

## **THE EFFECT OF CAPITAL EXPENDITURE ON REGIONAL FINANCIAL PERFORMANCE WITH LOCAL ORIGINAL INCOME AS AN INTERVENING VARIABLE IN DISTRICTS AND CITIES IN NTT PROVINCE IN 2017-2021**

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### **ABSTRACT**

The research aims to analyze the influence of capital expenditure for local government financial performance through local government revenue as intervening variables. The sampling technique in this study is to use the purposive sampling method. The object of this research is all districts and cities in NTT, with a sample of 22 districts and cities. The data used is a type of secondary data, which was obtained from the realization of the 2017-2021 district and city revenue and expenditure budget (APBD) in NTT. The results of this study indicate that capital expenditures have an influence on local government revenue, and local government revenue has an influence on local government financial performance. Apart from that capital expenditures have a local government financial performance, with all of them having a positive correlation. The local government revenue is able to mediate the relationship between capital expenditures on local government financial performance.

Keywords: Capital Expenditures, Local Government Financial Performance, Local Government Revenue

### **INTRODUCTION**

In the regulations of Law No. 32 and 33 of 2004, it is explained that local governments are expected to be more independent, less dependent on the central government, especially regarding regional financial management and development financing. The progress of a region is said to be advanced influenced by good financial management. One way to assess good regional financial management is to look at financial performance (Blongkod, 2022). By using financial indicators, an organization can measure its performance using financial performance. In principle, what is meant by regional financial performance is the ability of local governments to find sources of revenue to fulfill government affairs, community services, and development, so there is no need to have dependence on costs transferred by the central government, and local governments are also able to manage their finances wisely (Putri & Munandar, 2021).

Performance measurement is used to be able to see the ability of regions to manage finances, as well as the accountability of local governments. This government accountability not only shows the ability of a region but also shows that public money has been used economically, efficiently, and effectively. Financial performance is one of the important indicators in assessing government performance. Financial performance can be influenced by the components contained in the

regional budget realization report (APBD) consisting of regional revenue and expenditure. Of the many components contained in the APBD realization report, it is believed that financial performance can be influenced by capital expenditure and Regional Original Revenue (PAD), for the reason that the more capital expenditure, the higher the economic productivity, in this case the performance of local governments. The government can increase PAD through levies and taxes on infrastructure that has been built for public servants sourced from funds that have been allocated in the form of capital expenditure in the APBD. So that local governments can continuously spur the growth of their financial performance (Hafizi & Amalia, 2022). There are several measures to be able to measure financial performance in government organizations, namely the ratio of efficiency, effectiveness, compatibility, regional financial independence and growth (Kusmayadi et al., 2024).

East Nusa Tenggara Province (NTT) is a province that has 21 regencies and 1 city located in the east of the Nusa Tenggara archipelago. The population in the 2022 period based on statistical population data is 5.47 million people, who inhabit 47,349.9 km<sup>2</sup> of land area with a population density of approximately 115 people per km<sup>2</sup>. After the expansion, this province is a province located in the southeast of Indonesia. The islands in this province are approximately 1,200 islands, 3 main islands namely Flores island, Timor island (western part) and Sumba island ([ntt.bps.go.id](http://ntt.bps.go.id)) ([nttprov.go.id](http://nttprov.go.id)).

This study looks at the financial performance of NTT province through the effectiveness ratio, which shows the government's ability to achieve PAD in accordance with what has been planned and the targets determined in accordance with the real capabilities of the region. In this effectiveness measurement does not assess the amount of money spent to achieve these goals, but it only assesses whether the targeted goals are successfully achieved by the government. In the Decree of the Minister of Home Affairs No. 690,900-327 of 1996, it is explained that there are criteria for the level of effectiveness which are divided into 5 criteria, namely:

