti dkk., 2019) similarly found no significant relationship between PE and financial performance, suggesting that regional economic expansion does not automatically translate into improved fiscal outcomes.

H_3: Economic Growth (PE) has a positive effect on capital expenditure (BM) of district/city governments in East Java Province.

Research on the direct effect of capital expenditure on regional financial performance (Kinerja Keuangan, or KK) yields mixed results. (Dwigantara & Handayani, 2020) found that BM positively influences PAD, which in turn contributes to financial performance growth. However, they also reported a negative relationship between BM and financial performance growth. Conversely, (Clarisa Sukmaning Ati dkk., 2023) concluded that BM had no significant effect on local government financial performance in East Java from 2018 to 2022. This outcome was attributed to the limited impact of capital investments on revenue generation. (Wahyuni & Ardini, 2019) echoed this finding, observing a negative and insignificant effect of BM on KK. Inefficient allocation and poor targeting of BM, which fail to enhance service delivery or generate productive assets, were cited as key limitations. These results emphasize the importance of strategic capital investment planning and reducing dependency on DAU transfers through enhanced PAD mobilization.

H_4: Capital expenditure (BM) has a positive effect on the financial performance (KK) of district/city governments in East Java Province.

The interplay between PAD, BM, and KK has also been explored. (Sanga, 2018) found a significant positive relationship between PAD and KK, though the effect is not entirely direct. This finding supports the mediating role of capital expenditure in enhancing the effectiveness of PAD for development purposes. In a related study, (Clarisa Sukmaning Ati dkk., 2023) reported that local revenue significantly impacts financial performance, with higher PAD reflecting greater effectiveness and a stronger capacity to finance regional activities.

H_5: Regional Original Revenue (PAD) has a positive effect on financial performance (KK) through capital expenditure (BM) in district/city governments in East Java Province.

Further studies have evaluated how DP affects KK through capital expenditure. (Malau dkk., 2020) found that DP functions as a key instrument supporting local government capital spending. When allocated efficiently, BM enhances regional productivity and contributes positively to fiscal performance. (Himmawan dkk., 2024)highlighted the importance of BM as a mediating factor that transforms DP into strategic investments fostering financial independence. However, (Apriani dkk., 2024) cautioned that excessive reliance on DP may reduce incentives for local governments to optimize PAD, thus weakening the long-term sustainability of fiscal performance. Effective and transparent management of DP through productive capital investments is therefore essential.

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H_6: Balancing Funds (DP) have a positive effect on financial performance (KK) through capital expenditure (BM) in district/city governments in East Java Province.

The indirect effect of economic growth on financial performance via capital expenditure also warrants attention. (Andriana, 2020) observed that strong economic growth boosts PAD, thereby reducing dependency on central transfers. (Waskito dkk., 2019) emphasized that BM enables local governments to invest in infrastructure and human capital, promoting fiscal independence. However, (Wahyuni & Ardini, 2019) noted that the relationship among PE, BM, and KK is not always linear and may be shaped by factors such as governance quality and fiscal policy implementation.

H_7: Economic Growth (PE) has a positive effect on financial performance (KK) through capital expenditure (BM) in district/city governments in East Java Province.

This study aims to examine the effect of Local Original Revenue (Pendapatan Asli Daerah, or PAD) on regional financial performance (Kinerja Keuangan, or KK), with capital expenditure (Belanja Modal, or BM) serving as a mediating variable. It also investigates the mediating role of BM in the relationship between Balancing Funds (Dana Perimbangan, or DP) and KK, as well as between Economic Growth (Pertumbuhan Ekonomi, or PE) and KK.

To explore these relationships in the context of district and municipal governments in East Java Province, the study adopts a mediation framework in which BM functions as an intervening variable. As a form of long-term investment—typically directed toward infrastructure development—BM has the potential to enhance regional revenue generation and reduce fiscal dependence on central government transfers. Through these mechanisms, BM may indirectly improve the financial performance of local governments.

