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THE EFFECT OF CAPITAL EXPENDITURE ON REGIONAL FINANCIAL PERFORMANCE WITH REGIONAL ORIGINAL INCOME AS A MEDIATION VARIABLE

PENGARUH BELANJA MODAL TERHADAP KINERJA KEUANGAN DAERAH DENGAN PENDAPATAN ASLI DAERAH SEBAGAI VARIABEL MEDIASI

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ABSTRACT

In implementing their regional autonomy, regional governments provide great opportunities to improve regional financial performance, especially to be more fiscally independent. This independence means that regions should have a low level of regional dependency. However, the phenomenon that occurs is that many regional governments still have a very high regional dependency ratio. This study aims to empirically analyze how capital expenditure affects regional financial performance as measured by the regional dependency ratio with Regional Original Income as a mediating variable. The method used is the quantitative method. The data used in this study are the Budget Realization Reports of Regency/City Governments in West Java Province for 2018-2022 using purposive sampling. The study results show that capital expenditure has a negative and significant effect on regional financial performance as measured by the regional dependency ratio directly and indirectly through the mediating Regional Original Income. Regional governments must optimize capital expenditure that can increase Regional Original Income significantly to improve regional financial performance by reducing the regional dependency ratio.
Keywords: *Capital Expenditure, Local Original Income, Regional Financial Performance, Regional Dependence.*

ABSTRAK

Pemerintah Daerah dalam menjalankan otonomi daerahnya memberikan peluang yang besar untuk meningkatkan kinerja keuangan daerahnya terutama untuk lebih mandiri secara fiskal. Kemandirian tersebut mengartikan bahwa daerah seharusnya memiliki tingkat ketergantungan daerah yang rendah. Namun, fenomena yang terjadi masih banyak pemerintah daerah yang memiliki rasio ketergantungan daerah yang sangat tinggi. Penelitian ini bertujuan untuk menganalisis secara empiris bagaimana pengaruh belanja modal terhadap kinerja keuangan daerah dengan Pendapatan Asli Daerah sebagai variabel mediasi. Metode yang digunakan yaitu metode kuantitatif. Data yang digunakan pada penelitian ini yaitu Laporan Realisasi Anggaran Pemerintah Kabupaten/Kota di Provinsi Jawa Barat Tahun 2018-2022 dengan menggunakan metode purposive sampling. Hasil penelitian menunjukkan bahwa belanja modal berpengaruh negative signifikan terhadap kinerja keuangan daerah yang diukur dengan rasio ketergantungan daerah secara langsung maupun tidak langsung melalui Pendapatan Asli Daerah yang memediasi. Pemerintah daerah harus terus mengoptimalkan belanja modal yang dapat secara signifikan meningkatkan Pendapatan Asli Daerah untuk dapat meningkatkan kinerja keuangan daerah melalui penurunan rasio ketergantungan daerah.
Kata kunci: Belanja Modal, Pendapatan Asli Daerah, Kinerja Keuangan Daerah, Ketergantungan Daerah**.**

INTRODUCTION

Indonesia is a unitary state that adheres to the principle of decentralization. The Indonesian government applies the principle of decentralization by giving authority to each region to manage its region through optimal utilization of the potential resources owned by each region, which is also called regional autonomy. Regional autonomy is a strong foundation for encouraging economic growth at the regional level. The implementation of regional autonomy is expected to make regions more independent or reduce regional dependency on the central government, both in terms of development financing and regional financial management.

Regional responsibility in implementing regional autonomy can not be separated from regional development. Regional development is a manifestation of regional government implementing its government activities, which can be realized through physical

development in the form of public facilities and infrastructure. "The development of facilities and infrastructure for public facilities is also to improve community welfare and can increase economic activity in a region. Regional development can be implemented if its planning is stated in the Regional Revenue and Expenditure Budget (APBD) in the expenditure post, especially capital expenditure." (Laga, 2019).