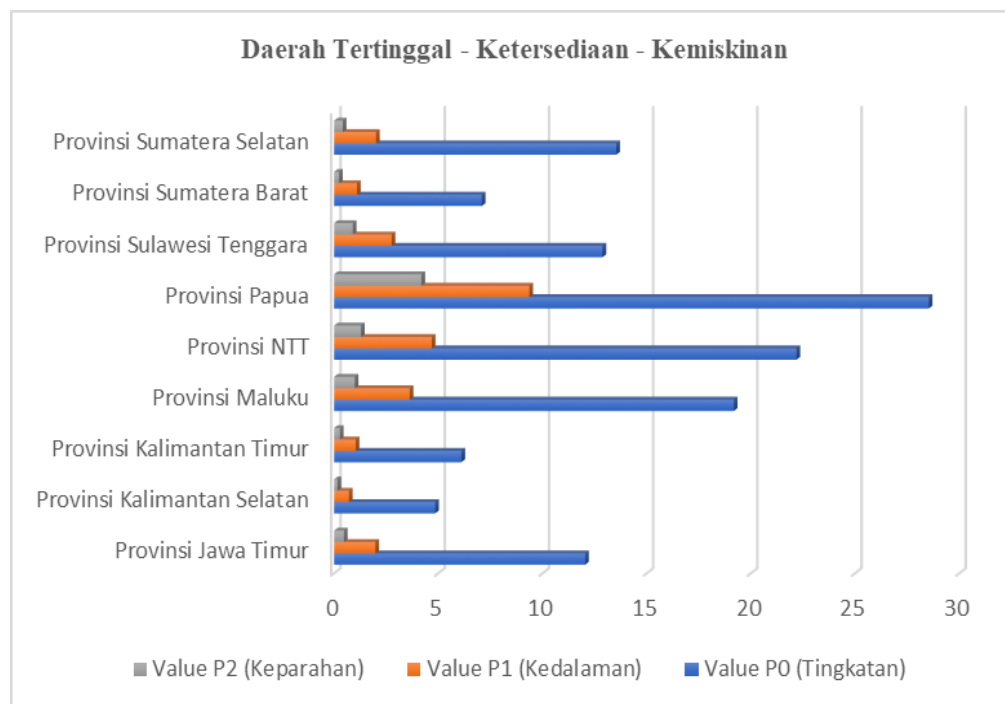
1. If the results of the division are above 100%, it means it is very effective.
2. If the result is between 90% and 100%, it can be said to be effective.
3. If the result is between 80% to 90%, it can be interpreted as quite effective.
4. If the distribution results in 60% to 80%, it can be interpreted as less effective.
5. If the distribution result is below 60%, it is interpreted as ineffective.

From table 1 presented, it can be seen that financial performance in terms of effectiveness ratio, namely for West Sumba, East Sumba, Kupang, TTU, and Malacca districts is included in the criteria for the level of effectiveness is very effective, for Manggarai, Rote and Kupang City districts are included in the effective criteria, for Alor, Flotim, Sikka, Ngada, South West Sumba, Nagekeo districts are included in the criteria of being quite effective, for areas that are included in the ineffective criteria, namely TTS, Belu, Ngada, Central Sumba, and areas that are included in the ineffective category, namely Lembata, West Manggarai, East Manggarai, and Sabu Raijua. This condition shows that most districts in NTT are still unable to achieve PAD in accordance with what has been planned and targeted.

One type of budget expenditure or government expenditure is capital expenditure. Based on the Government Accounting Standards Committee in the statement of Government Accounting Standards number 02, capital expenditure is funds spent to obtain fixed assets and other assets that provide use for one or more accounting periods. Since it is an important part of the provision of public services, these fixed assets cannot be sold. Local governments use capital expenditure budgets to acquire additional assets. Prioritized budgets and significant public services determine the procurement of fixed assets each year. Finance Minister Sri Mulyani Indrawati said that over