Path analysis is employed to assess the mediating role of BM in the relationships among the independent and dependent variables. This method relies on regression-based estimates to evaluate the causal pathways that have been theoretically established, providing a comprehensive understanding of both direct and indirect effects within the proposed model.

The following is the path analysis model used in this study.

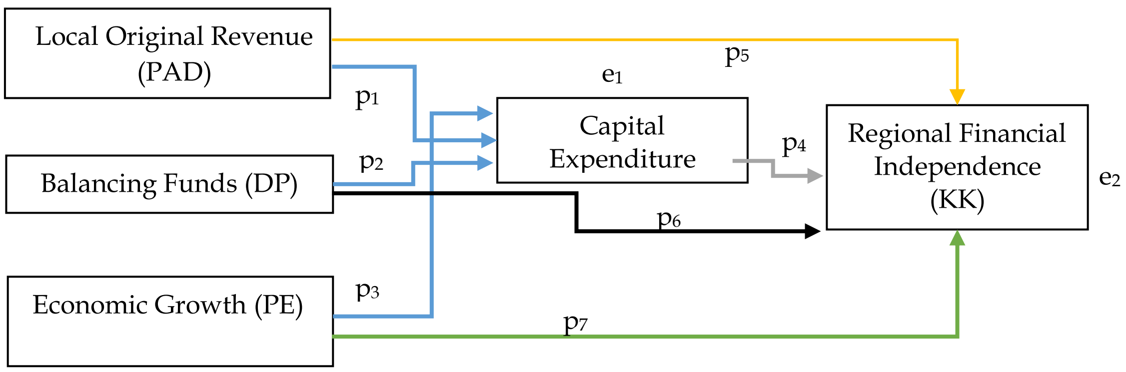

Figure 1. Research Model

Source: Research Data, 2024

RESEARCH METHODS

This study employs a quantitative research approach to evaluate the significance of capital expenditure (Belanja Modal, or BM) as a mediating variable between the independent variables—Local Original Revenue (Pendapatan Asli Daerah, or PAD), Balancing Funds (Dana Perimbangan, or DP), and Economic Growth (Pertumbuhan Ekonomi, or PE)—and the dependent variable, Regional Financial Independence (Kemandirian Keuangan, or KK). The analysis is grounded in a causal-comparative research design, which seeks to identify cause-and-effect relationships by comparing observed conditions across a defined period. In this context, BM functions as the mediating variable, while PAD, DP, and PE are the independent variables influencing KK.

The population in this study includes all 38 district and municipal governments in East Java Province. The analysis uses financial realization reports covering the fiscal years from 2018 to 2022. In line with Sugiyono's definition, the population refers to a generalization region comprising elements—objects or subjects—with specific characteristics that are the focus of investigation, from which conclusions are drawn. Here, the population consists of all regional revenue and expenditure realization reports for the specified period.

A saturated sampling technique is applied, wherein the entire population is included as the sample. This method allows for comprehensive coverage, ensuring that all financial realization data from the 38 local governments in East Java from 2018 to 2022 are included in the analysis without the need for further sample selection.

Secondary data were utilized for the empirical analysis. Budget realization reports were sourced from the official website of the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia (https://djpk.kemenkeu.go.id/). Data on economic growth (PE) were obtained from the East Java Provincial Office of the Central Statistics Agency (Badan Pusat Statistik, or BPS) at https://jatim.bps.go.id/. The data series spans the period 2018–2022.

The dependent variable, Regional Financial Independence (KK), is measured using the Regional Financial Independence Ratio. This ratio reflects the region's ability to finance its own activities without relying heavily on central government transfers. Following the formulation by (Mahmudi, 2019), the ratio is calculated as the proportion of PAD to total transfer revenue:

$$\text{Regional Financial Independence} = \frac{\text{Pendapatan Asli Daerah}}{\text{Pendapatan Transfer}} \text{ X } 100\% \ldots\ldots\ldots\ldots\ldots\ldots\ldots (1)$$