"Capital expenditure is a cost or expenditure used to pay for fixed assets and/or other assets that provide economic benefits for more than 1 (one) accounting period" (Indonesia, 2019). This allocation of capital expenditure will be used in regional development. The role of capital expenditure is very significant for the regional development of public service infrastructure. In the long term, it can increase a region's economic competitiveness through community productivity from the impact of adequate infrastructure. Development can be implemented if supported by adequate regional financial capacity, especially Regional Original Income (PAD), which is the main source of income from the original potential of each region. PAD consists of several aspects, including regional taxes, regional levies, legitimate wealth management results, and other legitimate PAD.

According to Sularso & Restianto (2011) "In measuring the financial performance of government organizations, it can be measured by several performance measures, namely the degree of decentralization, financial dependency ratio, regional financial independency ratio, effectiveness ratio, efficiency ratio, harmony ratio, and growth". This study uses the regional dependency ratio, which is a measure of the level of regional ability to finance regional development activities through PAD optimization. "This ratio is measured between the amount of transfer income received by the regional government and the total regional income. The higher the ratio, the greater the level of dependence of the regional government on the central government and/or provincial government". (Sutriani, 2017).

Table 1. Regional Dependence Level

Percentage	Category
00,00% - 10%	Very less
10,01% - 20%	Not enough
20,01% - 30%	Enough
30,01% - 40%	Currently
40,01% - 50%	Tall
> 50%	Very high

Source: Ministry of Home Affairs Research and Development Team by UGM Faculty of Social and Political Sciences in Santoso et al. (2021)

Table 2. Data on Regional Dependency Ratio of Regency/City in West Java Province in 2022

No	District/City	Ratio
1	Bandung Regency	78.56%
2	Bekasi Regency	56.96%
3	Bogor Regency	58.50%
4	Ciamis Regency	87.81%
5	Cianjur Regency	83.04%
6	Cirebon Regency	79.92%
7	Garut Regency	88.21%
8	Indramayu Regency	82.28%
9	Karawang Regency	66.03%
10	Kuningan Regency	86.70%
11	Majalengka Regency	82.19%
12	Purwakarta Regency	75.09%
13	Subang Regency	82.57%
14	Sukabumi Regency	81.37%
15	Sumedang Regency	81.31%
16	Tasikmalaya Regency	89.82%
17	Bandung City	56.93%

18	Bekasi City	55.68%
19	Bogor City	58.82%
20	Cirebon City	63.34%
21	Depok City	54.66%
22	Sukabumi City	69.04%
23	Tasikmalaya City	77.54%
24	Cimahi City	70.35%
25	Banjar City	79.83%
26	West Bandung Regency	69.37%
27	Pangandaran Regency	82.73%

Source: 2022 Budget Realization Report

Based on the data in Table 2 above, shows that all regencies/cities in West Java Province have a very high level of regional dependency (>50%) in 2022. This indicates that the financial capacity of the regencies/cities in West Java Province to finance their development activities is small and still depends on transfer income from the central government.

A high level of regional dependency indicates low regional financial performance because it shows that the region is not yet independent and finances its regional government activities from transfer income from the central government and inter-regional transfers.

The results of this study can contribute to the literature that examines the connection between regional financial performance, capital expenditure, and the mediating function of Regional Original Income (PAD). Furthermore, it can offer a summary of the direct and indirect effects that capital expenditures and PAD can have on regional financial performance.

Literature Review and Hypothesis Development

The grand theory used in this study is the stewardship theory which explains the existence of local government as an institution trusted by the people to carry out its duties and functions by applicable regulations, especially in regional financial management which must be carried out most effective and efficiently. About the title of this research, the government as a public official must manage resources transparently and accountably through an effective capital expenditure mechanism that can improve infrastructure and public services that in the long term will grow Regional Original Income so that it can help design better policies for capital expenditure management and improve overall regional financial performance.