the past 11 years, many regions have spent more money on employee spending than human resource development and public infrastructure. In fact, transfer to the regions is something that is considered quite important to do for strategic spending. "In 2011 at that time the central transfer to the regions was Rp 450 trillion. Now it is Rp 770 trillion. You see employee spending going up steadily. Goods expenditure rose high, capital expenditure was relatively stagnant and even declining," Sri Mulyani said in a Coordination Meeting with Governors, Regents and Mayors at the Ministry of Home Affairs. According to Sri Mulyani, if you want to build Indonesia into a developed country, without infrastructure is impossible. Meanwhile, infrastructure includes a form of capital expenditure. So if the local government's capital expenditure gets smaller, it will be difficult to catch up (Ma & Su, 2024). There is infrastructure development that only has an impact on budget absorption rather than economic growth and the development process has lasted more than a year or more and there is no visible impact (Dwigantara & Handayani, 2020).

Picture 1  
Disadvantaged Areas - Availability - Poverty



Source : data processed by researchers

From the picture above, it can be seen that NTT ranks second after Papua which is a disadvantaged area, availability and poverty in Indonesia with a proportion level of 22.19%. Thirteen districts in NTT are considered underdeveloped areas from 2020 to 2024 as outlined in Presidential Regulation Number 62 of 2020 (bappenas.go.id). Malacca Regency is one example of an area in NTT province that is at the 3T level (Disadvantaged, Poorest and Outermost). The district borders the Democratic Republic of Timor-Leste (RDTL) on land, and Australia at sea, which has tremendous potential, such as the potential for alkaline and dryland agriculture, fisheries and marine spread over an 82 km sloping coastline, as well as tourism and other natural resources. Many of these potentials have not been explored, developed and empowered for the progress and

growth of the regional economy. Many things hinder the management of these potentials, including limited infrastructure, both physical infrastructure, government infrastructure as well as economic infrastructure and people's welfare, so that special attention is needed from the central government (Emanuel Makaraek, Nusantara Pedia, June 2022).

Planning and budgeting are carried out by State Ministries/Agencies. By making a Government Work Plan and a Work Plan and Budget of Ministries/Institutions, each of which shows development priorities set by the President and approved by the DPR (Kemenkeu RI). The funds allocated by local governments in the capital expenditure budget in the regional budget are used to increase fixed assets for public services. So that in increasing PAD, local governments collect in the form of levies and taxes on infrastructure that has been built for the public (W. S. D. Pamungkas & Arifin, 2021). Increasing regional revenue growth can indicate good financial performance. So that local governments are expected to be able to spend on regional needs by looking at every need of the local government (Lathifa & Haryanto, 2019). The more PAD contributes to the regional budget, the less dependent it is on central government assistance (Nasir et al., 2019). If local governments are able to utilize available resources and manage them well, the size of local governments increases PAD indirectly (Sari & Mustanda, 2019). PAD is funds received by regions from various sources obtained in accordance with applicable regional regulations (Pamungkas & Arifin, 2021). Local governments must strive to increase revenue from the local area in order to increase regional finances. One form of obtaining PAD in NTT is in the form of regional levies such as the installation of portals and the determination of parking rates at the Regional General Hospital (RSUD) Tc. Hillers and at Maumere Traditional Market, tourism levies in Komodo National Park, Batu Cermin, Rangko Cave, Cunca Wulang, and the Kesyahbandaran Office and Port Authority for diving and snorkeling activities in Komodo National Park, Labuan Bajo. From the capital expenditure that has been used to spend on portal installation needs, as well as the construction of improvements, and rehabilitation of roads and bridges to sub-districts and tourism destinations, there is income from entrance counters to hospitals, traditional markets and tourism destinations so that capital expenditure has a positive influence on PAD, therefore this study uses PAD as an intervening variable.