Local Original Revenue (Pendapatan Asli Daerah, or PAD), one of the independent variables in this study, is measured using the ratio of PAD to total regional revenue. This ratio serves as an indicator of the local government's capacity to optimize its internal revenue sources and reflects the degree of fiscal autonomy achieved through the effective management of local economic potential. According to Mahmudi (2019)(Mahmudi, 2019), the formula used to calculate PAD is as follows:

$$\text{PAD} = \frac{\text{Pendapatan Asli Daerah}}{\text{Total Penerimaan Daerah}} \text{ X } 100\% \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2)$$

Balancing Funds (Dana Perimbangan, or DP) represent transfers from the central government to regional governments to support the implementation of regional autonomy. These transfers consist primarily of the General Allocation Fund (Dana Alokasi Umum, or DAU) and the Special Allocation Fund (Dana Alokasi Khusus, or DAK). As stipulated in Law Number 1 o(Undang-undang Nomor 1 Tahun 2022 Tentang Hubungan Keuangan Antara Pemerintah Pusat dan Pemerintahan Daerah, 2022)f 2022 concerning Financial Relations between the Central Government and Regional Governments, the primary objective of DP is to reduce fiscal disparities among regions and to promote equitable development.

The DP ratio is used to measure the level of a region's fiscal dependence on central transfers. It is calculated by comparing the total amount of DP received to the region's Local Original Revenue (PAD). The formula is as follows:

$$\text{Funds ratio} = \frac{\text{Dana Perimbangan}}{\text{Total Penerimaan Daerah}} \text{X } 100\ \% \quad (3)$$

This formula illustrates the proportion of Balancing Funds (DP) received by a region in relation to its Regional Original Revenue (PAD), indicating the degree of the region's fiscal dependence on central government transfers. A higher ratio reflects greater reliance on external funding sources, suggesting lower regional financial independence.

Economic Growth (Pertumbuhan Ekonomi, or PE) is also considered an independent variable in this study. It is measured by the annual percentage change in real Gross Regional Domestic Product (GRDP), serving as an indicator of the effectiveness of regional economic development. The formula for calculating economic growth is as follows:

$$\text{Economic Growth} = \text{X } \frac{\text{PDB Riil di Tahun N}}{\text{PDB Riil di Tahun N}-1} 100 \quad (4)$$

Capital Expenditure (Belanja Modal, or BM), serving as a mediating variable, refers to government spending allocated for the acquisition or construction of fixed assets and other long-term assets expected to yield benefits beyond a single fiscal year. According to Government Regulation No. 71 of 2010 (Peraturan Pemerintah Nomor 71 Tahun 2010 Tentang Standar Akuntansi Pemerintahan, 2010)concerning Government Accounting Standards, capital expenditure is intended to support infrastructure development and enhance regional productive capacity.

Capital Expenditure is calculated using the following formula:

$$\text{expenditure} = \frac{\text{Total Belanja Modal}}{\text{Total Belanja Daerah}} \text{ X } 100\% \quad (5)$$

Multiple linear regression analysis is used to predict changes in dependent variables when two or more independent variables change their values. In this study, the regression model used is as follows:

$$BM = \alpha + (\beta_1 PAD) + (\beta_2 DP) + (\beta_3 PE) + e_1 \quad (6)$$

$$KK = \alpha + (\beta_1 PAD) + (\beta_2 DP) + (\beta_3 PE) + (\beta_4 BM) + e_2 \quad (7)$$

Where:

KK = Regional Financial Independence
α = The constant term in the regression model
$\beta_1 - \beta_3$ = Regression coefficients for the independent variables
β_4 = The regression coefficient for the mediating variable
PAD = Local Original Revenue (independent variable)
DP = Balancing Fund (independent variable)
PE = Economic growth (independent variable)

BM = Capital Expenditure (mediating variable)
e = error term

The mediation test in this study is conducted using the Sobel Test procedure, originally developed by Sobel (1982) and outlined in (Ghozali, 2018). The Sobel Test is employed to assess the strength of the indirect effect of an independent variable (X) on a dependent variable (Y) through a mediating variable (M). This method is particularly useful for determining whether the mediating variable significantly transmits the influence of the independent variable to the dependent variable.