If the original regional income is not ideal, transfer income may be used to fund capital expenditures for regional development. Because the region is unable to finance its growth with the optimal PAD allocation, this may have an impact on the regional dependency. The regional financial performance is negatively correlated with its level of dependency. The higher the regional dependency ratio, the weaker the regional financial performance. Naturally, this goes against the stewardship principle, which states that to sustainably support all government initiatives for the public welfare, the government should reduce the regional dependency ratio and increase regional financial independence. This suggests that capital expenditure hurts financial performance as determined by the regional dependency ratio. H1 was developed based on this idea, which states that capital expenditure has a negative effect on regional financial performance as determined by the regional dependency ratio and is in line with the results of research by Dwiyanto (2018) and Antari & Sedana (2018).

Building roads, bridges, marketplaces, and other public service facilities are examples of infrastructure development that frequently involves

capital expenditure. The construction of the improved infrastructure will boost the local economic activity and encourage the growth of the business sector, which in the end can ultimately raise the regional original income through certain goods and service tax (PBJT) on food and beverage, hotel services, arts and entertainment, and retribution. As a steward, the government is responsible for making sure that the capital expenditure makes benefit for long-term investment. Therefore, H2 was obtained namely that capital expenditure has a positive effect on regional original income. This is in line with research conducted by Apriliyanti (2017), Darwanis & Saputra (2014), Dwiyanto (2018), and Wadjaudje et al. (2018).

According to stewardship theory, the local government is in charge of maximizing local resources for the good of the community in its capacity as a steward. The regional dependency ratio illustrates how much the regency/city is not independent in managing its government activities with the optimal PAD as financial resources. Increasing PAD can provide greater fiscal flexibility to local governments to plan and implement expenditures without relying on the central government. The greater thePAD, the lower the regional dependency ratio which directly reflects good financial performance. Therefore, H3 is obtained namely PAD has a negative effect on regional financial performance as measured by the regional dependency ratio. This is in line with research conducted by (Mulyani & Wibowo, 2017).

The principle of stewardship assumes that as a steward, the regional government must ensure that the public resources managed can be beneficial for the interest of the community and have an impact on increasing the efficiency of regional independence to achieve sustainable development goals to reduce regional dependence. In this case, of course, the role of PAD is very important to ensure that regional development allocated to capital expenditure can increase PAD and affects the reduction of the regional dependency ratio. Therefore, capital expenditure must be allocated to reduce the regional dependency ratio by increasing PAD. In line with the concept above, H4 was obtained, namely PAD mediates the relationship between capital expenditure and financial performance as measured by the regional dependency ratio negatively. This is not in line with research conducted by Anggraeni (2016), Dwi, (2021), Apriliyanti (2017), Darwanis & Saputra (2014), Dwiyanto (2018), dan Aprianis (2021).

RESEARCH METHODS

Population and Research Sample

The population in this study was the regency/city governments in West Java Province for the period 2018-2022, consisting of 18 regencies and 9 cities, so the population was 27. The sampling technique used in this study is non-probability sampling, which is a "sampling technique that does not provide an equal opportunity for each element or member of the population to be selected as a sample" (Sugiyono, 2023, p. 131.). The sample of this study is the Budget Realization Report of the Regency/City Government in West Java Province consisting of 27 regencies/cities with an observation year of 5 years in the 2018-2022 budget period so the sampling in this study amounted to 135 samples.

Operational Variables

Table 3. Operational Variables

Variables	Indicator	Scale
Variable X Capital Expenditure Based on Government Regulation Number 12 of 2019, "capital expenditure is a cost or expenditure used to pay for fixed assets and/or other assets that provide economic benefits for more than 1 (one) accounting period"	Capital Expenditure Realization 2018-2022	Ratio
Variable Y Regional Financial Performance "Regional financial performance is the level of achievement of work results in the regional financial sector which includes the budget and its realization using financial indicators determined through a policy or statutory provisions during the budget period" (Dwi, 2021)	$\frac{Income\ Transfer}{Regional\ Income}$ 2018-2022 Sutriani (2017)	Ratio