Several previous studies have been conducted related to different regional capabilities, namely on regional spending, PAD and financial performance conditions. (OKTAVIANI & Syarif, 2022), (Angelina & Nugraha, 2020), (Sari & Mustanda, 2019), obtained findings that government financial performance affects capital expenditure, while research results from (Dwigantara & Handayani, 2020), (Z. A. B. Pamungkas, 2021), that capital expenditure does not affect regional financial performance. In addition, there are research results by (Sari & Mustanda, 2019), that PAD affects regional financial performance, while in research (Indrawati et al., 2019) said that PAD does not affect regional financial performance. So from some existing facts, the author wants to see the use of capital expenditure when viewed from financial performance in terms of effectiveness.

This research replicates the previous research, namely Pamungkas & Arifin (2021) regarding capital expenditure, regional financial performance and PAD. This research is different from the previous study, namely the research area in NTT province in 2017-2021. In addition, the financial performance measurement ratio uses an effectiveness ratio that shows the ability of local governments to achieve the planned PAD and the targets determined in accordance with the real capabilities of the regions (Idris, 2018). So the researcher intends to see whether there is an effect of capital expenditure on regional financial performance with PAD as an intervening variable in districts and cities in East Nusa Tenggara province in 2017-2021.

## RESEARCH METHODS

Researchers use a quantitative approach by using secondary form data, namely APBD realization reports. The population used is Regencies and Municipalities in NTT with an observation period of 2017-2021. Purposive sampling method is used for sampling based on certain criteria. The sampling criteria in this study are all regencies and cities in NTT that report completely in the realization of the regional budget in 2017-2021, namely 21 districts and 1 city obtained from the [ntt.bps.go.id](http://ntt.bps.go.id) and [nttprov.go.id](http://nttprov.go.id) websites.

Researchers use data analysis techniques, namely descriptive statistical analysis, classical assumption tests (data normality tests; multicollinearity tests; autocorrelation tests and heteroscedasticity tests), hypothesis tests (partial t-tests and F tests) and path analysis (path analysis) to test the influence of intervening variables in mediating relationships between variables with the help of the Eviews software program (Ghozali & Ratmono, 2017).

The form of the path analysis regression equation can be described as follows:

$$PAD = p1 \text{ BM} + e1$$

$$KK = p1 \text{ BM} + p2 \text{ PAD} + e2$$

Information:

- a. BM = Capital expenditure
- b. PAD = Local Revenue
- c. KK = Financial performance
- d. p1, p2, p3 = Path coefficient
- e. e1, e2 = Residual variables

In Research Methods, small and non-main tools (common in the lab, such as: scissors, measuring cups, pencils) do not need to be written down, but simply write down the main set of equipment, or the main tools used for analysis and / or characterization, even need to be up to type and accuracy; Write down the complete location of the study, the number of respondents, how to process the results of observations or interviews or questionnaires, how to measure performance benchmarks; The general method does not need to be written in detail, but simply refers to the reference book. The trial procedure should be written in the form of news sentences, not command sentences.

## RESULTS AND DISCUSSION

### Descriptive Statistical Results

**Table 1 Statistical Data Description**

	LOGBM	KK	LOGPAD
Mean	19052.71	0.999636	17974.99
Median	19059.00	0.945000	17945.50
Maximum	20062.00	2.730000	19250.00
Minimum	18150.00	0.380000	17130.00
Std. Dev.	336.2422	0.372925	493.3582
Observations	110	110	110

Descriptive data displays a general description of research variables, then researchers will describe in detail the data used as variables grouped in descriptive statistics. The delivery of an empirical picture of the data used in statistical descriptive research is to use the average value, standard deviation, minimum value, and maximum value. In table 2, each variable related to descriptive statistics can be explained, namely the value of capital expenditure ranging from 18,150 to 20,062. With an average capital expenditure value of 19,052 in the APBD realization report of all regencies and cities in NTT for the 2017-2021 period and the standard deviation value of the capital expenditure variable is 0.336. The value of financial performance (effectiveness ratio) ranges from 0.38 to 2.73. With an average value of financial performance of 0.999 in the APBD realization report of all regencies and cities in NTT for the 2017-2021 period and the standard deviation value of the financial performance variable is 0.372. The value of local original income ranges from 17,130 to 19,250. With an average value of regional original income of 17,975 in the APBD realization report of all regencies and cities in NTT for the 2017-2021 period and the standard deviation value of the variable regional original income is 0.493.