To calculate the indirect effect, researchers can utilize the online Sobel Test calculator available at http://quantpsy.org/. The required inputs include the unstandardized regression coefficients (original sample values) and their associated standard errors from the paths between the independent variable and the mediator, and between the mediator and the dependent variable. These values must be entered for both the mediation model and the direct effect model.

According to (Ghozali, 2018), a Sobel test statistic of ≥ 1.96 at a 5% significance level indicates that the mediating variable significantly mediates the relationship between the independent and dependent variables. This threshold confirms the presence of a statistically meaningful indirect effect within the model.

RESULTS AND DISCUSSION

The results of the descriptive statistical analysis in this study are presented in Table 1.

Table 1. Statistical Results Descriptive

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
PAD	190	0.07	0.61	0.185	0.094
DP	190	0.24	0.98	0.624	0.099
PE	190	-6.46	8.88	3.065	3.460
BM	190	0.06	0.32	0.155	0.048
KK	190	0.09	2.60	0.343	0.356
Valid N (listwise)	190				

Source: Research Data, 2024

Table 1 presents the descriptive statistics for the study variables. The average proportion of Local Original Revenue (PAD) is 18.57%, with a standard deviation of 9.48%, indicating moderate variation across districts and cities. Balancing Funds (DP) account for an average of 62.47% of total regional income, reflecting a considerable reliance on transfers from the central government. Economic Growth (PE) averages 3.07%, suggesting stable regional economic performance over the observed period. Capital Expenditure (BM) comprises an average of 15.53% of the budget, signifying a relatively modest investment in long-term assets. In contrast, the average level of Regional Financial Independence (KK) stands at 34.38%, indicating a continued dependence on external funding sources.

The empirical analysis reveals a significant relationship between PAD, DP, and PE on KK, with BM serving as a mediating variable. From a theoretical standpoint, both PAD and DP function as primary funding channels for regional expenditures, particularly capital investments, which are instrumental in enhancing fiscal autonomy. The results indicate that higher levels of PAD and DP are associated with increased allocations to BM, suggesting that regions with stronger revenue-generating capacities are more likely to invest in capital projects that contribute to long-term fiscal sustainability.

This pattern highlights the strategic role of capital expenditure in linking revenue sources to improved financial independence. Well-directed and efficiently managed capital investment not only strengthens infrastructure and service delivery but also enhances the fiscal resilience of local governments. Consequently, optimizing the allocation and governance of capital expenditures is crucial to maximizing the positive impact of PAD and DP on regional financial independence.

Table 2. Results of F Test Model 1

ANOVA [a]						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.047	3	0.016	7.236	0.000 [b]
	Residual	0.405	186	0.002		
	Total	0.453	189			

a. Dependent Variable: BM
b. Predictors: (Constant), PE , DP , PA
Source: Research Data, 2024

Table 2 presents the results of the F-test, with an F-value of 7.236 and a significance level of 0.000, which is well below the conventional threshold of 0.05. These results indicate that Model 1 is statistically significant and thus considered appropriate for further analysis. Accordingly, the model is deemed suitable for explaining the influence of Local Original Revenue (PAD), Balancing Funds (DP), and Economic Growth (PE) on Capital Expenditure (BM).

Table 3. Model 2 Test Results

ANOVA [a]						
	Model	**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	23,267	4	5,817	1,489.546	0.000 [b]
	Residual	0.722	185	0.004		
	Total	23,990	189			

a. Dependent Variable: KK
b. Predictors: (Constant), BM, DP, PE, PAD
Source: Research Data, 2024

Table 3 presents the F-test results, with an F-value of 148.546 and a significance level of 0.000, which is below the 0.05 threshold. These findings confirm that the model is statistically significant and thus considered appropriate for explanatory analysis. Consequently, the model is suitable for assessing the influence of Local Original Revenue (PAD), Balancing Funds (DP), Economic Growth (PE), and Capital Expenditure (BM) on Regional Financial Independence (KK).