Variables	Indicator	Scale
Mediating Variables Local Original Income (PAD) According to Law Number 1 of 2022, "Regional Original Income (PAD) is regional income obtained from regional taxes, regional levies, results of management of separated regional assets, and other legitimate regional original income".	Realization of Regional Original Income 2018-2022	Ratio

Source: Author's processed data

RESULTS AND DISCUSSIONS

Descriptive Analysis

Table 4. Results of Descriptive Analysis

		X	Z	Y
N	Valid	135	135	135
	Missing	0	0	0
Mean		518175332404.7926	858405031467.6666	60.8649
Median		445498342145.0000	494538989986.0000	59.1000
Mode		378703766805.00	100745347096.00a	55.32a
Std. Deviation		319428207192.65656	815571691789.00450	13.93625
Minimum		57422540258.00	100745347096.00	28.28
Maximum		1701254453271.00	3761911243274.00	89.82
Sum		69953669874647.00	115884679248135.00	8216.76

Source: Data processed in SPSS in 2024

From the data in the table above, it can be seen that N, or the number of capital expenditure data as variable X is 135. From the sample data, the minimum value is 57,422,540,258, the maximum value is 1,701,254,453,271, the mean value is 518,175,332,404.7926 and the standard deviation value is 319,428,207,192.65656, which means that the distribution of the capital expenditure value which means that the level of data distribution is quite large and indicates that there are values that are far from the average. In addition, the median and mode values of the capital expenditure (X) variable are 445,498,342,145 and 378,703,766,805, respectively.

From 135 samples of Regional Original Income data, the minimum value was 100,745,347,096, the maximum value was 3,761,911,243,274, the mean value was 858,405,031,467.6666, and the standard deviation value was 815,571,691,789.00450. This means that the data distribution is quite large and the wide range of values indicates that there are significant differences between the data. In addition, the median and mode values for the Regional Original Income (Z) variable are 494,538,989,986 and 100,745,347,096 respectively.

The regional dependency ratio data from 135 samples shows that the minimum value is 28.28, the maximum value is 89.82, the mean value is 60.8649, and the standard deviation value is 13.93625.which means that the data distribution occurs moderately around the average. In addition, the median and mode values for the Regional Dependency Ratio (Y) variable are 59.1000 and 55.32 respectively.

Normality Test

Table 5. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		135
Normal Parametersa,b	Mean	.0000479
	Std. Deviation	491051036725.1713 0000
Most Extreme Differences	Absolute	.077
	Positive	.077
	Negative	-.048
Test Statistics		.077
Asymp. Sig. (2-tailed)		.060c
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Source: Data processed in SPSS in 2024

The test findings in the table above indicate that the data utilized is normally distributed since the Sig (significant) or probability value is 0.060 or higher than 0.05. As a result, the multiple linear regression analysis in this study can satisfy the assumption of normality for the residual value.

Multicollinearity Test

Table 6. Multicollinearity Test Results for Equation 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	-19792529165.022	810590947.778		-2.442	.016		
	X	2.039	.133	.798	15.293	.000	.568	1.794

a. Dependent Variable: Z

Source: Data processed in SPSS in 2024

Table 7. Multicollinearity Test Results for Equation 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	70.439	1.980		35.567	.000		
	X	-6.867E-12	.395	-.157	-3.298	.007	.363	2.758
	Z	-7.008E-12	.395	-.410	-3.381	.001	.363	2.758

a. Dependent Variable: Y

Source: Data processed in SPSS in 2024

In the first equation, which uses capital expenditure as the independent variable and PAD as the dependent variable, it can be inferred that there is no multicollinearity among the independent variables. The tolerance value is 0.568 or higher than 0.10 and the VIF value is 1.794 or less than 10.