### Regression Equation Model Selection

Selection of research models using the Chow, Hausman and Lagrange tests.

Table 2 Regression Equation Model Selection

	Equation 1		Equation 2	
	Result	Selected Models	Result	Selected Models
<b>Test Chow</b>	0.0000 < 0.05	FEM	0.0000 < 0.05	FEM
<b>Hausman Test</b>	0.0869 > 0.05	BRAKE	0.0000 < 0.05	FEM
<b>LM Test</b>	0.0000 < 0.05	BRAKE	0.0003 < 0.05	BRAKE
<b>Selected Model Equation 1 REM</b>				
<b>Selected Model FEM Equation 2</b>				

### Classical Assumption Testing

To find out whether or not the regression model in this study was feasible, a hypothesis test was carried out. This test is carried out with a normality test proven by a probability value of > 0.05 then the sample is normally distributed, a multicollinearity test to see if there is a similarity between independent variables as evidenced by a coefficient value of < 80 then free from the problem of multicollinearity and a heteroscedasticity test which is proven by the probability value of the independent variable > 0.05 then avoid the problem of heteroscedasticity. Testing the normality of equation 1 obtained a probability value of 0.411 > 0.05, the conclusion of equation 1 data is normally distributed. Testing the normality of equation 2 obtained a probability value of 0.000 < 0.05 from the results of these results, the data of equation 2 has not been fulfilled so that a skewness test was carried out. From the output of the skewness test, probability values of 0.133 > 0.05 were obtained. Then the assumption of normality has been fulfilled. In equation 1, a multicollinearity test is not performed because the variable X is only 1. The multicollinearity test of equation 2 shows that the correlation coefficient < 0.80 so that equation 2 does not experience multicollinearity problems. The heteroscedasticity test in regression 1 and regression 2 using the

glacier test obtained an independent variable probability value of  $> 0.05$ , so the data used avoided the problem of heteroscedasticity.

**Hypothesis Testing**

Hypothesis testing in model 1 uses the Random Effect Model (REM), while model 2 uses the Fix Effect Model (REM).

**Table 3 Test the hypothesis**

	Model 1 (REM)				Model 2 (FEM)			
	Coeff.	ONE	t-stat	Prob.	Coeff.	ONE	t-stat	Prob.
<b>BM</b>	0,2405	0,0475	5,0629	0,0000	0,6682	0,0617	10,8296	0,0000
<b>PAD</b>					0,8113	0,1217	6,6656	0,0000
<b>F-Stat</b>	25,8670			0,0000	17,3379			0,0000
<b>Adj. R2</b>	0,1857				0,7751			
<b>Obs</b>	110				110			

Modeling 1 in table 4 proves the results of the effect of capital expenditure on local original income. Capital expenditure has a significant positive influence on local original income with a  $t_{cal}>t_{table}$  of  $5.062 > 1.982$  and a significance of  $0.000 < 0.05$ . The adjusted r square value of 0.185 or 18.57%, this indicates that capital expenditure is able to explain local original income of 0.1857 or 18.57%, while the remaining 81.43% is explained by other variables.

Modeling 2 in table 4 proves the results of the effect of capital expenditure and local original income on financial performance. Capital expenditure has a significant positive influence on regional financial performance with a  $t_{cal}>t_{table}$  of  $10,829 > 1,982$  and a significance of  $0.000 < 0.05$ . Local revenue has a positive influence on financial performance with a  $t_{cal}>t_{table}$  of  $6,665 > 1,982$ . The adjusted r square value of 0.7751 or 77.51%, this indicates that together capital expenditure and local original income have an influence on financial performance of 77.51% and the remaining 22.49% is explained by other variables that are not explained in this study.