Table 4. Results of the Determination Coefficient Test (Model 1)

Model Summary [b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.323[a]	0.105	0.090	0.046	2.175

a. Predictors: (Constant), PE, DP, PAD
b. Dependent Variable: BM

Source: Research Data, 2024

The R-squared value indicates that the variables PAD, DP, and PE collectively explain 10.5% of the variation in Capital Expenditure (BM). The remaining 89.5% is attributable to other factors not included in the current model, suggesting the presence of additional determinants outside the scope of this analysis.

Table 5. Results of the Determination Coefficient Test (Model 2)

Model Summary [b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.985[a]	0.970	0.969	0.062	1,873

a. Predictors: (Constant), BM, DP, PE, PAD
b. Dependent Variable: KK

Source: Research Data, 2024

The R-squared value of 0.970 indicates that the combined influence of Local Original Revenue (PAD), Balancing Funds (DP), Economic Growth (PE), and Capital Expenditure (BM) accounts for 97.0% of the variation in Regional Financial Independence (KK). This suggests that the model provides a strong explanatory framework for understanding the factors that drive fiscal autonomy at the regional level.

Table 6. T-Test Results (Model 1)

Coefficients [a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	0.139	0.007		19,675	0.000		
	PAD	0.280	0.105	0.197	2,665	0.008	0.883	1.133
	DP	0.013	0.019	0.053	0.722	0.471	0.906	1.104
	PE	0.000	0.000	0.235	3.341	0.001	0.973	1,027

a. Dependent Variable: BM

Source: Research Data, 2024

Table 6 reports the t-test results for the effect of each independent variable on Capital Expenditure (BM). The t-statistic for Local Original Revenue (PAD) is 2.665, which exceeds the critical t-table value of 1.65291, with a significance level of 0.008, well below the 0.05 threshold. These results indicate that PAD has a statistically significant effect on BM, supporting the acceptance of Hypothesis H1.

In contrast, the Balancing Funds (DP) variable has a t-value of 0.722, which falls below the critical t-table value of 1.65291, and a significance level of 0.471, exceeding the 0.05 threshold. This suggests that DP does not have a significant effect on BM, leading to the rejection of Hypothesis H2.

Meanwhile, the Economic Growth (PE) variable records a t-value of 3.341, which surpasses the critical t-table value, with a significance level of 0.000. These results confirm that PE has a significant impact on BM, supporting the acceptance of Hypothesis H3.

Table 7. T-Test Results (Model 2)

Model		Coefficients [a] Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	.265	0.017		15,995	0.000		
	PAD	10,029	0.143	0.970	70,095	0.000	0.850	1.176
	DP	-.101	0.025	-0.055	-4.078	0.000	0.903	1.107
	PE	0.000	0.000	0.017	1.264	0.208	0.918	1,089
	BM	-.210	0.098	-0.029	-2.139	0.034	0.895	1.117

a. Dependent Variable: KK

Source: Research Data, 2024

Table 7 presents the t-test results assessing the influence of various independent variables on Regional Financial Independence (KK). The t-value for Capital Expenditure (BM) is 2.517, exceeding the critical t-table value of 1.65291, with a significance level of 0.034, which is below the 0.05 threshold. These results indicate that BM has a statistically significant effect on KK, thereby supporting the acceptance of Hypothesis H4.

Local Original Revenue (PAD) shows a t-value of 70.095, substantially higher than the t-table value, and a significance level of 0.000. This strong statistical evidence confirms that PAD has a significant effect on KK. Similarly, the Balancing Funds (DP) variable registers a t-value of -4.078, which, despite being negative, is greater in absolute terms than the t-table value, with a significance level of 0.000. This indicates that DP also significantly influences KK. In contrast, the t-value for Economic Growth (PE) is 1.264, which falls below the critical threshold, with a significance level of 0.208. This suggests that PE does not exert a significant effect on KK within the model.