Since regional financial performance is the dependent variable and capital expenditure and PAD are the independent variables in that second equation, it can be said that there is no multicollinearity in the data because the tolerance value is 0.363 or higher than 0.10 and the VIF value is 2.758 or less than 10.

Based on the test results of the two equations above, the regression model is suitable for further analysis because the multicollinearity assumption has been met.

Heteroscedasticity Test

Table 8. Heteroscedasticity Test Results for Equation 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	174954029415.747	50324322020.502		3.477	.001
	X	.367	.083	.359	4.438	.517

a. Dependent Variable: Abs_Res1

Source: Data processed in SPSS in 2024

Table 9. Heteroscedasticity Test Results for Equation 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.751	1.039		9.389	.000
	X	-1.949E-12	.395	-.101	1.702	.484
	Z	1.343E-12	.395	.177	1.236	.219

a. Dependent Variable: Abs_Res2

Source: Data processed in SPSS in 2024

The first equation shows that it may be concluded that there is no heteroscedasticity among the independent variables in the regression model, with a significant value of 0.517 or higher than 0.05.

Additionally, the second equation displays the significance of the capital expenditure variable (0.484) and the PAD variable (0.219), which are higher than 0.05, indicating no heteroscedasticity issue between the independent variables in the regression model.

Based on the test results in both equations, it can be stated that all independent variables have a Sig. value > 0.05 so there is no indication of heteroscedasticity in the regression model and considered to meet the assumption of homoscedasticity, so the analysis results can be relied upon.

Autocorrelation Test

Table 10. Autocorrelation Test Results for Equation 1

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.798[a]	.637	.635	492893636207.3913 6	1.748
a. Predictors: (Constant), X					
b. Dependent Variable: Z					

Source: Data processed in SPSS in 2024

Table 11. Autocorrelation Test Results for Equation 2

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.544[a]	.296	.285	11.78117	1.843
a. Predictors: (Constant), Z, X					
b. Dependent Variable: Y					

Source: Data processed in SPSS in 2024

According to the following data, the Durbin Watson (DW) value in that equation is 1.748. With a 5% significance level, 135 samples (n), and 1 independent variable (k=1), the DW tables's upper limit value (du) has been determined to be 1.7338. The DW value of 1.748 is less than (4-du) or 4 – 1.7338 = 2.2662 and larger than the du value of 1.7338. Thus, du<d<4-du or 1.738<1.748<2.662 and it may be said that autocorrelation does not exist in this equation.

Equation 2 has a DW value of 1.843. When this value is compared to the significance table value of 5%, the du value is 1.7490, given a sample size of 135 (n) and two independent variables (k=2). The DW value result of 1.843 is less than (4-du) or 4 – 1.7490 = 2.251 and larger than the upper limit (du), which is 1.7490. This indicates that there is no autocorrelation in this equation and that it satisfies the condition du<d<4-du or 1.7490<1.843<2.251.

Multiple Linear Regression Analysis

The following regression equation is obtained:

Y1 = -197,925,291,654.022 + 2.039X

In the regression equation model 1, a constant value of -

197,925,291,654.022 is obtained. The coefficient value indicates that when it is assumed that there is no change in the capital expenditure variable, the change in the constant PAD is 197,925,291,654.022. Thus, an increase of 1 unit of capital expenditure will increase PAD by 2.039 units so the tendency of PAD is relatively decreasing without considering the capital expenditure variable.

Based on the table above, the following regression equation 2 is obtained:

$$Y2 = 70.439 – 6.867x10^{-12}X – 7.008x10^{-12} Z$$

In the regression equation model 2, the constant value is 70.439. The coefficient value shows that when it is assumed that there is no change in the capital expenditure and regional original income variables, the change in regional financial performance as measured by the regional dependency ratio is predicted to be 70.439. Thus, a tendency for regional financial performance to increase relatively without considering the capital expenditure and regional original income variables.