**Table 4  
Sobel Test**

	Coefficient	ONE	Sobel test Stat.	One-Tailed Prob.	Two-tailed Prob.
BM	0,2405	0,0475	4,032	0,0000	0,0000

The results of the sobel test proved that local original revenue was able to mediate the relationship of capital expenditure to financial performance with a value of  $Z > t_{table}$  or  $4.032 > 1.9823$  and two-tailed prob of  $0.000 < 0.05$ .

**Table 5**  
**Conclusion Test Hypothesis**

<b>Hypothesis</b>	<b>X</b>	<b>Y</b>	<b>Prob.</b>	<b>Conclusion</b>
H1	BM	PAD	0,000	Accepted
H2	PAD	KK	0,000	Accepted
H3	BM	KK	0,000	Accepted
H4	BM-KK- PAD		0,000	Accepted

The results of >the first hypothesis show a tcount of 5.062 > 1.982 and a significance of 0.000 < 0.05 which means that the hypothesis is accepted. From the results of this study, it can be concluded that capital expenditure affects PAD with a positive correlation. It is known based on the results of research study literature, capital expenditure is one of the important indicators in development in Indonesia (Muda & Naibaho, 2018). The large amount of capital expenditure shows the realization of the seriousness of local governments to increase economic growth in various developments (Suyitno, 2020). Capital expenditure is generally allocated for the acquisition of fixed assets that can be used as a means of regional development (Utami & Riharjo, 2021). One form of capital expenditure realization in NTT in increasing assets is the acquisition of land for public interest carried out by the Ngada Regency government, carried out to meet the planned land needs for infrastructure development that is realized, namely the location of the entrance road to the Bajawa Regional General Hospital (RSUD). As well as the development, improvement, and rehabilitation of roads and bridges to sub-districts and tourism destinations that can increase PAD in the area. Capital expenditure was able to explain PAD by 0.1857 or 18.57%, while the remaining 81.43% was explained by other variables. One of the factors for the small percentage of capital expenditure is due to many government infrastructure projects that were delayed in 2020 due to the impact of the COVID-1 pandemic. This is in accordance with research that confirms that capital expenditure has a positive effect on PAD (Yusiawati & Marhaeni, 2020). Appropriate and targeted capital expenditure is able to bring new sources of regional revenue. This statement is confirmed by the results of research which shows that by doing the right identification, it can anticipate capital expenditure appropriately so as to provide positive benefits. In contrast to the results of the study which states that regional revenues negatively affect capital expenditure. PAD relies on budget refocusing. Local governments are trying to improve existing infrastructure to increase community productivity and attract investors, which will affect PAD. An increase in the amount of capital expenditure for infrastructure development, especially for relatively underdeveloped local governments in Indonesia, can increase PAD (Susetyo et al., 2017). The role of human resources is needed in encouraging growth to achieve sustainable development so that it can have a stable PAD (Han et al., 2019).

The results of >the second hypothesis show a tcount of 6.665 > 1.982 and a significance of 0.000 < 0.05 which means the hypothesis is accepted. From the results of this study, it can be concluded that PAD has an effect on regional financial performance with a positive correlation. Other research results show that some PAD have a positive and significant effect on economic growth and government financial performance variables (Ardhansyah, 2020). PAD contributes to regional revenue growth so that local governments reduce their dependence on the central government (Karim et al., 2018; Sari & Mustanda, 2019). If regional revenue growth increases, it