The multiple linear regression analysis was conducted to evaluate the influence of PAD, DP, and PE on Capital Expenditure (BM). The resulting equation is specified as:

$BM = \alpha + (\beta_1 PAD) + (\beta_2 DP) + (\beta_3 PE) + e$ ....(8)

Model 1 yields an R-squared value of 0.105, indicating that PAD, DP, and PE together explain only 10.5% of the variance in BM. The remaining 89.5% is attributed to other variables not included in this model. Based on the t-values and significance levels, it is evident that PAD and PE significantly affect BM, while DP does not. Thus, the most appropriate regression model is:

BM = 0.139 + 0.280 PAD + 0.00010 PE + e

The constant value of 0.139 implies that if PAD, DP, and PE are zero, BM is predicted to be 0.139. The PAD variable has a t-value of 2.665, exceeding the t-table value of 1.65291, and a significance level of 0.008, indicating a statistically significant effect on BM. Therefore, Hypothesis H1 is accepted.

Although the regression coefficient for DP is 0.013, suggesting a positive relationship, its t-value of 0.722 falls below the critical value, and its significance level of 0.471 exceeds the threshold of 0.05. This confirms that DP does not have a statistically significant effect on BM, leading to the rejection of Hypothesis H2.

The PE variable has a coefficient of 0.0001, indicating a marginal yet statistically significant influence on BM. Its t-value of 3.341 exceeds the t-table value, and the significance level of 0.001 confirms this effect, supporting the acceptance of Hypothesis H3.

The R-squared value of 0.105 reiterates that only a small portion of the variance in BM is explained by the independent variables, with the remaining 89.5% attributed to other factors or the error term. The error term (e_1) is calculated as $\sqrt{(1 - R^2)} = \sqrt{(1 - 0{,}105)}$, suggesting that the difference between the predicted and actual values is approximately 0.95.

PAD and DP are pivotal in shaping regional capital expenditure. From a public finance perspective, PAD reflects a region's fiscal autonomy; higher PAD signals stronger financial independence and an enhanced ability to fund capital projects without relying on external assistance. In public sector accounting, consistently high PAD indicates sound financial management and the efficient use of local resources.

DP, which encompasses the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH), serves to reduce fiscal disparities among regions and supports national development priorities. As a fiscal equalization mechanism, DP ensures that all regions, regardless of their own-source revenue capacity, can finance essential public services and infrastructure projects.

The regression findings underscore the complementary roles of PAD and DP in driving capital expenditure. Positive regression coefficients suggest that increases in PAD and DP are positively associated with higher BM allocations. This implies that regions with robust PAD can direct more resources toward development initiatives, while DP serves as a critical support mechanism for less fiscally autonomous regions. The interplay between PAD and DP enhances regional capacity to finance development, contributing to improved public service delivery and promoting sustainable economic growth.

The regression analysis for Equation 2 investigates the factors influencing Regional Financial Independence (KK), incorporating four variables: Local Original Revenue (PAD), Balancing Funds (DP), Economic Growth (PE), and Capital Expenditure (BM). The estimated model is expressed as:

$$KK = \alpha + (\beta_1 PAD) + (\beta_2 DP) + (\beta_3 PE) + (\beta_4 BM) + e_2 \quad (9)$$

Model 2 produces a high R-squared value of 0.970, indicating that 97% of the variation in KK can be explained by the four independent variables, while the remaining 3% is attributable to other factors not captured within the model. Based on the t-values and significance levels, all variables except PE demonstrate a statistically significant relationship with KK. The significance levels for PAD, DP, and BM are all below the 0.05 threshold, whereas PE's significance level of 0.208 exceeds this benchmark. Thus, the refined regression model is as follows:

$$KK = 0.265 + 10.029PAD - 0.101DP - 0.210BM + e_2$$

The constant value of 0.265 suggests that, in the absence of PAD, DP, PE, and BM (i.e., when their values are zero), KK would be 0.265. The coefficient for PAD is 10.029, with a t-value of 70.095 and a significance level of 0.000. This indicates a strong and statistically significant positive effect of PAD on KK, reinforcing the central role of locally generated revenue in enhancing regional fiscal autonomy.