Each increase of 1 unit of capital expenditure will decrease financial performance with a regional dependency ratio of 6.867 x 10^{-12} assuming PAD remains constant so that it can be interpreted that the effect of capital expenditure on the regional dependency ratio is negative, meaning that the greater the capital expenditure, the lower the regional dependency which means contributing to better financial performance.

Furthermore, every increase of 1 unit of PAD will reduce regional financial performance as measured by the regional dependency ratio by 7.008 x 10-12 units, which means that the greater the PAD, the smaller the regional dependency ratio and means better financial performance.

So the equation in this study (equation 3) is as follows:

$$Y1 = -197,925,291,654.022 + 2.039X$$

$$Y2 = 70.439 – 6.867x10\text{-}^{12}X – 7.008x10^{-12} Z$$

Analysis of Determination Coefficient (R2)

The value of the determination coefficient (R square) of capital expenditure against PAD is 0.637, as indicated by the test result. This indicates that the capital expenditure variable accounts for 63.7% of PAD, which contributes a reasonably considerable amount to the regression model's ability to explain 63.7% of the variability in PAD while the remaining 36.3% is explained by factors not included in this study.

In the second equation, the size of the determination coefficient is 0.296. This indicates that capital expenditure and PAD account for 29.6% of the variation in regional financial performance, with other factors not covered by the study's variables influencing the remaining 70.4%.

Path Analysis

Table 3. Model 1 Regression Test Results

Model	Standardized Coefficients		Sig
	Beta	t	
(Constant)		-2.442	0,016
X	0,798	15.293	0,000

R= 0,798[a] R Square (R^2) = 0,637 Adjusted R Square = 0,635 e1 = √(1-R^2) =√(1-0.637) = 0,602 F Hitung = 233.879 Sig. = 0,000[b]	Dependent Variable (Z)

Source: Data processed in SPSS in 2024

Table 4. Model 2 Regression Test Results

Model	Standardized Coefficients		Sig
	Beta	t	
(Constant)		35.567	0,178
X	-0,157	-3.298	0,007
Z	-0,410	-3.381	0,001
R= 0,544[a] R Square (R^2) = 0,296 Adjusted R Square = 0,285 e2 = √(1-R^2) =√(1-0.296) = 0,839 F Hitung = 27.754 Sig. = 0,000[b]			Dependent Variable (Y)

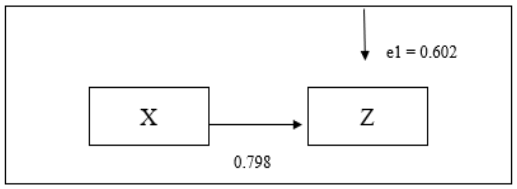
Source: Data processed in SPSS in 2024

Based on the result, it can be seen that the capital expenditure variable has a significance value of 0.000, which is less than 0.05 (0.000<0.05). Based on these findings, it can be concluded that regional original income is significantly impacted by the capital expenditure variable in regression model 1. This result concludes that Regression Model I, indicates that the capital expenditure variable has a significant effect on regional original income.

Equation 1

Z= ρzx + e1

Z= 0.798 + 0.602



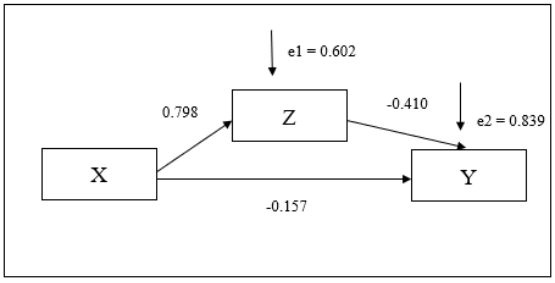
Picture1. Regression Model 1

The regression result of model 2 in the table above indicates that the regional original income variable has a significance value of 0.001 and the capital expenditure variable has a value of 0.007, both of which are less than 0.05. Based on these findings in regression model 2, it can be concluded that the capital expenditure and regional original income have a significant effect on regional financial performance as measured by the regional dependency ratio.