will have an impact on increasing financial performance as well Lathifa & Haryanto (2019). PAD gives importance to the region because later it will be used to run the wheels of government to support the welfare of its people. The increase in capital expenditure in NTT such as the construction of the entrance road to the Bajawa Regional Hospital, the construction of improvements, and the rehabilitation of roads and bridges to sub-districts and tourism destinations in Labun Bajo is able to increase regional economic growth so that it will have an impact on increasing PAD and with this increase indirectly the realization of PAD will also increase and will affect regional financial performance. From table 1 presented, it can be seen that financial performance in terms of effectiveness ratio in 2021 there are 8 districts in NTT that are included in the criteria of ineffective and ineffective, from the results of the PAD received are not well channeled in activities so that financial performance is said to be ineffective which will affect capital expenditure. By looking at the performance of the NTT regional government not absorbing the budget properly, it will have an impact on the reduced state budget, because the central government sees the performance of the district/city government in NTT that has not been effective. Therefore, there needs to be special attention from the central government to regions that have poor and ineffective financial performance so that there are changes in the following year. The high increase in PAD revenue every year shows the high financial resources of the region. If financial resources can be utilized optimally, it can improve the financial performance of local governments (Sari & Mustanda, 2019). This is in line with research conducted by Lathifa & Haryanto (2019) which revealed that an increase in PAD resulted in an increase in local government financial performance. Similarly, research conducted by Dwigantara & Handayani (2020) that PAD has a significant effect on regional financial performance. This is different from the results of a research study conducted by Asfar et al., (2021) which resulted that the management of PAD through the effectiveness of regional financial performance does not have an indirect impact.

The results of >the third hypothesis show a tcount of  $10.829 > 1.982$  and a significance of  $0.000 < 0.05$  which means that the hypothesis is accepted. So it can be concluded that capital expenditure affects regional financial performance with a positive correlation. Capital expenditure is the expenditure of local governments in order to obtain fixed assets that have benefits for more than 1 year. Local governments can increase performance productivity by improving facilities and infrastructure. The addition and improvement of infrastructure can make the task of local governments easier and can improve government performance in all aspects, especially financial performance. This can lead to economic growth followed by improved financial performance. Capital expenditure is one way to make this happen. If the community has been supported by adequate facilities and infrastructure, then the community can run the wheels of the economy, and carry out all its activities that have an impact on increasing their ability to pay a number of predetermined levies, both in the form of taxes and levies. There is one district in NTT, the local government installed a portal and set parking rates at the Regional General Hospital (RSUD) Tc. Hillers to increase the regional levy, but led to the refusal of visitors and families of patients, motorcycle taxi drivers and other public transportation at RSUD dr. TC Hillers Maumere, the government expressed its gratitude for the critical attitude of the community towards the placement of entrance portals and parking fees that caused inconvenience to the residents visitors and families of patients, motorcycle taxi drivers and other public transportation at TC Hillers Maumere Hospital (EkoraNTT, October 2022). However, the government will conduct an evaluation and remapping in order to provide good comfort for visitors and families of patients at TC Hillers Maumere Hospital and socialization before the operation of the portal so that the local community continues

to carry out parking levies that can increase PAD and improve financial performance. With proper development and increased economic productivity, regional financial management is carried out properly. The results of the literature review of Sa'Adah & Rohman (2019) stated that capital expenditure can affect the financial performance of local governments. The results of research by Sari & Mustanda (2019), Angelina et al (2020), Lathifa & Haryanto (2019) show that the higher the capital expenditure made by the government, the higher the financial performance of local governments.