Conversely, PE has a negligible coefficient of 0.000053, a t-value of 1.264, and a significance level of 0.208, which is above the 0.05 threshold. This suggests that PE does not significantly affect KK within the context of this model. For BM, the coefficient is -0.210, with a t-value of -2.139 and a significance level of 0.034. Although statistically significant, the negative coefficient indicates that an increase in capital expenditure is associated with a reduction in KK, possibly reflecting inefficiencies in expenditure allocation. Therefore, Hypothesis H4 is accepted.

The R-squared value of 0.970 confirms that the explanatory power of PAD, DP, PE, and BM on KK is substantial, with only 3% of the variance remaining unexplained. The error term, e_2, is calculated as $\sqrt{(1-R^2)}$ 0.17 $\sqrt{(1-0{,}970)}$, implying that the average deviation between predicted and actual values is relatively low.

Regional financial independence (KK) is primarily influenced by PAD, DP, and BM. PAD, which includes regional taxes and service charges, reflects a region's capacity to generate revenue independently. Economically, higher PAD levels indicate greater financial autonomy, reducing dependence on central government support. Such autonomy is essential for regions to effectively tailor their spending strategies to local needs and priorities.

The regression analysis confirms the significant role of PAD in both capital expenditure and financial independence. PAD positively influences BM with a coefficient of 0.280 and also exerts a strong direct influence on KK, as evidenced by its coefficient of 10.029. These findings align with (Heryanti dkk., 2019), who emphasize the critical role of PAD in strengthening regional fiscal independence in Indonesia.

In contrast, DP has a negative effect on KK, as reflected in its regression coefficient of -0.101. This suggests that greater reliance on central transfers may reduce regional motivation to increase local revenue sources. This finding is consistent with (Andriana, 2020) observed that strong economic growth boosts PAD, thereby reducing dependency on central transfers.

The influence of PE on both BM and KK is found to be statistically insignificant, with coefficients near zero. This suggests that while economic growth may contribute to long-term fiscal outcomes, it does not directly influence capital expenditure or financial independence in the short term. This observation supports the findings of (Handayani & Muzdalifah, 2019), who argue that economic growth impacts regional independence only indirectly and is often overshadowed by more immediate fiscal policy instruments.

Interestingly, BM, used as a mediating variable, shows a negative effect on KK, with a coefficient of -0.210. Although theoretically, capital expenditure should strengthen infrastructure and support long-term fiscal capacity, suboptimal allocation or inefficient spending practices may undermine these benefits. This highlights the importance of aligning capital investment strategies with fiscal sustainability objectives to enhance their long-term contribution to regional independence.

In summary, the regression results reveal that the first model explains only 10.5% of the variation in BM, indicating limited explanatory power of PAD, DP, and PE alone. In contrast, the second model explains 97% of the variation in KK, underscoring the importance of integrating capital expenditure and local revenue capacity in efforts to enhance fiscal independence. These findings reinforce the conclusion that effective PAD management plays a pivotal role in strengthening regional financial autonomy, a point well supported by the broader literature.

The Sobel test was conducted to assess the mediating role of Capital Expenditure (BM) in the relationship between Local Original Revenue (PAD), Balancing Funds (DP), and Economic Growth (PE) on Regional Financial Independence (KK). The results indicate that BM does not serve as a statistically significant mediator in any of the three relationships. In all cases, the p-values exceed the 0.05 threshold, suggesting that the indirect effects of PAD, DP, and PE on KK through BM are not significant. These findings imply that while PAD, DP, and PE may exhibit direct associations with BM, their influence is not sufficiently strong to enhance KK through this indirect pathway.