Equation 2 :

Y= ρxy + ρzy+ e2

Y= -0.157 - 0.410 + 0.839



Picture 2. Regression Model 2

T-test

Table 5. The Influence of X on Z and its Impact on Y Directly and Indirectly

No	Variabel	Koefisien Jalur	Pengaruh		Total
			Langsung	Tidak Langsung	
1	X terhadap Y	-0.157	-0.157		-0.157
1	X terhadap Z	0,798	0,798		0,798
2	Z terhadap Y	-0.410	-0.410		-0.410
3	X terhadap Y melalui Z			0,798 x -0,410 = -0.327	-0.484
4	e1	0,602	0,602		0,602
5	e2	0,839	0,839		0,839

Source: Data processed in SPSS in 2024

According to the table above, it shows that capital expenditure has a direct impact on regional financial performance as measure by the regional dependency ratio of -0.157. Capital expenditure has a direct effect on PAD of 0.798. PAD has a direct effect on regional financial performance as measured by the regional dependency ratio of -0.410. Capital expenditure has an indirect effect on regional financial performance as measured by the regional dependency ratio of -0.327 because it is through the PAD as a mediating variable, so the total effect is -0.484.

The Effect of Capital Expenditure on Regional Financial Performance

Based on the test results that have been conducted, it can be shown that the significant value of the capital expenditure variable on regional financial performance is 0.007 where this probability value is smaller than 0.05. Based on the provisions in the test criteria, if the significant value is <0.05 then it can be concluded that directly, capital expenditure has a significant effect on regional financial performance (through the regional dependency ratio).

Additionally, based on the direct effect of capital expenditure on regional financial performance is -0.157. This indicates that capital expenditure has a negative and significant effect on regional financial performance as measured by the regional dependency ratio. Better regional financial performance is indicated by a lower regional dependency ratio. The reduction in the regional dependency ratio as a result of capital expenditure shows how the region distributes its capital expenditures and helps to lessen regional dependency, which makes the region more financially independent. It can be demonstrated that H_0 is rejected and H_1 is accepted.

The result is in line with the research conducted by Dwiyanto (2018) and Antari & Sedana (2018) which stated that capital expenditure has a negative effect on regional financial performance.

Based on the test results above, local governments can utilize increased capital expenditure as a strategy to reduce dependence on transfer income from the central government. Effective capital expenditure management, especially for development programs that support local revenue (PAD), can strengthen regional financial performance in the long term.

The Effect of Capital Expenditure on PAD

Considering the outcomes of the tests that have been carried out, the significant value of the capital expenditure variable on PAD is 0.000, which means it is smaller than 0.05. By the provisions of the test criteria, it can

be concluded that capital expenditure has a significant effect on PAD.

Capital expenditure has a significant positive and significant effect on PAD with a fairly large contribution of 0.798 or 79.8%. This shows that capital expenditure is an important instrument used by local governments to increase PAD optimization. Based on these results, it shows that H_0 is rejected and H_2 is accepted.

The result is in line with the research conducted by Apriliyanti (2017), Darwanis & Saputra (2014), Dwiyanto (2018), dan Wadjaudje et al. (2018) which stated that capital expenditure has a positive effect on PAD.

The result of this study can be a reference for local governments as a basis for increasing capital expenditure in strategic sectors such as market development, tourism centers, economic support infrastructure, etc. It can have a direct impact on increasing PAD so the long-term impact is to increase regional independence while reducing the level of regional dependency.

The Effect of PAD on Regional Financial Performance

The significant value of the PAD variable on regional financial performance according to the test results is 0.001 where this probability value is smaller than 0.05. These results can be interpreted that regional original income has a significant effect on regional financial performance as measured by the regional dependency ratio.

The test results indicate that PAD significantly impairs financial performance, with a negative impact of -0.410. This implies that any increase in PAD will significantly reduce the regional dependency ratio. The decrease of the regional dependency ratio indicates a more independent and stable financial performance. Consequently, these findings suggest that H_0 is rejected and H_3 is accepted.