The results of the fourth hypothesis show a Z value of  $> t_{table}$  or  $4.032 > 1.9823$  and a two-tailed prob of  $0.000 < 0.05$  which means the hypothesis is accepted. From the results of this study, it can be concluded that the PAD variable can mediate between capital expenditure and regional financial performance. This is in accordance with the research of Pamungkas & Arifin (2021), Dwiyanto (2018) found that there is an effect of capital expenditure on financial performance mediated by PAD. Regional autonomy and decentralization cannot be separated from the implementation of regional development. Regional development is a form of efforts to increase the capacity of local governments in running their governments (Fahri, 2022). Regional development cannot be realized without physical development in the form of facilities and infrastructure. The physical development can be carried out if the planning is included in the APBD on expenditure items, especially capital expenditure. The use of a performance-based budgeting approach will certainly be more influential in setting goals and outcomes until finally translated into figures in the APBD capital expenditure item (Deden Rafi Syafiq Rabbani, 2020). Capital Expenditure causes high economic productivity in this case is the performance of local governments. The government can increase PAD through levies and taxes on infrastructure that has been built for public servants sourced from funds that have been allocated in the form of capital expenditure in the APBD (Fahri, 2022). If PAD increases, it means describing the ability or level of welfare of the community in paying taxes and other levies so as to reduce dependence on the central government and increase the ability of regions to finance their own spending (Hastuti, 2018). The capital expenditure that has been used by the NTT government to spend on portal installation, as well as the construction of improvements, and rehabilitation of roads and bridges to sub-districts and tourism destinations, then the income from entrance counters to hospitals, traditional markets and tourism destinations so that capital expenditure has a positive influence on PAD, followed by high financial performance as well. Local governments with high PAD should be followed by high financial performance and vice versa. Local governments with high PAD but not followed by good government financial performance, the local government is expected to make improvements in the future. Local governments must explore more and see the resources they have to improve the financial performance of their local governments, so that not only one revenue is explored, but all regional potentials to obtain opinions can be optimized management. West Manggarai Regency has a level of financial performance that is included in the category of ineffective, one of the factors is that there are taxpayers who are not obedient to paying taxes. The West Manggarai Regency Government cooperates with the Corruption Eradication Commission in providing a warning in the form of installing signposts to taxpayers who are still delinquent in paying taxes. Manggarai Regent Edistasius explained, before installing the plang, the district government had written to taxpayers to make collections. However, if the warning is not heeded, the signpost is immediately installed. Then, if after being warned through the signpost pair there is no payment response, the district government will confiscate the assets of the tax object. He detailed that the total arrears of tax objects installed by signposts reached more than IDR 12 billion (July Kompas.com, 2023). The contribution of BUMD in improving the regional

economy has not run optimally. BUMD, which should be one of the sources of PAD, has not made a region fiscally independent. In fact, the regional economy still depends on transfer funds from the central government. Data from the Central Statistics Agency (BPS) in 2019 shows that only three provinces have a higher portion of PAD than other revenues, including Transfer to Regions and Village Funds. Based on BUMN & BUMD statistical data in 2022, NTT province experienced losses from BUMD of IDR -4,029,000, which means that the contribution of BUMD to PAD itself is still not optimal. Therefore, special attention needs to be paid to BUMDs in NTT with a total of 30 BUMDs. PAD can be used as a benchmark to determine the level of independence of a region because it reflects how a region funds its activities through the pure income component generated by the region so that it will improve the financial performance of the region (Hastuti, 2018).

## CONCLUSION

The results of the study concluded that capital expenditure has an effect on PAD, as well as PAD has a positive influence on regional financial performance. In addition, capital expenditure has an influence on financial performance, with all of them having a positive correlation. The results of the Sobel test show that the variable of local native income is able to mediate the relationship between the effect of capital expenditure on financial performance. This research has research limitations, namely this research still needs several other variables. In the next research, it is recommended to conduct updated and more in-depth theoretical studies, in order to provide broader and informative knowledge for research users. In future studies, it is also expected to use different population groups with a wider range to have a better and varied impact than previous studies and the variables used in this study are still few. Suggestions to the next researcher are expected to use variables that affect PAD, because in this research the capital expenditure variable affects PAD only by 18.57%, the rest is influenced by other variables such as population, economic growth, inflation, regional taxes, market levies. And using more independent variables, because there are many other factors that can affect the financial performance of local governments by measuring other regional financial ratios such as the ratio of independence, efficiency, growth and compatibility.

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