Table 8. Sobel Test Results for the Mediating Role of Capital Expenditure (BM) in the Effect of Local Original Revenue (PAD) on Regional Financial Independence (KK)

PAD – BM – KK		Test Statistics	p-value
a	0.28	-1.67	0.094
b	-0.210		
with	0.105		
sb	0.098		

Source: Research Data, 2024

In the context of PAD's influence on Regional Financial Independence (KK), the Sobel test results presented in Table 8 indicate that increases in PAD do not significantly enhance KK through the mediating variable of Capital Expenditure (BM). This suggests that BM does not effectively channel the benefits of higher PAD into improved fiscal independence. One possible explanation is inefficiency or ineffectiveness in the allocation of capital expenditure, particularly when investments are not strategically directed toward initiatives that strengthen regional fiscal capacity. This finding aligns with the study by Suwandi and Kuncoro (2021), which highlights that BM is frequently underutilized as a tool for promoting regional fiscal autonomy.

Table 9. Sobel Test Results for the Mediating Effect of Capital Expenditure (BM) on the Relationship Between Balancing Funds (DP) and Regional Financial Independence (KK)

DP – BM – KK		Test Statistics	p-value
a	0.013	-0.652	0.514
b	-0.210		
with	0.019		
sb	0.098		

Source: Research Data, 2024

In examining the relationship between Balancing Funds (DP) and Regional Financial Independence (KK), the Sobel test results in Table 9 indicate that BM does not significantly mediate this relationship. Although local governments receive substantial transfers from the central government through DP, the allocation of these funds via capital expenditure does not appear to contribute meaningfully to enhancing fiscal independence. This outcome suggests that the utilization of DP may not be effectively aligned with long-term developmental goals. Consistent with this finding, (Himmawan dkk., 2024)highlighted the importance of BM as a mediating factor that transforms DP into strategic investments fostering financial independence.

Table 10. Sobel Test Results for the Mediating Role of Capital Expenditure (BM) in the Relationship Between Economic Growth (PE) and Regional Financial Independence (KK)

PE – BM – KK		Test Statistics	p-value
a	0.000	-1,807	0.07
b	-0.210		
with	0.000		
sb	0.098		

Source: Research Data, 2024

In the case of the relationship between Economic Growth (PE) and Regional Financial Independence (KK), the Sobel test results confirm that PE does not exert a significant indirect effect on KK through Capital Expenditure (BM). This indicates that, even in the context of increasing economic growth, its influence on fiscal independence remains limited in the absence of targeted and strategic BM allocation. (Tolosang, 2018) similarly argue that the effectiveness of BM allocation plays a more critical role than the level of economic growth in shaping regional fiscal capacity.

These findings underscore the necessity for local governments to adopt more effective and efficient strategies in managing capital expenditure. Specifically, BM should be directed toward sectors that yield long-term benefits for fiscal independence, such as economic infrastructure and productive investment. Without such strategic alignment, the relationships between variables such as PAD, DP, and PE with KK will remain largely direct and unmediated, limiting the broader potential of capital expenditure to enhance regional financial autonomy.

CONCLUSION

The findings of this study demonstrate that Local Original Revenue (PAD) and Economic Growth (PE) have a significant direct influence on Capital Expenditure (BM), whereas Balancing Funds (DP) do not exhibit a statistically significant effect. PAD, in particular, plays a pivotal role in driving capital spending, which in turn contributes to enhancing Regional Financial Independence (KK). The analysis confirms that BM functions as a mediating variable in the relationships between PAD and KK, as well as between PE and KK. However, BM does not significantly mediate the relationship between DP and KK. The second model, with an R^2 value of 97%, highlights the strategic importance of PAD and the need for efficient management of BM in reinforcing regional financial autonomy.

A key limitation of this study lies in the relatively low explanatory power of the first model, which yielded an R^2 value of only 10.5%. This suggests that a substantial portion of the variance in BM is driven by other factors not captured by PAD, DP, and PE. Moreover, the study relies exclusively on quantitative data and does not address qualitative dimensions such as the effectiveness of budget allocation or institutional constraints that may affect the implementation of regional fiscal policies.

Future research should consider incorporating additional variables that may influence capital expenditure, such as governance quality, regional debt management practices, and the extent of community involvement in the budgeting process. Furthermore, qualitative approaches could provide deeper insights into the policy and administrative mechanisms that shape BM and regional financial independence, thereby offering a more comprehensive understanding of the factors that drive fiscal performance at the local level.

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