The result is in line with the research conducted by Mulyani & Wibowo (2017) which stated that PAD has a negative effect on regional financial performance.

Therefore, local governments need to continue to strengthen fiscal capacity by developing PAD potential through innovation in tax and levy policies. And then, they should focus on developing productive economic sectors that can increase PAD while reducing dependence on transfer income.

The Influence of Capital Expenditure on Regional Financial Performance through PAD

The extent of its direct and indirect effects can be used to test how capital expenditure affects regional financial performance through PAD. According to the test results, capital expenditure has a -0.157 direct impact on regional financial performance and a -0.327 indirect impact, for a total influence of -0.484. The indirect path coefficient through PAD shows a greater negative influence, meaning that capital expenditure positively influences PAD, then reduces the regional dependency ratio more significantly.

This indicates that capital expenditure has a substantial negative impact on all levels—direct, indirect, and overall. These findings suggest that the connection between capital expenditure and regional financial performance as measured by the regional dependency ratio is weakened by PAD mediation. Capital expenditure raises PAD, which in turn helps to lower the regional dependency ratio, a sign of improved regional financial performance. This demonstrates how crucial it is to maximize PAD to increase

the influence of capital expenditure on financial results. Therefore, for PAD to be an instrument that strengthens the relationship between capital expenditure and improving regional financial performance, local governments have to make sure that capital expenditure is focused on programs that increase PAD, such as investment in economic infrastructure so that it will reduce the regional dependency ratio. Thus, it can be said that H_0 is rejected and H_4 is accepted.

The result is not in line with the research conducted by Anggraeni (2016), Dwi, (2021), Apriliyanti (2017), Darwanis & Saputra (2014), Dwiyanto (2018), dan Aprianis (2021) which stated that PAD mediates the relationship between capital expenditure and financial performance. While the result of this study is PAD negatively mediates the relationship between capital expenditure and financial performance as measured by the regional dependency ratio.

Mediation Test Analysis (Sobel Test)

$$z = \frac{ab}{(b^2SEa^2) + (a^2\,SEb^2)}$$

$$z = \frac{2{,}039\ x\ (-7{,}008\ x\ 10^{-12})}{((-7{,}008\ x\ 10^{-12})^2\ x\ 0{,}133^2) + (2{,}039^2\ x\ 0{,}395^2)}$$

$$z = -1{,}77\ x\ 10^{-11}$$

Based on the results of the Sobel calculation above, the z value obtained is $-1{,}77\ x\ 10^{-11}$. It means that the increase of capital expenditure through PAD actually results in a decrease in regional financial performance as measured by the regional dependency ratio. A z value that is very small or close to zero indicates that the mediation effect of PAD is statistically significant even though its influence is numerically small.

CONCLUSION AND SUGGESTION

Based on the results of the testing and data analysis above, it can be concluded that:

1. The realization of capital expenditure in the regencies/cities of West Java Province in 2018-2022 based on research results shows fluctuating conditions or changing conditions.
2. The realization of PAD in the regencies/cities of West Java Province in 2018-2022 based on research results shows fluctuating conditions or conditions that change every year.
3. The realization of regional financial performance with regional dependency ratios in the Regencies/Cities of West Java Province in 2018-2022 shows that there are changing conditions every year, but on average, regional dependency is still very high.
4. Capital expenditure has a negative and significant effect on regional financial performance as measured by the regional dependency ratio in the regencies/cities of West Java Province in 2018-2022.
5. Capital expenditure has a positive and significant effect on PAD in the regencies/cities of West Java Province in 2018-2022.
6. PAD has a negative and significant effect on financial performance as measured by the regional dependency ratio in the regencies/cities of West Java Province in 2018-2022.
7. PAD negatively mediates the relationship between capital expenditure and financial performance as measured by the regional dependency ratio in the regencies/cities of West Java Province in 2018-2022.

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